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Boards Tighten Grip on Political Spending

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All eyes were on the U.S. midterm elections this week as key positions in the U.S. House of Representatives, Senate and gubernatorial offices were closely fought. Almost 400 U.S. CEOs contributed roughly $24 million to political campaigns this year as employees and stakeholders push companies to take stances on political and social issues, according to **MarketWatch**.

Beyond CEOs entering the political fray, new data also show that companies are disclosing more information about political activities and have expanded board oversight of political spending and contributions. Boards must now balance how political contributions align with the disparate political views of employees, shareholders and other stakeholders while homing in on societal and policy issues impacting their companies.

"Company boards will need to look closely at who and what their companies are associated with through direct contributions and spending through trade associations and political committees," says **Bruce Freed**, president and co-founder of the **Center for Political Accountability**, a nonprofit advocating for political disclosure and accountability. "This will be the case at the state and federal level."

And it's not over. Campaigns for 2020 and changes to the political landscape loom larger than ever. Freed says the difficulty for companies lies in balancing stakeholder reaction to support of outspoken political representatives with whether that support will lead to worthwhile improvements for companies.

"[Tuesday's] election results lay out the challenge companies and their boards face from political spending," Freed says. "This is a real problem heading into the 2020 presidential and congressional elections. The campaigns for both start today."

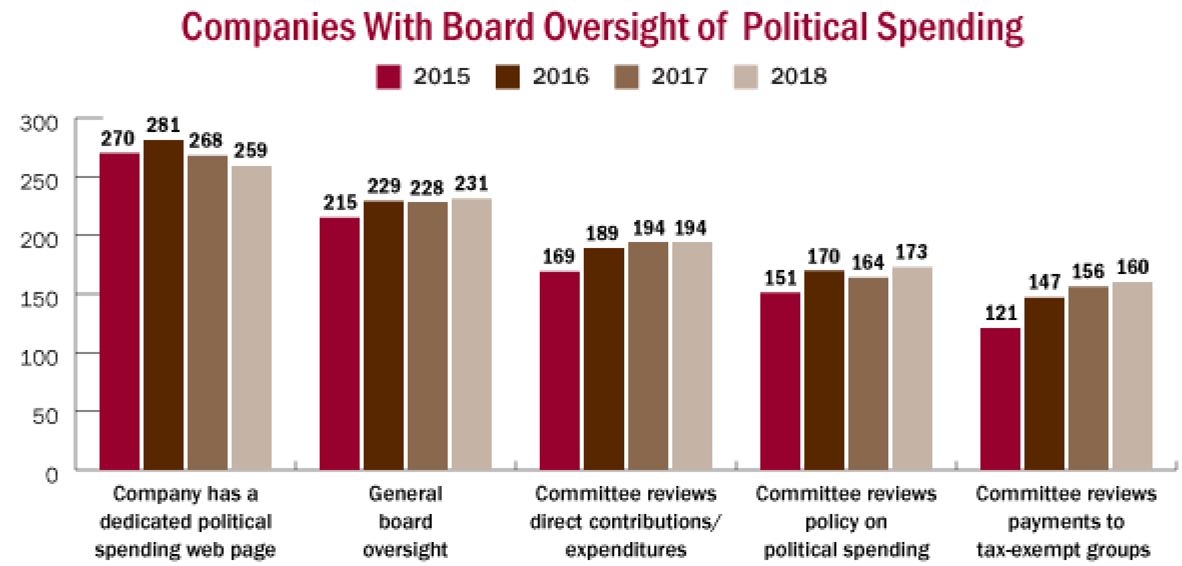
A Careful Approach to Spending

The results of the midterms showed Democrats taking control of the House of Representatives and ultimately winning 223 seats as of Thursday morning. Meanwhile, Republicans expanded their control of the Senate with 51 seats as of Thursday morning. The balance of power is generally good for the markets, analysts say, according to *The New York Times*, but as the division between the two parties grows wider, the future adoption of new policies or a deregulation agenda could also grow increasingly more complex, sources tell *Agenda*.

With the House controlled by the Democrats, *The Wall Street Journal* predicts they could push to raise the corporate tax rate and move forward on an infrastructure-spending bill, for example, while a

Republican-controlled Senate could continue to push for deregulation and further rollbacks of Dodd-Frank provisions, for example.

The unorthodox nature of the Trump administration has changed companies' attitudes and strategy when it comes to political spending and involvement, Freed says. For example, a tweet from president Trump directed at a company can cause stock price inflections as seen with **Boeing**, **General Motors**, **Lockheed Martin**, **Nordstrom** and others last year.



Note: 414 S&P 500 companies that have stayed in the S&P 500
Source: 2018 CPA-Zicklin Index

"President Trump has accelerated [the] trend [of companies responding to social policy issues] and forced boards and management to more proactively assess where, when and how they engage," writes **Bruce Mehlman**, founding partner at bipartisan public policy lobbying firm **Mehlman Castagnetti Rosen & Thomas**, in an e-mail.

Doug Chia, executive director of the governance center for the **Conference Board**, notes that companies are now discussing how to prepare for a visit from Trump to their facilities and whether that could garner negative or positive attention.

"Companies are thinking about the reputational risks around their relationship with Trump," Chia says.

CEOs themselves have become more politically active thanks to a millennial generation that pushes CEOs to take social and political stands on certain issues. According to a **Weber Shandwick** survey of 1,021 adults 18 years and older from last year, 47% of millennials believe CEOs have a responsibility to speak up about issues that are important to society, and 56% agree "CEOs and other business leaders have greater responsibility today for speaking out on hotly-debated current issues than they used to."

“Boards are increasingly aware that we’re in a new age of citizen activism where customers, employees and social media mobs have higher expectations for business leaders to lead on social policy issues and swifter judgment towards those who fail to live up,” Mehlman writes.

Chia says CEOs are continuing to talk to their boards about their willingness to get involved in public policy debates that are not directly related to the company’s business, such as immigration. Some CEOs don’t think it’s their place, while others decide to get involved.

For example, last year after a racially charged riot in Charlottesville, Va., and president Trump’s response, **Merck** CEO **Kenneth Frazier** decided to pull out of the president’s CEO council. The council eventually disbanded after more CEOs pulled out.

According to a new report on political spending and disclosure, the CPA-Zicklin Index, more companies are prohibiting spending on political activity related to elections outright. According to the index, 45% of the 414 consistent S&P 500 companies since 2015 prohibit spending in at least one category of election contributions compared to 38% last year and 34% in 2016. Meanwhile 10 companies, including **Goldman Sachs**, **International Business Machines Corp.** and **Schlumberger Ltd.**, prohibit election-related spending altogether, compared to eight companies in 2017.

A total of 294 S&P 500 companies disclosed some or all of their election-related spending or prohibited election-related spending this year, according to the index.

Board Oversight

Because of the evolving political environment, sources say boards need to keep a close eye on where funding is going regarding political issues. Freed says companies are in a “very raw” political atmosphere that is hyperpolarized and hypersensitive and companies should be concerned about being labeled hypocritical.

Typically, boards review political spending at least annually, especially at companies that are heavily regulated, which includes how the company is trying to shape the legislative process. Part of this is driven by an increased demand in disclosure, Chia says.

A part of this review typically includes political action committee (PAC) contributions and trade association contributions, Chia says. The review can also include discussions about the general political environment, legislative developments, strategy regarding how the company interacts with legislators, and relationships with politicians who might be viewed as controversial.

Freed says the most important thing for a board to keep track of is “where the money ends up.” The reports boards get often focus on the contributions to trade associations, for example, but not the independent expenditures coming out of those associations toward support of or opposition to a certain political candidate.

“The report on where the money is given stops with [the] initial recipient in many cases, but boards need to know where it ultimately ends up and how the company is associated with that,” Freed says.

For example, prior to the midterm elections, companies such as **AT&T**, **Intel**, **Land o' Lakes** and **Purina** pulled contributions and support from **Rep. Steve King**'s (R-Iowa) congressional campaign due to his association with white nationalist groups. **Target** faced backlash in 2010 when it made a contribution to Minnesota Forward, a PAC focused on private-sector job growth, when it was discovered the PAC donated to gubernatorial candidate **Tom Emmer**, who opposed gay marriage.

"The board needs to set policies on when to give, whether to give, what the parameters are for giving and the criteria for making a decision on where and when to give," Freed says. "The board needs to know the laws and regulations governing political spending, how the company is spending and how to assess the risks stemming from spending."

According to the CPA-Zicklin Index, 231 S&P 500 companies disclosed general board oversight of political spending this year, compared to 228 last year, while 194 disclosed that a committee on the board reviews direct contributions and expenditures, in line with last year.

Many companies, especially those in heavily regulated industries, have public policy committees on the board that handle oversight of political spending, legislative and regulatory developments, and public policy. Those that don't have those committees typically give that responsibility to the nominating and governance committee, Chia says.

According to **Spencer Stuart**'s latest board index, 9% of the S&P 500 have a public policy or corporate and social responsibility committee, slightly down from 10.5% recorded last year.

For example, **Abbvie**, **Chevron**, **ConocoPhillips**, **Lowe's**, **McDonald's**, **PG&E** and **Western Union** all have detailed charters for these committees on their websites. *Agenda* reached out to several companies with public policy committees about the committees' responsibilities but did not receive responses. Lowe's and Western Union declined to comment.

Shareholders are continuing to push for boards to strengthen oversight and be more transparent about political spending as well. According to **Alliance Advisors**, there were 47 proposals voted on at U.S. public companies this year, as of the end of June, involving lobbying and election spending. They got an average support of around 30%.

"The interest by shareholder proponents continues to go up, and the voting around those proposals has also continued to go up," Chia says.