



CENTER FOR CATHOLIC STUDIES

TO: WBC AND MICAH PARTICIPANTS
FROM: MONSIGNOR RICHARD M. LIDDY
SUBJECT: *HOW BIG BUSINESS CREATED THE POLITICS OF ANGER*
DATE: MAY, 2016

Welcome and Self-Introductions

Woodstock Business Conference Mission Statement

The Mission of the Woodstock Business Conference is to establish and lead a national and international network of business executives to explore their respective religious traditions in order to assist the individual executives:

- To integrate faith, family and professional life,
- To develop a corporate culture that is reflective of their religious faith and values and
- To exercise a beneficial influence upon society at large

The Conference, grounded in the Roman Catholic tradition, welcomes believers who are open to and respectful of one another's religious tradition. It is committed to the conviction that ethics and values grow out of one's religious heritage.

Scripture Reading: Mark 3: 1-6, 20-30

A Man with a Withered Hand. Again he entered the synagogue. There was a man there who had a withered hand. They watched him closely to see if he would cure him on the sabbath so that they might accuse him. He said to the man with the withered hand, "Come up here before us." Then he said to them, "Is it lawful to do good on the sabbath rather than to do evil, to save life rather than to destroy it?" But they remained silent. Looking around at them with anger and grieved at their hardness of heart, he said to the man, "Stretch out your hand." He stretched it out and his hand was restored. The Pharisees went out and immediately took counsel with the Herodians against him to put him to death.

He came home. Again [the] crowd gathered, making it impossible for them to even eat. When his relatives heard of this they set out to seize him, for they said, "He is out of his mind." The scribes who had come from Jerusalem said, "He is possessed by Beelzebul," and "By the prince of demons he drives out demons."

Summoning them, he began to speak to them in parables, "How can Satan drive out Satan? If a kingdom is divided against itself, that kingdom cannot stand. And if a house is divided against itself, that house will not be able to stand. And if Satan has risen up against himself and is divided, he cannot stand; that is the end of him. But no one can enter a strong man's house to plunder his property unless he first ties up the strong man. Then he can plunder his house. Amen I say to you, all sins and all blasphemies that people utter will be forgiven them. But whoever blasphemes against the Holy Spirit will never have forgiveness, but is guilty of an everlasting sin." For they had said, "He is an unclean spirit."

Quiet Reflection 5 minutes followed by sharing insights.

Reading: *Harvard Business Review*.

"How Big Business Created the Politics of Anger"

Mar. 8th 2016 issue. Mark R. Kramer



Companies are not squarely to blame for the anger and frustration that have so warped this presidential primary season. Nor are they entirely innocent. The growing economic inequality that polarizes U.S. politics is not merely the inevitable result of our free-market system; it is also a consequence of the choices our business leaders make. And those choices have contributed to the anti-business attitude that both parties have embraced.

Blatant examples of illegal and immoral behavior, such as Volkswagen's emissions test cheating and Takata's fatal airbags, are one part of the problem. These are not U.S. companies, but their wrongdoing affected millions of U.S. consumers and certainly fueled some of the frustration that drives the current political climate in America.

A far greater factor is U.S.-based companies using questionable corporate practices that are entirely legal. When Disney compels its employees to train lower-paid foreign replacements before being laid off, when hedge fund managers fiercely protect the carried interest loophole, when major companies undertake complex mergers to create tax inversions that strip their domestic earnings with intracompany debt, or when banks impose overdraft protection fees on unsuspecting low-income clients, they undermine the long-term welfare of the United States.

They transfer money away from public treasuries and wage earners to provide a short-term incremental benefit that does nothing to improve the company's long-term prospects. Although the impact of each company's decision is small, this cumulative trend contributes to the growing inequality of wealth and the stagnation of middle-class earnings, reinforcing the deeply entrenched poverty of nearly 50 million Americans. These corporations may not have done anything wrong, but that doesn't mean what they have done is right.

There is an even subtler harm in capital-allocation decisions when companies hoard \$1.9 trillion in cash, hold foreign profits overseas, and use their capital to buy back stock. Escalating wealth driven by a bull market cannot be divorced from the atrophying of the middle class when stock repurchases and cash reserves nudge earnings per share and stock prices higher but do nothing to create employment or increase national productivity.

Given that the wealthiest 10% of Americans own 81% of all stocks and mutual funds, these uses of corporate cash are a direct transfer of corporate profits away from creating jobs and capital investment, increasing income inequality. And the repurchase trend has accelerated radically. Stock buybacks as a percent of capital spending have risen to an all-time high of 113% in the last five years, compared to 60% in 2000 and 38% in 1990.

The \$520 billion that companies spent on 2015 stock repurchases alone is enough to pay the average U.S. wage to 11 million workers — considerably more than our 7.8 million citizens who are currently unemployed. To put this in a different perspective, the amount corporations spent on stock repurchases in 2015 that went to the wealthiest 10% of the population was \$60 billion more than the total federal government spending on all safety net programs combined.

I do not mean to suggest that corporations have any obligation to redistribute their profits to those in need. But neither should they make capital-allocation decisions without regard to the long-term consequences for their own success. Authoritative studies have shown that inequality and stagnating wages hurt corporate growth. And the choice to hold on to cash or use it to repurchase shares, rather than invest profits in new opportunities for innovation and expansion, has had real consequences for our economy that have contributed to the current political upheaval.

Counting cash reserves, dividend payments, and stock repurchases, corporate America has had the opportunity to invest nearly \$3 trillion in capital since the 2008 Great Recession — more than six times the size of the TARP bank bailout. Had corporate executives made that choice, the shape of the economic recovery, average wages, and economic inequality would look very different today. And so would this election cycle.

It is easy to understand why share repurchases are so popular: the high percentage of CEO compensation that is linked to minor fluctuations in earnings per share, and the relatively short tenure of many CEOs mean that CEOs have a strong incentive to pump up the stock price and fine tune quarterly earnings.

Of course, corporate leaders claim that they are legally bound to do everything possible to maximize shareholder value. Share repurchases immediately and directly impact price and earnings in a way that longer-term investments in growth and innovation do not. Whether that kind of leadership positions a company for long-term success is a different question. Short-sighted decisions that increase quarterly earnings do not create shareholder value if they also undermine a company's reputation and long-term worth. Nor does political rebellion serve companies or their shareholders well.

Professor Michael Porter of Harvard Business School and I have argued that companies have an opportunity and obligation to create shared value by pursuing profits and competitive advantage in ways that strengthen the communities where they operate. We wrote:

All profit is not equal, an idea that has been lost in the narrow, short-term focus of financial markets and in much management thinking. Profits involving a social purpose represent a higher form of capitalism — one that will enable society to advance more rapidly while allowing companies to prosper even more. When profits embody societal benefits, a positive cycle of company and community prosperity will lead to profits that endure.

Visionary CEOs understand the strategic link between social benefits and shareholder returns. In February 2014, CVS CEO Larry Merlo announced that, as a part of CVS's strategic shift into providing health care, the company would stop selling tobacco products. The company walked away from \$2 billion in annual revenue. This represented a huge short-term hit to shareholder returns for the sake of a long-term shared value strategy, yet CVS's stock price rose by 38% in the months that followed and is still 22% above the price at the time of the announcement. Nor was this a purely symbolic action: a year later, CVS reported that in states where it had at least a 15% market share, total cigarette sales from all types of retailers had dropped by 95 million packs.

More recently, the 100,000 Opportunities Initiative, led by Starbucks, the Aspen Institute, and FSG, a nonprofit strategy consulting firm that Professor Porter and I founded, has brought together three dozen leading U.S. companies to create employment opportunities for disadvantaged youth. These companies are committed to going beyond their usual hiring practices in order to fill the jobs they need by identifying new sources of talent in communities that have been left out of the national recovery. The initiative's first three events have already resulted in 2,350 job offers.

None of this is charity. Creating shared value is a corporate strategy that delivers social benefits in order to increase profits and gain competitive advantage. Its adherents see opportunities in the synergy between corporate and societal interests that their more narrow-minded competitors miss.

One hundred thousand jobs won't change the political climate, but 11 million sure would have. America's corporate leaders can stand back appalled at today's political spectacle, or they can acknowledge that the means to "make America great again" are already at their disposal if they embrace a strategy to create shared value.

Discussion Topics

Be Attentive: Given the HBR source of this article and its potential to provoke anger---let's be attentive to anger as a human affect that motivates behavior. Let us as leaders start from the inside out. How are we experiencing anger and what are the sources at work, at home, in society? What emotions did the article provoke?

Be Intelligent: How do you think about and self manage anger both negatively and positively? How do we manage anger in others? How do we contribute to anger in our business practices? In our politics? Any connections to Scripture reading?

Be Reasonable: What are your thoughts on Michael Porter's argument "companies have an opportunity and obligation to create shared value by pursuing profits and competitive advantage in ways that strengthen the communities where they operate."

Be Responsible: What insights have you garnered about the role of anger in your life, your business, and your politics? As a result of today's conversation any resolves or action?

Closing Prayer: Glory be to the Father and to the Son and to the Holy Spirit as it was in the beginning is now and ever shall be world without end.