



Spotlight on CPA - January 2017

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Founder's Column: Political Transparency, Accountability Help Protect Companies from Trump Tweets, Pressure

By Bruce Freed

With his Twitter outbursts and other naming and blaming of individual companies, President Donald Trump has effectively made a new and forceful case for corporate political transparency and accountability.

Whether he's endorsing a company's products after commending a board member's political support (L.L. Bean), cajoling or pressuring companies for domestic job creation (Carrier, Ford) or complaining about prices (Boeing, Lockheed Martin), Trump has left CEOs reeling and in the process, caused experts to raise red flags:

(From a Washington Post article about Trump & L.L. Bean) "Katherine DeCelles, a Harvard business professor who focuses on ethics, said no White House leader in modern history has used their platform to hawk products. 'It's unprecedented,' she said, 'for someone of his power voicing his support or being against particular companies.'"

(From a New York Times article on the same topic) "...[P]ublicly suggesting that Americans should shop at a particular retailer is highly unusual, said Michael Beschloss, a presidential historian. ... 'Is there a quid pro quo in the Trump Twitter world, where if you do something nice for him or give him a donation, that you're likely to get an endorsement tweet?' he asked. 'That's new stuff.'"

(From a VICE article on Trump and crony capitalism) "The danger, economists say, is that the emerging Trump system not only risks corruption but also could damage the basic mechanics of the American economy, creating stronger incentives for companies to focus their efforts on gaining favor with the government rather than winning customers through efficiency and innovation."

(From a Vox article on the same topic) "A lot of voters are cheering Trump's strategy. Most economists hate it. They call it 'crony capitalism,' and they warn it will inject new and damaging uncertainty into America's back offices and boardrooms."

"This can really change the incentives of firms,' says Scott Ross Baker, an economist at Northwestern University's Kellogg School of Management, who studies the effects of policy uncertainty on the economy. 'They can start to think about, the way they can make the most money in the future is not to make the best products but to ingratiate themselves.'"

If companies elect to ingratiate themselves through political spending, they need to be aware of the risks for their reputations and for shareholders. It's why we wrote a lengthy commentary on the topic published by Reuters (see separate newsletter article), and we plan to speak out further.

We also plan action. Trump missed a big opportunity in his inaugural address to address campaign finance reform and spell out his plans for "draining the swamp" in Washington. We're preparing an invitation for the anti-regulatory president to endorse voluntary action by U.S. companies to bring sunlight and accountability to their political expenditures.

And we will mount a Transparency Challenge. It will seek to double, from 35 to 70, the number of Trendsetter companies (those ranked in the top echelons of the 2016 CPA-Zicklin Index of Corporate Political Disclosure and Accountability) in Trump's first two years.

The potential onset of crony capitalism calls for nothing less than this intensified CPA effort.

Reuters Features CPA Commentary on Crony Capitalism and How Political Transparency Can Protect Companies

There's turbulence as a result of President Trump's use of his "bully pulpit" to call out individual U.S. companies for fame and for shame, CPA leaders wrote Jan. 26 in an [essay published by Reuters](#), the international news agency.

With concerns rising over crony capitalism in Washington, it's smart business for companies to consider political disclosure and accountability practices, CPA President Bruce Freed and Board member Charles Kolb wrote.

Reuters is headquartered in London. Many of its readers belong to the business and finance sectors. Reuters headlined the commentary, "How companies should respond to Trump's attacks – and praises." Its publication in Trump's first week as president put CPA in the forefront of analysis of his unusual tactics, joined with its advocacy of transparency and oversight for corporate political spending. The column received wide pick up by other outlets including London's Daily Mail, Yahoo Finance and Japan Today.

Here are excerpts from the commentary by Freed and Kolb:

"Whether Trump has been testing messages to use as president or launching a regular practice, he has used his own 'bully pulpit' to put some businesses on notice and to commend others. This approach is raising questions about what some economists call 'crony capitalism' and also about quid-pro-quo politics, and it's shaking up company executives who might otherwise be optimistic about pledges of economic growth."

"It's too early to tell what factors the new president and new Congress will take into account in making decisions about businesses. In the meantime, in the interest of promoting economic growth along with their own protection, businesses can take concrete steps to protect themselves, shareholders and our democracy."

"Being transparent about when they give political money and adopting clear policies for this spending are two of the most significant safeguards companies can adopt at a time when one of *Citizens United's* central promises has not been fulfilled."

"In his *Citizens United* opinion for the court's majority, Justice Anthony Kennedy unshackled companies to engage in almost unfettered political spending while asserting that modern technology has the potential to make 'disclosures rapid and informative.' The latter promise has not been met."

"When companies are transparent about their political contributions, they can protect against payments that might cause a backlash in our fiercely divided political climate, or an ill-considered payment that can damage their reputation. A clear policy on political spending can protect them against public or private pressure from a political candidate, allowing them to cite company policy in order to say 'no.'"

"It looks like Trump will continue to use his bully pulpit to shame and blame companies, and concerns about crony capitalism will keep growing. If this happens, companies can protect themselves and their integrity by following guidance from Business Roundtable, which encourages company boards to oversee political spending and consider adopting a policy on disclosure. It's modest advice, but it may help companies in the eye of Trump's next storm."



Political Disclosure Continues to Rise: Pinnacle West Reaches Agreement

Pinnacle West Capital Corporation, a publicly held holding company for the Arizona Public Service utility, has agreed to disclose its policies and procedures for making political contributions.

Pinnacle West brings to 156 the number of companies adopting such agreements since CPA was founded 13 years ago. As a result of its action, the Unitarian Universalist Association agreed to withdraw a shareholder resolution seeking the company's political disclosure policy.

Pinnacle West is a company making news in Arizona. As this newsletter noted [in September](#), Arizona Public Service has come under FBI investigation for alleged "dark money" political contributions to independent political groups in order to influence state regulators on a rate increase sought by the company.

More recently, [Arizona Capitol Times](#) reported in October, "APS parent company launches \$1M campaign to support [Corporation Commission] Republicans"; and [Arizona Republic](#) reported in November, "APS' parent, SolarCity pour \$6 million into Arizona utility-regulator race."

The Pinnacle West disclosure agreement continued a strong start to the 2017 proxy season for CPA. Last month, agreements with two other companies were announced.



Breaking News

[The Washington Post reported](#) on January 30 that political operatives associated with President Trump plan to create a nonprofit, America First Policies, to push his agenda and reach out to his supporters. According to the Post, "The group announced that it will not accept donations from federally registered lobbyists. But officials did not immediately respond to questions about whether they plan to voluntarily disclose their donors." Nonprofits organized as 501(c)(4)s are allowed to receive unlimited donations from individuals and corporations and keep the donations secret.

[CPA called on](#) President Trump to urge America First Policies and other nonprofits to disclose their donors.

CPA in the News

After President Trump met recently with CEOs of German chemical company Bayer and seed and herbicide giant Monsanto, seeking a \$57 billion merger, [the Associated Press quoted ethics experts](#) including CPA about potential issues raised by the meeting.

In an article published from coast to coast, the AP said that "While Trump has celebrated his approach as using his negotiation skills to save American jobs, others worry the president is inappropriately intervening." The article then quoted CPA President Bruce Freed:

"You're having companies ingratiating themselves with him and then decisions being made that affect those companies. ...That poses serious conflict problems."

The AP reported, "Presidents typically keep their distance from such reviews, so as not to appear to be exerting political influence on a regulatory process intended to evaluate the impact a merger could have on competition and consumers. Trump's closed-door sessions suggest the incoming president may be less worried with appearing to be close to pending deals that require government approval."

CPA has become a go-to resource for news media examining Trump's campaign pledges to clean up "the swamp" in Washington and his subsequent actions, including his cabinet appointments (see article, [December CPA newsletter](#)) and more recently his direct involvement with numerous companies as he promotes a job-creation agenda.

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