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There's another reason companies should tread carefully with political influence — the stock market is watching

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Nonprofit that urges disclosure of corporate political activity soon will sharply expand its tracking of election-related spending, after a prod from big money managers

A nonprofit that pushes for better disclosure of corporate political spending is sharply expanding its effort to track how forthcoming companies are, with the greater scrutiny prompted by Wall Street's largest money managers.

Business ethics fall under the "governance" component of the growing environmental, social and governance (ESG) investment category, although depending on which cause or political election is in question, "social" and "environmental" may be impacted, too.

The expanded way of tracking political ethics in corporate America will hit this fall from the Center for Political Accountability, as more and more listed companies find themselves out of favor or gaining points with customers and investors because of a political or cultural stance.

CPA President Bruce Freed highlighted attention on Toyota **TM, -3.60%**, which suspended contributions to Republican lawmakers who wouldn't certify the 2020 presidential election, and Disney **DIS, -3.71%**, which has battled with Florida Republicans over a new state law that bars instruction on sexual orientation and gender identity in kindergarten through third grade, the so-called Don't Say Gay bill that the theme-park operator and media giant opposed.

The nonpartisan CPA has worked for years with the Zicklin Center for Business Ethics Research at the University of Pennsylvania's Wharton School to produce annual ratings of S&P 500 **SPX, -3.88%** companies based on each corporation's policies for disclosing and managing political outlays.

With the fall release of CPA-Zicklin Index scores, the Washington, D.C.-based nonprofit plans to double the number of large-cap companies analyzed by looking at the Russell 1000 **RUI, -4.03%**. Asset managers tend to look at Russell 1000 companies in making investment decisions, rather than limiting themselves to S&P 500 names, so the move should make it easier for those Wall Street giants to include CPA-Zicklin Index scores in their databases of ESG information.

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— CPA President Bruce Freed

"The Russell 1000 is a filter that a number of them seem to use already in their screens," said Dan Carroll, the center's counsel and vice president for programs. "Using that, rather than the S&P 500, would drastically simplify the process of including [CPA-Zicklin Index] data with their information — and possibly even integrating it into some ratings."

Investors then could run screens that exclude companies that scored below a certain level on the CPA-Zicklin Index.

In addition, the expansion of the center's efforts could end up encouraging more companies to provide better disclosure of their allegiances.

"It seems clear that this is an issue that's of increasing importance to investors," Carroll told MarketWatch.

Added Freed: "With companies under much greater scrutiny on their election-related spending, it really is incumbent on them that they have strong [governance] policies that they adhere to."

"They face the threat of boycotts. They face the threat of employee morale problems," he said. "They face the the threat of very harmful publicity. Bottom lines can be adversely affected by the way companies engage in political spending."

Freed said the CPA-Zicklin Index does not judge a company's political spending or address the alignment of outlays with the company's core values or policies, but rather it only looks at how the company governs and manages its election-related spending. Still, once the dollar figures are known, money managers and their investors can better decide if they align with a company's stance.

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— Bridgewater's Kevin Brennan

Caitlin McSherry, director of investment stewardship at Neuberger Berman, said her investment management firm is "pleased that the CPA will be expanding the coverage of the index."

"Neuberger Berman has long considered the CPA-Zicklin Index to be an informative guidepost for assessing appropriate disclosure on political spending practices in relation to both the market and industry peers," she said in an email to MarketWatch.

An executive at Bridgewater, the world's biggest hedge fund, indicated that he views the CPA-Zicklin Index as an important tool.

"Increasingly, concerns about the role that companies are playing in the U.S. political process and whether these actions are aligned with their publicly stated positions and commitments have risen in importance," said Kevin Brennan, Bridgewater's co-head of the investment engine and director of investment systems, in an email.

"The CPA-Zicklin index has been effectively scoring the political spending transparency and accountability policies of major U.S. public companies since 2011. As a function of expanding demand for data from ESG-focused investors, the CPA Zicklin index will extend from the S&P 500 to the Russell 1000 in order to better cover the largest U.S. public companies on this important ESG dimension."

A spokesman for BlackRock **BLK, -3.07%**, the world's largest asset manager, pointed to a commentary from the company's investment stewardship team.

That commentary says in part that corporate political activities can "create material risks for companies," so those "that engage in political activities should develop, maintain, and disclose robust processes, including effective board oversight, to guide these activities and mitigate such risks."

About the Author

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