

Corporate Political Responsibility Taskforce

Expert Dialogue with Karthik Ramanna

Karthik Ramanna - Module #1

Elizabeth Doty: Thanks for joining us today. My name is Elizabeth Doty, I'm the director of the Corporate Political Responsibility Task Force at the Erb Institute at University of Michigan, and I'm delighted to be moderating today's conversation with Oxford Professor Karthik Ramana.

The Corporate Political Responsibility Task Force, or CPRT, is an initiative of the Erb Institute, a 25 year long partnership. Between the Ross School of Business and the School for Environment and Sustainability at the University of Michigan. Led by Managing Director Terry Nelodov and Faculty Director Tom Lyon, the Erb Institute is known for its leadership in three areas, teaching and learning, business engagement with groups like the CPRT, and scholarly and applied research.

The CPRT's [03:24:00] mission is to help companies better align their approach to political influence with their commitments to purpose and values, sustainability and stakeholders. As we're seeing, corporate political responsibility is an increasingly pivotal element in managing stakeholder trust, addressing systemic issues, and rebuilding public trust in institutions.

I'm very excited to have someone who's thought so deeply about this. Professor Ramanna or Karthik, if you don't mind as we, as we do in the seminar style conversations really has the perfect background for this conversation. I know this will just be the start of something I hope will continue as the task force does its work.

He is a professor of business and public policy at the Blavatnik School of Government and at University of Oxford. It's a new school. He's an expert on business government relations. Sustainable capitalism, corporate reporting and auditing he has studied how organizations build trust with stakeholders and the role of business in designing [03:25:00] sensible and responsible rules of the game.

And that's going to be really important in our conversation today. He directs their Master of Public Policy program, a new program, a flagship for current and prospective leaders in government. And I suspect not just in the UK. He has taught leadership, corporate governance, and accounting at Harvard Business School, consulted to companies leading organizations like Fidelity, KPMG, McKinsey, Pricewaterhouse and State Street, dozens of research articles, case studies, numerous awards, and serves on the editorial boards of several scientific journals.

And I just learned that his book was endorsed by both Elizabeth Warren and Charles Koch. So we're going to have an interesting perspective today, I think more foundational rather than picking a side, right? So that's going to be fantastic. Karthik, thank you for joining us today.

Well, let's start first with this I know we want to talk about thin political markets and all, but I think the [03:26:00] symptom that's driving us to these conversations is just noticing that

business is being called in over and over and over around what were historically viewed as just societal issues, things you should stay out of not the purview of business.

And it's quite, it's quite challenging for those in. The companies and they are wrestling with when is it appropriate and when is it dangerous and what are our responsibilities. And you in a recent article on the legacy of Milton Friedman suggests that we respond without a sense of historical context at our peril.

And that we really need to dig into the why business school speak of what is leading, you know, why is business really being called on so much more often and you've you've got an kind of an unexpected diagnosis there. Could you share a little bit about that? Your thoughts on that.

Karthik Ramanna: Sure. And again, thanks once again for having me.

Look, I think when I say historical perspective, I don't mean that we need to [03:27:00] go too deep into the history and this I mean, we can just really look at the context around which Friedman was writing when he wrote about sort of the social responsibility of business, which now has sort of assumed its own sort of canon or place in the canon.

And of course, Friedman had been talking about this for about 10 or more years at the time when the New York Times piece came out in 1970. And this piece you mentioned in the California Management Review I wrote last year, which is the 50th anniversary of the Friedman piece. And, and, and, you know, business was in a very different position vis a vis civil society and vis a vis government at that time.

Civil society was certainly much stronger in the 1970s or 1960s than it is today. Religion played a bigger role in public life and, and of course you know, universities had a different role and, and the media had a very different role. The media was a far more established institution and a [03:28:00] far more powerful institution in shaping sort of social norms.

And, and of course, government was far less polarized than it is today. In fact, you know with the exception of the period Just before the Civil War government in the United States has not been more polarized ever in its history. And so we're looking at a very different context in which Friedman writes what he writes.

And, and what's happening internationally at the time, of course, is the rise of Japan and Germany and in particular, the sort of the fear that Japan was going to take over you know and, and, and be sort of the number one player in the world and very much along the lines of some of the concerns about China today and and so, you know, that was really the, the setting in which Friedman was writing and, and and, and he wrote about, you know he was concerned in particular that business was effectively you know quote unquote sort of fat and happy.

And and, and that, you know, it was, it had gotten too cozy in its relationship with the state. It had gotten too cozy in its relationship with [03:29:00] each other. And it wasn't really hungry in a way that it needed to be, to be competitive. And that part of that hunger involved asserting itself. And Friedman goes on to say at the end of that piece about how the he's, he's very impressed with businessmen when it comes to sort of their narrow Self interest, but he's not very impressed with it when it comes to them thinking about you know, the survival of business as a whole, which I think is an interesting way to frame it in the context of what we're going to say in, in the, over the course of this conversation. And, and so he writes what he does and, and A year later the future Supreme Court Justice Louis Powell is

commissioned by the U.S. Chamber of Commerce. So this is 1971 to write a memorandum about how business can in fact be more assertive in its role in the world. And Powell writes in a quote, Business must learn the lesson that political power is necessary, and that such power must be assiduously cultivated [03:30:00] and that when necessary, it must be used aggressively and without and with determination, without embarrassment, and without the reluctance that has been so characteristic of American business.

So this is a future Supreme Court judge writing in 1971, and then he goes on to in fact say about talk about how business must co op business schools in this endeavor. And he says quote again, the chamber should enjoy, this is the chamber of commerce, should enjoy a particular rapport with the increasingly influential graduate schools of business.

Should not the chamber also requests specific courses in such schools, dealing with the entire scope of the problem addressed by this memorandum. This is now essential training for executives for the future. And then Powell goes on over the course of the next few years to be appointed to the Supreme Court.

And interestingly, he then goes on to write the very first Supreme Court opinion, where he establishes the, the [03:31:00] right to political speech. very much. That now we've seen sort of, you know, and since the Citizens United decision take on a completely sort of different tone to it. But this was the very first judgment that came out in 1978.

And interestingly the, the, the, the primary dissent on that judgment came from William Rehnquist who you know, Rehnquist, of course, goes on to become Chief Justice. He wasn't Chief Justice at the time. He was an Associate Justice. And, and, and he's, you know, he's a conservative and he was a conservative his whole life and, and, and Rehnquist says in dissenting on on Powell's Supreme Court opinion, which fines for a right for corporate free speech.

He says quote Rehnquist, although the court has never explicitly recognized a corporation's right to commercial speech. Such a right might be considered necessarily incidental to the business of a commercial corporation. It cannot be so readily concluded that the right of political expression is equally necessary to carry out the functions of corporate [03:32:00] organized organization for commercial purposes.

So this is William Rehnquist writing about why corporations shouldn't have a right to political speech. And, and this was 1978 and how times have changed, of course. So, so put that in historical perspective and is sort of where I start with this conversation on on, on thin political markets. And I say, Okay.

Part of where we are today is, is the result of what was perhaps a, an interpretation, a very specific interpretation of what Friedman said. I, I think I wouldn't want to get into the specifics of what he intended to say because there, there's reasonable disagreement there, but certainly it's a specific interpretation of what he wrote.

But certainly of a wildly successful interpretation of what Powell had in mind at the time. And, and that's really the context that we find ourselves in today. Of course, what has happened is not just that business has become really successful in this sort of political engagement and, and, and in [03:33:00] developing this right to political speech so that now, in fact, conservatives don't even consider it.

A matter of question that, that business would have a right to political speech. But that at the same time governments and civil society have become much weaker. Now some of that

weakness is, of course the result of natural technological shifts and in the case of, say, media the, the progression of sort of liberalism in the context of religion.

But some of that sort of decline in, in government and civil society is a product of business action itself. So some of that decline is what economists would call as endogenous. So to, to business action. So, so, and, and we can unpack that, but, but I think that historical context is really what I wanted to lay out.

Elizabeth Doty: Thank you very much. Fascinating and I think it's critical to connecting the dots because otherwise I think the experience executives have is this is just coming out of the blue unexpected what's happening. And of course, no individual executive was there. [03:34:00] No, there are companies that were there right and had to weigh those or were part of the Committee for Economic Development's weighing in on that trend.

But none of us really remember exactly that. I would summarize my understanding was a kind of an attempt to counterbalance a trend that maybe at that point there was so much additional regulation and attempt to speak up on behalf of free enterprise. But now you say in this article and I encourage people will put a link at the end.

People can pick up the article in the California Management Review. You're saying that now we've reached a point where managers are feeling the heat to be more socially responsible after 40 years of engineering public policy, where the ability to government is withering and capitalism itself is threatened.

So that's a big claim connecting a lot of dots, but it fits the current assessment of where we are in terms of ability to govern. Can you back up a [03:35:00] little bit more about that the current focus on being more socially responsible is related to manipulating rules of the game.

Karthik Ramanna: And again, that's it, it picks up on that last point, which is some of the decline in, in public institutions and civic society is not exogenous to sort of the growing power of business.

And, and, and I think that, you know, you can look, for instance, at the track record of Globalization. And globalization is a very sort of complex issue over the course of the last 40 years, because of course, globalization has brought great good across the world. It nothing has lifted more people out of poverty in human history than the forces of, you know, free market liberalization in places like China.

And India. And, and so there's obviously a strong model case to be made for globalization. But the impact of globalization and free trade in the context of say the US or Western [03:36:00] Europe it tells a very different story. And, and in that context the role of business in lobbying for the pace of globalization and lobbying for perhaps the scale of adjustment of worker rights and, and, and worker privileges in the context of globalization is, is something that many people have written about, certainly not just me.

And, and, and that's that's, that's one area that you can pick up on. And, and that actually tends to sort of have its own. Follow on effects. So, for instance, the first wave of globalization was really around offshoring sort of low skilled manufacturing jobs. And as that offshoring of low skilled manufacturing jobs happens, it actually drives up wages for service jobs that are supporting the offshoring of that manufacturing.

And this is the first generational call centers and things like that. But then as those service wages go up, that it, it creates returns to building models that offshore those service jobs

too. [03:37:00] So then, Those service jobs get offshored as well. So, so there is sort of a a, a dynamic there and, and, you know, I mean, the, the language I used in the book was it's a quilt of special interests.

What I mean by that is there's no unequivocal villain in this story. It's not like there's a vast conspiracy and, you know, some sort of group in business sat around and said, okay. How do we screw the workers now? That's not what quite happened. It's that, you know, at every step of the way, there was, there was an opportunity to make money and there was an opportunity, importantly, to make money by engineering the rules of the game.

And so in every case, business showed up and said, ah, well, I have this right effectively granted to me by the Supreme Court, by virtue, by the way of my own lobbying to exercise free speech. And I'm going to exercise that free political speech in a way to engineer the rules. to my interest. And if every business shows up over the course of 40 years, not every business, but you know, the, the sufficient number [03:38:00] of them show up over the course of 40 years and persistently engineer the rules in that way, then it results in this sort of depletion of state capacity and this depletion in the capacity of civil society to serve as counterbalances to the weight of business.

And that's how, in some sense, we find ourselves in this position today. So, certainly, it's not the only factor, and, I mean, you know, other things have contributed to stagnation of wages, for instance, in, in, in the United States or in Western Europe. But it is a factor, and it's certainly an important enough factor that we need to consider the role of business in, in getting us where we are.

Elizabeth Doty: Yeah, very interesting. And just to your point about endogenous versus exogenous, one, story I tell myself about that is the endogenous ones can become a vicious cycle, right? Because then they lead to more power that leads to more influence etc. And I'm, I'm teasing out of the pattern you're describing, the trend you're describing is both the effect on the rules.[03:39:00] Which affect the economy, but also the collateral damage on civic processes and our ability to govern and the responsiveness of civic institutions, I would say it would be in government but also potentially media and other other forces. So that the thinning of those and having the public not be as informed or represented or counterbalance.

Kind of could see again as a consequence of just this operating rule where businesses advocate for rules that. You're an expert in accounting so I'm wondering if you, and you have worked with accounting firms right so you have these conversations inside as well. Can you give a few examples of how accounting rules have changed in potentially in ways that affect the economy and I don't know, also civil institutions, but maybe just the economy.

Karthik Ramanna: One thing I have learned over the course of my career is, at least when I'm at a cocktail party, not to tell people that I'm an exporter and counting [03:40:00] regulation because then they sort of, you know, they find, find the next person to talk to.

So I tend to sort of keep that hidden. But, but it's, look, it's, I, I find it quite fascinating, but it's also, most people find it profoundly boring and that's just the nature of, of, of what it is. And I mean, I don't fault them for it. But let me give you an example. So I'll take you actually to the 14th of January, And and, and this is the day when the constitution quote unquote of accounting is is, is being revised.

And in particular two very important words are being taken out of the constitution reliability. And verifiability and we are revising the constitution of accounting standards to say that

accounting standards no longer need to be reliable and verifiable, which I mean quite frankly is astonishing that you would do that.

And, and this is happening. I mean, remember what's happening in January 2009 [03:41:00] January 2009 is the height of the financial crisis. We still didn't know whether the world was going to fall apart or not. And we, you know, the Obama administration hadn't even taken office. This was in that interregnum between sort of Bush and Obama and so forth.

And, and the accounting boards, both in the US and worldwide met to basically revise this constitution. And now why they did so is a whole complex story and there's a long article which we can post in the chat about why that happened. Well what I always find fascinating is what was on the headlines the next day.

Right, you say, Oh, well, this is like a profoundly important thing. Well the next day was the day we had the, the so called miracle on the Hudson, which is when that. Was it a United plane or an American plane or something? They landed on the Hudson River and right? And everyone sort of remembers that it's such a sort of, right?

And that was, of course, what captivated the headlines and CNN went on and on and Fox News went on and on about it. And, and nobody talked about this. You, there isn't a single [03:42:00] newspaper article you can find about this change anyway. I mean, I have searched and searched and searched. I can't even find one article about this.

We all, I mean, we talked about many things that day, but of course the dominant thing was this miracle on the Hudson. So look, this is the sort of right. These are now at the end of the long scheme of history. The things that really will matter are the fact that we've changed accounting rules to remove the words, verifiability and reliability.

That's a profoundly big deal. And, but we don't talk about these things. They're boring. They're right. I mean, and they just, they, they, they're hidden in the shadows and, and that's where, and, and they're, it's not like people didn't know this was happening. The, the, the businesses that could benefit from this were there and they were the ones driving the change.

And there was nobody sitting on the other side of the table, and media wasn't there because the media was focused on something else. And, you know, civil society wasn't there and there's just, there isn't the capacity in government to understand these issues. So, you know, they didn't know what to do.

Most of the people who are. In those regulatory boards are on. They circulate from the audit firms into those boards and [03:43:00] back and in fact, 11 other sort of really astonishing sort of factoid here, which is still apparently legal and happens all the time in the United Very day is that when these folks go from the big audit firms into the SEC and into the what's called the financial accounting standards board, the audit firms continue to pay their retirement benefits and their health care and all of that.

And they basically get deferred comp on the, from the audit firms while they're in public service. Because they know they're going back there, right? So, I mean, talk about capture. This is just such a blatant example of what, right? The fact that these are active public servants being paid by the, the companies that they're supposed to regulate, their pension is being paid by those companies.

Elizabeth Doty: Yes. So let's turn it now to the group. I'm really excited. The constellation of people that join these are just incredible. Allison, I'm going to put you on the spot again

while we're waiting for another someone else. I love doing [03:44:00] this. If you're doing what question comes to mind or comment reaction comes to mind for you.

Guest: Yeah. I mean, I think what you were just talking about with how like, A lot of these like important rules changing just aren't like interesting to the general public and don't get reported on. How do you think that we can kind of force that to change moving forward? And how do you, how do we get people to pay attention to these rules?

Karthik Ramanna: That's a great question. Look, I mean you know, one of the things I say to my graduate students is the importance for instance of really compelling writing and taking you know when you, when you write technical pieces to write in a way that's widely accessible. And I think that that's it's really important that people who get it right for a wider audience rather than for, say, for other technical people that, that want to sort of, you know, otherwise it just becomes sort of this sort of cycle everyone talking to each other.

And but, but, you know, more, more seriously for instance, having really robust media that's able to, for instance, [03:45:00] penetrate this kind of thing here in the, UK. There's only one newspaper that has some bandwidth to talk about these issues, and that's the Financial Times. And even in the Financial Times, it's not like they've got, you know, super experts on all of these issues, they don't.

But at least they devote some bandwidth to it. In the US, I mean you know the levels, for instance of technical sophistication. In the Wall Street Journal, is, is considerably lower than that of the Financial Times. And so many things that will make it to the FT won't make it to the the Wall Street Journal.

And they, if they don't make it to Wall Street Journal, they certainly won't make it to, say, New York Times or Washington Post or something like that. So the problem is, of course, that these media companies don't have The capacity to write articles on things that don't sell that aren't salient.

So but therefore building a really robust media capacity where, you know, you can make certain discretionary editorial decisions. And if an editor [03:46:00] thinks something's really important. They should be able to pursue it. I think that's that's one sort of shift that I'd love to see. And, and, and, you know, I mean, quite frankly, the other thing that I'm really focused on is building state capabilities.

One of the reasons why I'm teaching in a school of government is because I think it's really important that people in government have the capacity to sort of understand some of these issues. And you know, I mean, at a very basic level, I say to my master of public policy graduates don't graduate here without knowing how to read a balance sheet.

That just, you know, you, that's just seems like you're doing yourself, your career and the people you serve a tremendous disservice. So it's just those sorts of things that, you know I hope we'll make little differences in this sort of issue.

Elizabeth Doty: This fantastic question, Allison. Thank you for that one.

And it raises and Tom, we'll come over to you in just a moment. It raises for me, Michael Lewis started a podcast on the referees or rules of the game, I think we should [03:47:00] lobby him to join the Wall Street Journal to write about this. Because he does make these, with the big short and all, he does make them accessible.

Guest: Sure, no problem. I've got sort of two questions. And sort of follow the first one sort of following on from your observation about media in Europe versus media in the US.

But I'm curious more about policy culture, other factors between Europe, Asia, US, and whether there are any regions that have Better or worse policies related to providing greater transparency around these issues, around corporate political engagement in particular, right?

Karthik Ramanna: Yeah. Yeah. So you know, I mean, and people like to point to sort of, I suppose the the [03:48:00] express expressly visible.

Sort of political contributions in the US system and say, well, look at Europe and, and, you know, you don't have that in Europe and so forth. And, and, and yes, to an extent, that is true in that, you know, elections in the UK and in continental Europe are substantially cheaper in sort of absolute dollar terms perhaps.

And they're certainly less long drawn out than, than elections in the US. And, and, and, and, you know, by one measure certainly the UK is less polarized, for instance, in the U. S. There's still a fair bit of civility in, in discourse and, and the part, the median ideological difference between the parties is not as far as it is in the U.S., though it is growing it's not as far as it is currently in the U. S., so there is something to be said for that. That said you know, in these sort of systems in European systems, less so in Britain, more so in, in, in sort of continental Europe. The nature of capture is, is often you know, more subtle and [03:49:00] it's sort of what we would call cultural capture or cognitive capture where you know, you don't have to in some sense, a big noisy, messy.

Fight with you know, where business has to sort of litigate its position through campaign contributions and through sort of noisy ads and so forth, because they already have all the seats at the table when it comes to the attentions of politicians on these sorts of issues. So It's very, it's even less needed you know, to, to, to have that kind of money in politics because they've been able to sort of really capture the the, the, the, the minds of, of, of the political discourse.

And that might be sort of more so what the case is in Germany than, than here in the UK. I mean, there are some things clearly the UK I think does better than the US and one of them is, is, is this notion of sort of shorter, cheaper elections, and the other is perhaps a little more role for an independent [03:50:00] civil service and a civil service that actually operates at fairly senior levels and the ability to exercise discretion and judgment at fairly senior levels. So those two things were, but the other sort of side, the dark side of that, of course, is that those, you know, invariably those civil service grads come from Oxford and they go back into sort of, you know, elite institutions and there's sort of a revolving door there and and so forth.

And, you know, I mean, I'm here, I am talking from Oxford University where. All but three of the last 17 prime ministers since World War Two were graduates of Oxford. So, you know, talk about sort of market capture. So, so it may be that, you know, there are people in Birmingham that, that look at this and say, this is just all so corrupt.

Everyone thinks the same way. And, and there is, so it's that cognitive capture that really manifests here.

Elizabeth Doty: This is an example, this is a Fascinating and brilliant example of the kind of dialogue and [03:51:00] exploration we like to do in these expert dialogues every two weeks

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with the CPRT. And there are ways you can go further. We're bringing these into conversations with government affairs and sustainability and DEI executives.

So please contact us if you'd like to discuss membership in the kind of inside dialogue. view of these conversations, or go to the website, sign up. If you were a guest at this one, sign up to find out about more. We have a resource list that grows over time. We'll be adding these articles, Karthik that you've just referenced today, I think is really important additions.

You can follow us on Twitter at the Erb Institute or go to Karthik's faculty page at the University of Oxford to learn more. Thank you so much, Karthik, on behalf of the Erb Institute. And to all of you for joining the conversation today. Take good care now.