



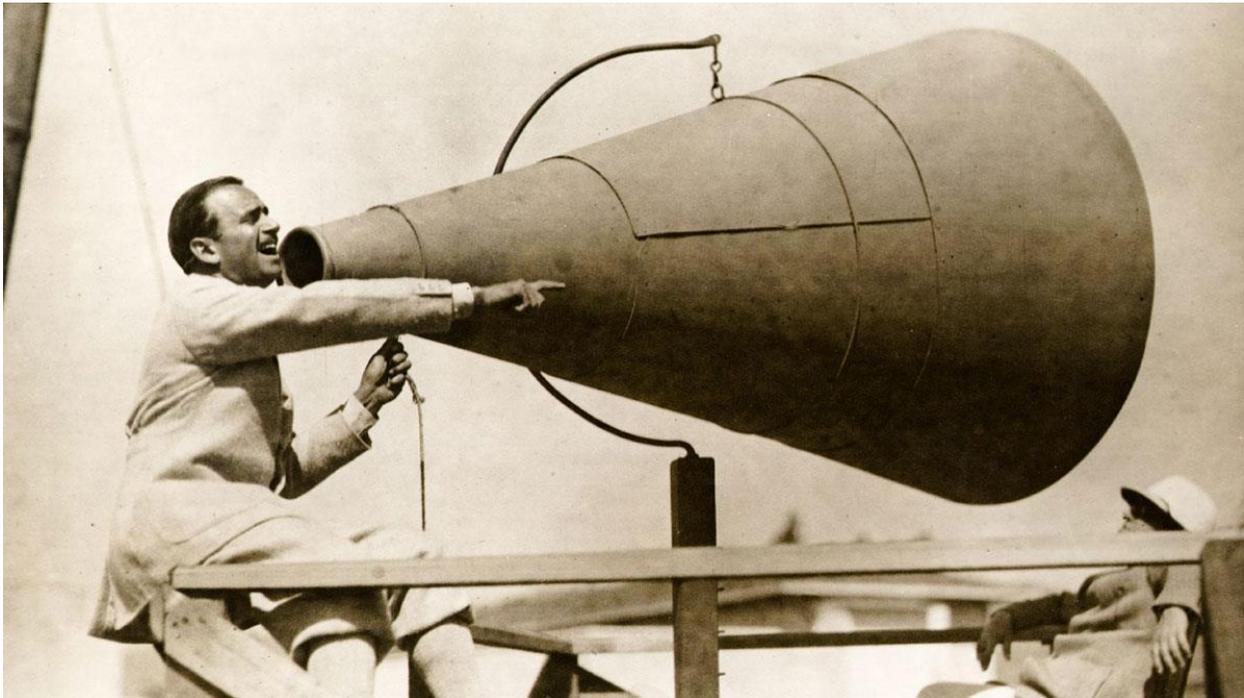
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POLICY

Corporations Need a Better Approach to Public Policy

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APRIL 01, 2016



All companies that operate internationally face a striking dual challenge in dealing with public policy: Nations across the globe enact an ever-changing, ever-expanding array of detailed legislation and regulation to protect workers, consumers, investors, and the public welfare, and these diverse rules shape what companies can and cannot do. Moreover, corporations are not trusted in this era of populist discontent because their role in shaping public policy is often seen as bought by money, shaped by elites, and concerned solely with private not public interests

To meet this daunting challenge, corporations need a strategic, forward-looking, and balanced approach to government and public affairs. But many don't have one, instead adopting only defensive, short-term, or narrowly self-interested "government relations" tactics. Too few businesses have sought to make a systemic approach to public policy an important dimension of their global posture. Too few are capable of advancing their private interests in a way that also advances genuine public interests, forging alliances beyond other corporate actors to promote genuine "public goods" — such as public infrastructure — which are necessary for a strong society, a growing economy, and fair competition, and which the market cannot provide.

The stakes are very high. Myriad potential public policy-related risks and opportunities for companies arise across a broad spectrum of political and economic systems — from the [state capitalism](#) of former Communist states to the "[mixed economies](#)" in traditional "liberal" democracies, from developed to developing markets. Issues bearing significantly on the business emerge not just in legislative, executive, or regulatory settings; they can also arise in litigation or transactions or adoption of ethical standards necessary to pre-empt policy proposals. They can be cross-cutting issues which impact the whole corporation (e.g., taxes or trade or IP or labor or environment) or more discrete issues which impact specific divisions within the broader company (e.g., telecommunications or food safety or healthcare or aerospace or energy/environment).

These issues can have a huge substantive range — from paradigm shifts like prevention in health care or fracking in oil and gas, to regulatory approvals of new products/technologies, to harmonization or convergence of conflicting national regulations, to addressing broad societal problems like immigration or an aging population or infrastructure. These policy issues can be beneficial to the corporation and be part of an affirmative agenda, or they can be harmful to business and be part of a defensive agenda.

Considering the huge strategic and financial stakes for companies, it's remarkable how relatively few of them include public policy as an integral part of their ongoing strategy formulation. Unfortunately, engaging in the necessary sophisticated work across varying political cultures is not a natural act for many companies. Even with strong CEO direction, subordinate business leaders who are crucial to its success may not share the commitment or invest in the expertise or understand the time required. They might not have a realistic view of governmental/political processes or a feel for balancing public and private interests or understand the inherent contingency of policy efforts. Their business school education and their initial experience within narrower company functions (e.g., marketing, manufacturing, finance) may leave them unprepared.

A needed approach

The right approach for global companies needs to start with the CEO's explicit commitment to strategic and operational processes that include an important public policy dimension.

Specifically, the chief executive should require division business leaders and senior staff executives to integrate three dimensions of global public policy issues into their annual plans. These may be stated as three interrelated questions:

- What is the *desirable* public policy which the corporation should formulate at headquarters?
- What is the *feasible* policy which the corporation can get enacted in the political capitals?
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- How can the corporation ensure that, once enacted, public policy is faithfully *implemented*?

The CEO must include education and training on these complex, mutually-reinforcing public policy issues of formulation, enactment, and implementation as part of the company's leadership development efforts.

The ultimate goal of this corporate approach to public policy is to promote corporate interests in a fashion that also advances the public interest — to create public goods, to balance public regulation and private governance and to eliminate free-riders — when market mechanisms alone are inadequate. The policy domains can range very broadly, though typically include national defense, domestic security, sound fiscal policy, the social safety net, consumer protections, and rules to promote fair competition. In my direct experience of this at GE, we made sustained efforts to create broad coalitions to address climate change and to combat global corruption through government action.

To lead this approach effectively, it's key that the CEO maintain legitimacy by not seeking short term advantage from government without any (or very weak) policy basis: for example, indulging in the "crony capitalism" of unnecessary but hard-to-repeal concessions, franchises, tax exemptions, subsidies, and regulatory loopholes like farm subsidies or carried interest tax treatment, which erode corporate trust and credibility. In my more than three decades of experience, I have too often seen corporations or corporate trade associations advocate stunted provisions that only aim to promote narrow, short-term profitability without regard for competing legitimate values at issue such as equity or efficiency or safety or consumer protection.

In routine strategic reviews, business and senior staff leaders should present a prioritized agenda of offensive and defensive policies relating to their line of business or area of expertise in nations all across the globe. The CEO makes over-arching strategic decisions on priority policy issues and then on resource allocation — both on industry-specific issues in the divisions and on company-wide issues at headquarters. To underscore their importance, the CEO and business leaders should hold regular reviews on public policy to oversee whether milestones are being met for formulation, enactment, and implementation.

An essential element in ensuring that this corporate public policy process is effective is having both policy experts and political experts inside the corporation. What's the difference between the two? *Policy experts* are key team members located at headquarters with business and corporate unit leaders. They have domain knowledge either in specific industries (e.g. health or energy) or in general cross-cutting subjects (e.g., taxes or trade). They help lead the annual review process which designs desirable policies in the context of corporate and societal trends. *Political experts*, by contrast, are located in the political capitols. Their "clients" are the decision-makers in the legislature, the executive and the regulatory agencies.

These experts help enact and implement the desirable policies, translating proposals into feasible results through communication, advocacy and alliance-building. Their expertise is acute knowledge of global political and governmental processes, and an understanding of how to get things done with integrity in Beijing, Budapest, Brussels, or Boston.

The integration of policy and politics is the *sine qua non* of success. Just as the policy experts must have an aptitude for politics, the political experts must also have an aptitude for policy (and both need an aptitude for business). The policy expert needs advice from the political expert in formulating policy priorities at corporate headquarters; the political expert needs constant contact with the policy expert to assess the policy changes in political capitols as governmental decision-making processes follow their inevitable twists and turns. At the top of the company, managing this crucial integration, and reporting directly to the CEO, should be a senior leader with a background in business, law, and government who has oversight of all the company's public policy issues — whether a Senior Vice President-Public Affairs or a Senior Vice President-General Counsel.

It is ever more crucial that corporations integrate a sophisticated approach to public policy into their basic business processes. This is a practical necessity considering the vast and varying array of public policy issues and activities that bear on business around the globe. But it is perhaps even more important in helping to address the manifest lack of public trust in corporations to equitably balance private and public interests on important issues that affect us all as citizens of the world.