



Center for Political Accountability Newsletter

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**Founder's Column:
Tackling- and
Reducing- Risk in**

CPA Co-Authors Groundbreaking New Handbook About Emerging Best Practices for Corporate Political Spending



With U.S. elections shattering spending records, corporations have acquired a valuable new tool to help them navigate potential risks when they choose to engage in political spending.

The Conference Board released November 1 a groundbreaking [Handbook on Corporate Political Activity](#), co-authored by Center for Political Accountability president Bruce F. Freed and CPA counsel Karl Sandstrom who practices election law at Perkins Coie, and Paul DeNicola, director of The Conference Board Governance Center.

As CPA pointed out in a summary of the handbook, it offers a practical framework built around the following principle:

"Thoughtful political spending decisions that are product of a board-approved, robust governance structure can avoid many of the pitfalls always present in political spending."

"This handbook ... seeks to alert directors and senior

Corporate Political Spending
by Bruce F. Freed, Center
for Political
Accountability Founder

The Conference Board's new *Handbook on Corporate Political Activity* (see Handbook article) offers a guide to minimizing "the pitfalls always present in political spending." What are the most significant risks?

After working for two years on this handbook, and drawing on other work of the Center for Political Accountability, I can identify four main areas where political spending may pose a threat to companies.

Reputation: There is a real risk of embarrassment or public or shareholder outcry when a company supports a candidate, trade association or other group and the funding ultimately supports a position that is in conflict with company values or positions. Just ask Target.

Aiding and abetting corporate mismanagement: When a company's business model relies on political spending, it raises a red flag. Do I need to name Enron,

management to the legal and risk issues surrounding political expenditures and provide them with the necessary tools for making wise political spending decisions and then effectively overseeing their implementation."

The handbook offers executives and directors a guide for creating an ethical corporate culture. It advises:

"If a company seeks to minimize the risks involved in corporate political spending, it must take concrete steps; however, the value of these efforts can only be maximized when grounded in an ethical corporate culture."

To assist company management and directors, the handbook identifies policies, procedures, and emerging best practices that should be followed when a company engages political spending. Essential elements to wise engagement include disclosure, transparent and participatory decision making, and board oversight. It cites examples of public outcry and criminal prosecution that were a product of ill-considered spending decisions.

Corporations today confront a dilemma. The Supreme Court's landmark campaign finance ruling in *Citizens United v. FEC* permits greater freedom for corporations to engage in political spending directly or indirectly through trade associations and 501(c)(4) groups. That freedom will mean corporations will be pressured to do so often from individuals and sources that are difficult to resist.

In this new environment there are heightened risks. (see Founders column) The handbook is a needed guide for companies to navigate this new landscape.

CPA's Freed pointed to an immediate consequence of *Citizens United*: Outside spending exploded in the 2010 elections, and the sources were largely undisclosed. "Unfortunately, shadow political spending is soaring, and this type of spending has resulted in abuses and scandal in the past," he said. "The Center for Political Accountability is working to encourage responsible corporate political activity and to protect shareholders. By acting responsibly now, companies can protect themselves in the future."

WorldCom and Global Crossing?

Business strategy: A company's money can be used by a third-party group to oppose the company's own position. Some companies have made payments, for example, to the U.S. Chamber of Commerce or National Association of Manufacturers only to find the trade association in disagreement about climate-change policy.

Legal liability: Since the Jack Abramoff scandal in Washington, prosecutors have been on the lookout for correlation between company hard money and soft money contributions and official acts by lawmakers.

To help companies guard against these risks, the handbook builds on expertise developed by the Center for Political Accountability over its seven-year history, working with companies to advance corporate political disclosure and accountability.

This is a nonpartisan guide whose reviewers included corporate executives and directors, academics, compliance and ethics

The handbook will serve as an important source for evaluating companies. CPA is currently developing an index which will rate companies on their political disclosure and accountability policies and practices.

Among the handbook's central conclusions are:

- Company leaders need to understand the nature of the company's political engagement, the ultimate political beneficiaries of its spending, and the message and use to which its resources are being expended.
- Trade association membership can advance a company's public policy agenda, but potential reputation and bottom-line risks can emerge when there are significant differences between the values and positions of the company and those of the association.
- A deliberative political spending decision-making process allows a company to deflect undue political pressure to contribute. Independent, objective counsel and expertise can help evaluate the company's political spending policies and practices.
- Adopting a code of conduct for political spending can ensure employees are aware of, and operate consistently with, company policy concerning political engagement.
- Directors need to conduct on-going, robust oversight of a company's political spending to assure that decisions are fully considered and that spending does not pose risks to the company and shareholders.

Survey Shows Overwhelming Business Leader Support For Disclosure and Board Oversight of Corporate Political Spending

In the final month of the mid-term campaign, U.S. business leaders declared their overwhelming support for disclosure and board oversight of corporate political expenditures, and two out of three business leaders said they believe secret political spending poses a threat to companies.

The Center for Political Accountability spotlighted the business leaders' views, which were gathered in a new survey commissioned by the Committee for Economic

lawyers, corporate governance experts, and election lawyers with Democratic and Republican clients. We take pride in the handbook and hope it becomes a standard and valuable tool.

Conference on Corporate Political Role After *Citizens United* Featured in Knowledge@Wharton Article

A recent conference on the changing political role of the corporation after the Supreme Court's *Citizens United v. Federal Election Commission* decision, co-hosted by the Center for Political Accountability, drew a [comprehensive article](#) in Knowledge@Wharton, the online newsletter of the Wharton School at the University of Pennsylvania with a readership of 1.7 million.

The article was entitled, "Citizens 'Dis-united': How a Recent Supreme Court Case Sounds the Alarm about the Political Role of Corporations." Many experts at the conference "believe the controversial ruling has opened a can of worms for corporations, shareholders and citizens alike," the article reported about the frank roundtable

Development. The survey findings tracked responses in earlier surveys commissioned by CPA, of [corporate directors](#) (2008) and [retail shareholders](#) (2006).

Of 301 business leaders who were surveyed this fall, three out of four respondents said they support disclosure by third-party groups that receive company money, and almost as many said they support limiting company contributions to non-political purposes unless the board or shareholders permit otherwise.

Zogby International conducted the survey between Oct. 12 and Oct. 22, just weeks before the most expensive mid-term elections ever. CPA suggested five questions on business leader attitudes for the CED survey; CED is a non-partisan organization of more than 200 business leaders and university presidents.

"Influential American business leaders are uneasy about secrecy in corporate political activity. They overwhelmingly favor transparency and accountability in corporate political spending, the cornerstones of our organization," said Bruce F. Freed, CPA founder and president.

"This election season was marked by torrents of anonymous outside spending," Freed said. "In advance of an even bigger-spending presidential election cycle in 2012, we will underscore these business leaders' concerns as we press, along with our shareholder partners, for companies to adopt disclosure, transparent and broad based decision-making and board oversight of political spending."

Here are highlights from the Zogby survey, which can be examined in detail from the [CED website](#):

- **DISCLOSURE:** 77.1 percent of business leaders said they "strongly" or "somewhat" support the statement that corporations should disclose all of their direct and indirect political expenditures, including money provided to other organizations to be spent on campaign advertisements.
- **ACCOUNTABILITY:** 92.7 percent said they "strongly" or "somewhat" support the statement that corporate boards should be informed of the beneficiaries and purposes of the company's direct

discussion.

The Oct. 1 conference was co-hosted by Wharton's Zicklin Center for Business Ethics Research and the University of California, Los Angeles School of Law. It featured an array of lawyers, activists, investors and academics discussing ways to respond to *Citizens United* and the broader issues it raised.

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and indirect political spending.

- **RECIPIENT GROUPS:** 88 percent said they "strongly" or "somewhat" support the statement that politically active organizations to which a company contributes should disclose to the company their direct and indirect political expenditures.
- **RISK:** 66.1 percent said they "strongly" or "somewhat" support the statement that the lack of transparency and oversight in corporate political activity encourages behavior that puts corporations at legal risk and endangers corporate reputations.
- **LIMITS:** 73.8 percent said they "strongly" or "somewhat" support restricting company contributions to outside organizations to non-political purposes unless expressly permitted by the board or shareholders.

[A MarketWatch post](#) reported on the survey on Nov. 2, 2010, headlined, "On eve of election, companies want more political disclosure."

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