2022

ESG AND CORPORATE POLITICAL SPENDING

PRACTICAL ACTIONS FOR BUSINESS LEADERS TO REDUCE RISK, ENSURE ALIGNMENT AND SUPPORT A STABLE ECONOMIC ENVIRONMENT

Leadership Now Project

EXECUTIVE SUMMARY

- Environmental, Social and Governance (ESG) investing continues to drive discussion across corporate and investor communities, but often overlooks one of the most critical drivers of impact: corporate political influence.

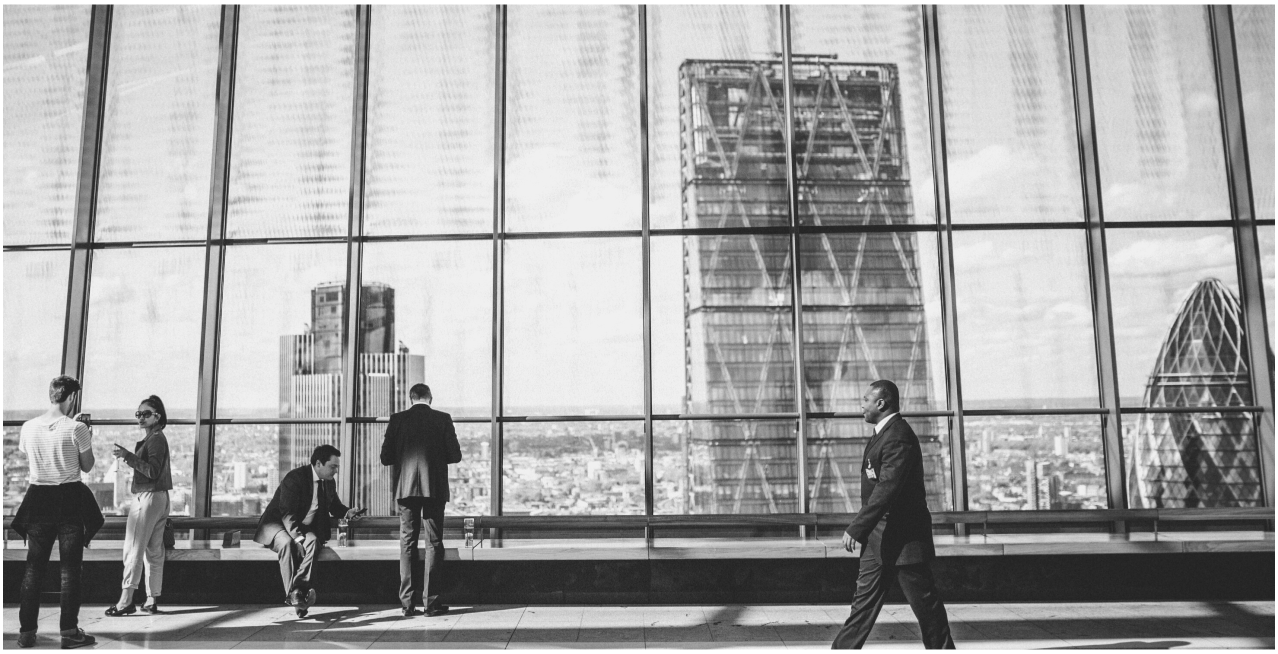
- A company's political influence activities can have a material impact across multiple ESG dimensions, as well as affecting the economic business environment in which it operates.

- ESG investors will increasingly examine corporate political influence activities as a dimension within their investment analysis.

- Tools are coming online to enable investors to assess, engage, and make investment decisions based on companies' political influence activities. Corporate leaders can use these same tools to evaluate and improve their corporate influence policies and actions.

- Leaders of U.S. companies can take a few key steps to ensure their corporate political influence activities are transparent, deliberately managed, and aligned with their publicly stated corporate objectives and values.

ESG AND INCREASING CONCERNS ABOUT U.S. DEMOCRACY



In recent years, ESG (Environmental, Social and Governance) considerations have become an increasingly integral part of risk and ethics assessments used by many companies, investors and other stakeholders. ESG has focused on issues including environmental degradation, diversity and racial equity, human rights, board structure and executive compensation.

In our current political climate, the health and stability of U.S. democracy has become a rising concern for many in the business community. Threats to election integrity can put the business environment at risk, making it imperative that business leaders consider the impact of their business practices in this broader context.

Business leaders are also becoming aware that long-term shareholders are concerned about corporate political spending that may be used to undermine U.S. democratic institutions.

"The increased polarization of our political discourse and the Jan. 6 attack on the Capitol show just how risky it can be for companies to fund political agendas. In the current climate, with our democracy itself under attack, corporations have to question whether any spending on political causes is in shareholders' interests."
– Tom DiNapoli, NY State Comptroller

WHY CORPORATE POLITICAL INFLUENCE MATTERS

ESG frameworks have typically not included a critical element that influences environmental, social, and governance outcomes: corporate political influence activities. Investors are beginning to seek more transparency and greater corporate accountability around these activities.

Blackrock provides a recent example of progress in this space: in their 2021 Stewardship Report, they set the expectation that companies should be held accountable for ensuring that their "corporate political activities are consistent with their public statements on material and strategic policy issues." For the first time, Blackrock voted in favor of political transparency and disclosure, marking a notable step towards accountability for corporate political spending.

Corporate political spending intersects with ESG as a mechanism for corporations to support policymakers who can institute (or inhibit) policies that advance (or impede) environmental, social, and governance initiatives. Many corporations have made bold statements in response to some of the most critical issues we face — climate change, racial equity, and the protection of voting rights — but their political contributions can tell a different story.

Some companies continue to give directly, or indirectly, to policymakers who work in direct opposition to their stated priorities. And while conventional wisdom is that corporate giving is relatively inconsequential, a closer analysis shows this is not the case: In the 2020 election cycle, 76 of the candidates who later voted against certifying the 2020 election results received more than 25 percent of their funding from corporate PACs and 25 of those received more than 50 percent of their funding from corporate PACs.

Misalignment between company business imperatives and political influence can come in a number of forms. Take climate as an example. Many public corporations are making commitments to reduce their climate footprint, but their political contributions frequently work counter to their climate objectives. In evaluating 80 of the top S&P 100 companies by market cap, 37 indicated that taking direct action toward net-zero targets is part of their sustainability strategy; even so, 29 of these 37 corporations gave more to climate deniers than to climate supporters or climate-neutral members of Congress. This all-too-common misalignment creates real business risk such as inconsistency in brand reputation, employee dissatisfaction, and inability to meet stated goals.

(See the Center for Political Accountability's Hollow Policies report on conflicted company political spending and climate change.)

THREE PRACTICAL ACTIONS FOR COMPANIES

Leaders of U.S. public companies can take a few critical actions to ensure their corporate political spending is transparent, aligned with their ESG goals, and contributes to a stable political and economic environment.

No. 01 — **Provide Transparency**

Evaluate your company's transparency using the CPA-Zicklin Index and identify opportunities to improve the score using the CPA-Wharton Zicklin Model Code of Conduct. Key components of the code include:

- Companies should follow a preferred policy of making political contributions to a candidate directly.
- Companies should disclose publicly all direct contributions and expenditures with corporate funds on behalf of candidates, political parties, and organizations.
- Company political spending decision-making and risk assessment should include the company's responsibilities as a member of society and participant in the democratic process, as well as the wider impact of its political spending.

No. 02 — **Align political contributions with company values**

Corporations can take specific actions that support achieving ESG investor goals, while mitigating risks associated with corporate political influence. These actions include:

- Developing internal corporate policies that ensure accountability among corporate leaders for making value-aligned political contributions
- Aligning internal teams (e.g., investor relations, government affairs, HR) around shared priorities and a shared understanding of risk
- Defining board-level oversight to drive accountability on alignment between company values, ESG goals/targets, and political contributions
- Alternatively, eliminating all corporate political contributions to avoid potential conflicts of interest with pro-democracy principles (as IBM has).

No. 03 — **Support a stable and healthy U.S. democracy**

- Promote civic engagement of employees and customers by supporting voter registration and providing time off for voting, pollworking, or other public service (see LNP's 5 Actions Guide for Business)
- Play a role in preventing future election crises by publicly speaking about the importance of democracy for capitalism to thrive, reaffirming the legitimacy of the 2020 election and future elections (see Fortune piece)
- Make and uphold commitments to cease donations to politicians who deny the legitimacy of the 2020 Election (as AirBnB, Microsoft, BNSF, and Intel have) (see HBR piece)
- Support legislation that protects elections and voting. Companies can actively support laws that prevent partisan interference in elections while refraining from supporting legislators who do not promote democracy legislation (see CNN Business piece)

AUTHORS

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RESOURCES ON ESG POLITICAL METRICS

- OpenSecrets: Public website provides extensive open-source structured data, analytical tools, and reporting, tracking money throughout U.S. politics and its effects on elections and public policy.
- Center for Political Accountability: Produces annual CPA-Zicklin Index, scoring S&P 500 companies on their practices around political spending, disclosures, and accountability.
- InfluenceMap: Produces tools, reporting, and data-driven analyses focused on how businesses are impacting the climate crisis, particularly through their political influence.