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What happened with shareholder proposals for political spending in the 2022 proxy season?

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What happened with shareholder proposals for political spending and lobbying in the 2022 proxy season? In these two articles, ISS provides us with an update on shareholder proposals for political contributions and lobbying disclosures submitted for the 2022 proxy season. According to ISS, many shareholder proposals addressing political spending and lobbying reflected investor concerns that support of certain candidates and causes or certain lobbying activities may be inconsistent with the stated values or public positions of the company. Drilling down, we also look at more specific data from the Center for Political Accountability regarding shareholder proposals for election spending submitted by its proposal partners for the 2022 proxy season, as well as a preview of what's on the agenda from CPA for next proxy season.

According to ISS, there are a variety of types of proposals focused on political spending—including requests for reports on global public policy and political influence as well as expressly on congruency of political spending with company values and priorities. In this report, ISS focuses on political campaign contributions, including calls for greater disclosure. Although engagement has led to improved disclosures about political contributions over time, particularly at larger companies, ISS observes that "social and political unrest has put the spotlight on companies whose support of certain individual candidates may be at odds with public statements about issues such as racial justice, gun control, LGBTQ rights and election integrity. These concerns have raised the profile of political contributions and have given rise to resolutions about transparency and congruency of spending and a company's stated values." How does the company reconcile its public support for environmental sustainability or social justice with its support for lawmakers who work against these efforts? To that end, some of these proposals question why political contributions or expenditures "appear to be misaligned with public statements on company values, views, and operational practices."

ISS identified 19 proposals on political campaign contributions submitted for the 2022 proxy season, with 16 having come to a vote by mid-June. According to ISS, two proposals received majority support. Overall average support was 34.1%, with the lowest support at 4.2% at a company with majority insider ownership.

According to ISS, many of the shareholder proposals requesting disclosure about direct and indirect lobbying activities and expenditures also focused on whether these activities were aligned with a company's public statements. A few proposals addressed lobbying activities from the relatively new perspective of climate, asking whether the lobbying activities of companies or their trade associations are consistent with their public statements on climate or their "alignment with the goals of the Paris Agreement." ISS reports that most of these proposals "were withdrawn after companies agreed to increase disclosures regarding the Paris alignment of their direct and indirect lobbying." One form of proposal that was submitted to a few pharma companies sought an independent third-party report on whether the company's lobbying activities—whether directly or indirectly through trade associations—were congruent with its public policy positions and public statements. According to ISS, these resolutions "typically received above average support from shareholders."

ISS reports that about 31 proposals on lobbying were submitted for the 2022 proxy season, three of which concerned climate-related lobbying. Through June 13, three received majority or near-majority support. Overall, average support was at 31.8%. ISS interprets the failure rate to indicate that, although many are still concerned about lobbying activities, "the majority of investors are convinced that additional disclosures made by companies that have long been targeted by such proposals mark a sufficient improvement over past practices."

The Center for Political Accountability reports that, of 22 shareholder proposals on political spending submitted by its proposal partners for the 2022 proxy season, 14 resulted in an agreement with a company or a withdrawal of the proposal if the company otherwise made substantial progress, and eight went to votes, of which two received majority votes. The average vote was 33.9% (38.1% excluding a company with majority insider ownership). That reflects a decline from the 2021 proxy season, when CPA partners submitted 28 proposals, with 12 going to a vote, and six receiving majority votes, including two at 80% and one at 68%. For 2021, CPA and its partners also withdrew 13 proposals; 10 were the result of agreements with companies regarding disclosure and three were strategic withdrawals where the company made substantial improvements but not enough to merit an agreement. The average vote was 48.1% for 2021. According to CPA, because more companies have begun to regularly provide disclosure about their political spending, there are fewer repeat proposals and fewer targets for CPA's original model proposals that simply seek full disclosure and transparency—and these remaining companies may, on average, be "more resistant to transparency" than prior targets.

CPA advises that next season will see a major increase in the number of proposals to be submitted by its proposal partners. In addition to the standard disclosure proposal to be submitted to companies with minimal or no disclosure policies, CPA also expects to submit proposals related to disclosure of contributions to 527 organizations or trade associations that engage in election-related spending. As described by CPA, “527” organizations are typically entities such as state party leadership and legislative campaign committees and the governors and attorneys general associations. These organizations accept “contributions from a variety of sources and then spend it to advance a broad political agenda.” Once a company has contributed to a 527 group, the corporate and other funds are pooled and then channeled to state and local PACs and candidates, to “dark money” groups and to other national 527 groups. As a result, companies no longer control the use of their funds. The groups determine how the money is used, they control the message and decide which candidates or issues to support, regardless of the contributor’s own goals and intentions. The donor company may not even know how the 527 plans to use the company’s money, making it difficult for the company to evaluate the risk involved. (See this PubCo post.)

CPA also plans to submit a third type of proposal that would ask companies making donations to third-party groups, such as trade associations, social welfare or other organizations that engage in political activities, to adopt a policy requiring that these groups agree to report to the company how the group spent those funds for political activities, including the identity of the recipients and the amounts. The reports would then be posted on the company’s website, providing transparency and accountability. The proposal may even be submitted to companies that score well on the CPA-Zicklin Index, but do not otherwise provide this information. By tracking how that donated money is spent, CPA believes, a company can better assess the consequences of its political spending and avoid the reputational risk that can arise out of electoral spending that does not synch up with publicly stated corporate values. CPA contends that the inability of companies to know the consequences of their political spending—and the associations that can result from that spending—presents an increasingly serious risk. If a conflict between action in the form of political spending and publicly announced core values is brought to light, the conflict could fracture the company's relationship with its investors, employees, customers and the public, who might view the company's public statements as merely virtue-signaling or even hypocritical—perhaps leading them to spurn the company and its stock.