Pharmaceutical Executive

The Price of Politics

Is it really good business to buy legislative and regulatory support through political contributions? Influence today guarantees nothing tomorrow, and may alienate a key constituency: customers.

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Most companies won't talk much about the money they spend on political contributions. If you ask, they tell you to dig through filings at various federal and state election commissions and the IRS.

But shareholders are becoming increasingly concerned that the money companies wield to influence legislation will have a negative impact on long-term shareholder value. So, this year, shareholders of more than 50 of the largest US firms—including Abbott, Bristol-Myers Squibb, Merck, and Pfizer—asked managements of those companies to provide the data directly to them. After all, if companies have the information, why make shareholders dig for it? Yet the drug industry said "no," that it was "too costly" and "too administratively burdensome."

Shareholders find that position unacceptable. This article explains why companies should provide political spending figures to shareholders and also urges industry to adopt a business model less dependent on political influence.

Needed Transparency

The McCain-Feingold campaign finance reform legislation, signed into law in March 2002, was supposed to limit corporate influence on the political process. The bill *does* bar corporate contributions to political parties at the federal level, but companies can still make contributions to state and local candidates and independent political committees, commonly known as "527s." They can also raise money from employees and contribute administrative support for their own political action committees. The net result has been to make the use of money for political influence more diffuse, more indirect—and more difficult to monitor.

Transparency is a major issue here. Some contributions are intended to support the industry business model, while others simply back personal or managerial interests. In any case, political contributions are made with shareholder dollars. And though perhaps not technically "material" in the context of company revenues, they are highly material in how they affect public policy. Shareholders, therefore, have a right to know how these dollars are spent.

Unstable Influence

The profitability of the pharma industry is not only dependent on patents, it is also directly protected and subsidized by government actions. Some of those actions create market barriers and protect profits, such as import restrictions and limits on group buying power. This may sound like a good reason to seek continuing legislative support through political contributions. However, current legislative protection is not foolproof for the long term. In fact, it can create a powerful political backlash, which may jeopardize future shareholder value.

The growing number of court cases—19 companies are now charged with inflating average wholesale prices—and consumers' interest in buying drugs from Canada, often with state governments' help, is evidence that pharma's business model is being challenged. Customers wonder if companies are more concerned about people's health or short-term profits to support stock prices and stock options. If they conclude the latter, public sentiment and political favor can change rapidly, and legislative support may evaporate. When that happens, long-term shareholder value will be in jeopardy—unless the industry has already moved to a sounder business model, one less dependent on political influence.

It won't be easy. The industry must produce safe, reliable products that meet a wide range of health needs, are affordable to broad segments of the population, and generate a reasonable return to shareholders—a tall order but one shareholders and the public insist on.

Through pension and mutal funds, consumers and shareholders are often one and the same. A business model that results in politically unsustainable high drug costs and puts long-term shareholder value at risk is a lose–lose proposition. A model that results in affordable products and sustainable, long-term returns is a win all around.

During its 2004 annual meeting, **Pfizer turned down shareholders' resolution asking for annual disclosure of political contributions.** Oddly, at the same meeting the company promised to make that information available by publishing their previous biennial report "Our Voice in the Political Process" annually and posting it online. It provides a fair amount of detail, but leaves readers to tally contributions themselves. The most recent report is at www.pfizer.com/download/investors/corporate/2003_PAC_Report.pdf.