CENTER FOR POLITICAL ACCOUNTABILITY

Spotlight on CPA - December 2016

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2016: A Year of CPA Accomplishments

2016 was another highly successful year for CPA as it reshaped how companies engage in political spending. Here's a review of CPA's activities and impact:

DISCLOSURE: The number of public companies agreeing to disclose their political spending climbed toward 160 (see separate article in this newsletter).

COMPLIANCE: CPA opened a groundbreaking new front in developing guidance for companies about achieving meaningful compliance in political disclosure.

It cosponsored with the RAND Center for Corporate Ethics and Governance, Columbia Law School, and the Zicklin Center for Business Ethics at The Wharton School a roundtable spotlighting the importance of adhering to company political spending policies and practices.

DUE DILIGENCE: With an op-ed in **The Hill** and an expanded version in the **Harvard Law School Forum on Corporate Governance and Financial Regulation**, CPA furthered its political disclosure and accountability guidance for corporate directors and executives.

"It's a common-sense business tenet that no public company would donate to a new charity without knowing how the money would be spent," wrote CPA counsel Karl Sandstrom and president Bruce Freed in The Hill. Their Harvard Law blog post discussed due diligence policies and actions to protect companies from the heightened risks of political spending.

CPA INDEX: The sixth annual **CPA-Zicklin Index of Corporate Political Disclosure and Accountability** showed a big increase (over 50 percent, from 23 to 35 companies) in corporations placing in the top-five rankings, thereby earning the new designation of CPA-Zicklin Trendsetters; more than a dozen companies having improved their scores by 50 percentage points or more; and a jump in the number of companies addressing "dark money" by strengthening or adopting policies on or disclosure of trade association payments and 501(c)(4) "social welfare" organization contributions.

HONORABLE MENTIONS: Moyers & Co. spotlighted CPA's achievements in a September article headlined, "Doing What the Feds Won't on Corporate Political Disclosure: A tiny Washington nonprofit is trying to do what Congress and the SEC won't."

In an April editorial, **The Washington Post** discussed political fighting over a proposed Securities and Exchange Commission rule that would require companies to disclose their political contributions, then pointed to gains spearheaded by CPA: "Meanwhile, many public companies have decided voluntarily that it's good business to reveal their political spending through the nonpartisan Center for Political Accountability." The Wall Street Journal also mentioned CPA favorably in several news articles.

2017 Proxy Season Off To Strong Start for CPA -- Political Disclosure Agreements with NiSource, AIG

Two leading companies recently agreed to disclose their political spending, providing a strong start to the 2017 proxy season and bringing to 155 the number of companies adopting such agreements since CPA was founded 13 years ago.

The companies are NiSource Inc. (NYSE:NI), a Fortune 500 energy company; and American International Group, Inc., also known as AIG (NYSE:AIG), a holding company of insurance subsidiaries.

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The NiSource agreement came in the wake of majority shareholder support for the New York State Common Retirement Fund's shareholder resolution last year. In announcing the agreement, N.Y. State Comptroller Thomas P. DiNapoli said:

"When corporations spend investors' dollars on political causes they can put themselves, and our investments, at risk. While *Citizens United* removed certain restrictions on corporate political spending, the ruling left the door open for investors to demand information on how and where our money is being spent. Companies like NiSource are to be commended for respecting shareholders' interest in protecting our investments."

In the wake of the AIG disclosure agreement, the Unitarian Universalist Association decided to withdraw its shareholder resolution. "We commend the board and management of AIG for taking this issue seriously and the efforts it is making to improve disclosure of political spending and lobbying expenditures," Timothy Brennan, Treasurer and CFO of UUA, said.

"This is an exciting start to a year when we hope many more companies will join the voluntary political disclosure movement," CPA President Freed said.

NYU | STERN

Third Corporate Political Accountability Roundtable to be Held in Early February at NYU's Stern School

The third Roundtable on Corporate Political Accountability, co-sponsored by CPA and three business school programs, will be held Feb. 2 - 3 in New York City.

Leading investors, academics and corporate representatives are among those invited to the event at New York University's Stern School of Business, devoted to the topic "Money and Influence in Politics, Accountability and Beyond."

The Roundtable was launched in 2013. It focuses on the involvement of corporations in the political process and the role of business schools in preparing current and future business leaders to handle the responsibilities accompanying this involvement.

In addition to the Stern School and CPA, co-sponsors will include Baruch College's Zicklin School of Business and The Wharton School's Zicklin Center for Business Ethics Research.

Expert panel topics will include "Beyond Accountability – How Is Influence Exerted?"; "What Are We Teaching? The Post-Election Challenges for Business and Business Schools"; and "Business Views: What Are Best Practices for Corporate Political Transparency and Accountability?"

The Star-Ledger

Newark Star-Ledger: When Political Spending Doesn't Always Align with Company Values

One of the bigger risks for companies that engage in political spending is a misalignment between their company values and the impact of their spending. A major example of this misalignment was highlighted recently by the **Newark Star-Ledger** when it focused on Johnson & Johnson and Merck & Co.

These two New Jersey companies, which rank among the biggest sellers of contraceptives, "have helped elect Republican governors and legislatures trying to restrict funding for birth control," the newspaper reported.

"Johnson & Johnson and Merck & Co. and their trade association contributed more than $4 million from 2011 to 2016 to the Republican Governors Association and the Republican State Legislative Committee, Internal Revenue Service filings show.

"Those groups helped secure GOP majorities in 14 states that from July 2015 to July 2016 tried to exclude groups such as Planned Parenthood from receiving funds for family planning or related expenditures, according to the Guttmacher Institute, a research and advocacy group that supports abortion rights and access to birth control. Only court intervention prevented some of those bans from going into effect."

The newspaper turned to CPA to interpret the lessons of such an example.

"It's a real conflict between the company business and company values," CPA's Freed told the newspaper. "Companies really need to take these things into account when they're making their political spending decisions."

Kellogg, Pepsi, Macy's Travails: Warning Signs for Companies of Risks Political Spending Could Pose

Founders Column

By Bruce Freed

Mixing politics and business can be a combustible matter for companies when the nation is polarized, and companies that take a political stand in turn become targets of some consumers.

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This lesson emerges from recent headlines about the 2016 presidential election and reactions. Although it's not a lesson specifically involving corporate political spending and risk, there are parallels and it could have implications.

The Wall Street Journal reported the following after Kellogg said it would withdraw advertising from Breitbart News, and then Breitbart urged readers to boycott Kellogg: “There’s a cereal killer on the loose. … As American society becomes more divided it is becoming more dangerous to mix business and politics.”

Do controversies like this one bring real financial consequences, or just hot air? WSJ suggested the former can be the case, and it mentioned also the repercussions for Macy’s, “which pulled Donald Trump branded merchandise in 2015 in an explicit protest against prejudice,” and Pepsi, after its CEO’s comments spurred an appeal for a boycott by Trump supporters:

“One way to assess the damage to companies’ bottom lines is their stock prices since Mr. Trump’s surprise victory. Macy’s, for example, has lagged behind peer J.C. Penney by 16.5 percentage points and Kohl’s by 21.4 percentage points in the ensuing month. Kellogg shares have underperformed peers General Mills and Post Holdings by 4.4 and 11.5 points, respectively. Pepsi trailed Coca-Cola and Dr. Pepper Snapple Group by a more modest 16 and 5 percentage points, respectively.”

The Washington Post reported, meanwhile, “The maker of Eggo waffles and Pop-Tarts is only the latest American corporation caught in the crossfire. In the weeks since the election, companies have navigated a sharply politicized environment, one that has entailed calls for boycotts, explosive social media responses to executive comments and thorny interactions between front-line workers and their customers.”

It’s clichéd to say that the nation is entering uncharted waters as Trump prepares to take his oath of office this month, yet it’s also true. And when U.S. companies consider how to navigate these uncharted waters and plan political expenditures, it would be smart to remember the kerfuffle over Kellogg.

CPA does not urge companies to halt political spending, but instead to provide accountability and disclosure. The same kind of backlash that can occur over a CEO’s comments or an advertising withdrawal could be directed at a company’s campaign spending.

In these volatile times, I wouldn’t bet against it.

CPA in the News

It’s a trifecta now: After being quoted in The New York Times and Wall Street Journal on President-elect Donald Trump’s top appointments, CPA was most recently quoted in **The Financial Times** in an article headlined, “Trump’s wealthy cabinet choices hark back to Gilded Age.”

“With his nomination of at least three fellow billionaires to his cabinet, the president-elect and real estate tycoon has begun assembling an administration that is likely to be the wealthiest in modern US history, with vast ties to business,” FT reported.

“It’s of a scale that we’ve never seen before,” Freed told the newspaper. “I think it raises some very, very serious questions.”