AGENDA

# Investors Keep Up the Pressure on Political Disclosure

Spending misalignment is raising investors’ ire

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By Varvara Budetti|November 7, 2022

A highly politicized environment and an informed population mean that companies’ political participation is under more scrutiny than ever, and boards are feeling the heat.

This year, proposals involving political spending accounted for a quarter of social shareholder proposals filed at Russell 3000 companies, according to a **Georgeson** report. While five proposals surrounding political lobbying and contributions passed this year, down from 10 in 2021, investors are continuing to show interest in and concern about corporate political involvement.

Within the S&P 500, 300 companies either fully or partially disclosed their political spending, the latest report from the Center for Political Accountability (CPA) states. That is up from 293 in 2021, and a record high.

"Political disclosure and accountability of political spending using corporate funds is now the norm," said **Bruce Freed**, president of the CPA. "It's what is expected of them."

But disclosure alone does not mitigate reputational and strategic risks surrounding corporate political spending, Freed said. Companies must also consider where their money is going and how it affects investors and their bottom lines. In fact, big asset managers, such as **BlackRock**, have noted that they are concerned about companies' donations that do not align with their stated values or strategies. BlackRock, for one, **said it will vote** for shareholder proposals requesting additional transparency where warranted. Similarly, proxy advisors **Glass Lewis** and **Institutional Shareholder Services** have issued voting recommendation guidelines highlighting the importance of alignment on this topic. On Friday, ISS **requested comments** on a proposed voting recommendation policy regarding shareholder proposals on the congruency of political spending and lobbying with the company's public commitments and policies.

CPA’s 2020 report, “Conflicted Consequences,” pointed out a few companies where that alignment could be questioned.

**Pfizer**, for example, is a household name in reproductive care. Their misoprostol pills, Cytotec, are used in medical abortions, and in the U.K., the company was the first to bring a self-administered injectable contraceptive to market.

Yet Pfizer also happens to be one of the largest corporate supporters of the **Republican Governors Association** and the **Republican State Leadership Committee**, according to the CPA report. These two groups are focused in part on electing anti-abortion politicians like Governor **Kay Ivey** (R-Ala.), who signed a law making an elective abortion, for any reason, a felony in the state.

Cytotec has uses other than acting as an abortifacient, but reports have emerged of doctors’ refusing to prescribe medication like it because of these new laws. For the company’s bottom line, this means that Pfizer donated over half a million dollars to effectively prevent millions of people from legally using the medication it produces, the report suggests. In 2020 alone, the company donated over $400,000 to the Republican State Leadership Committee, according to data from Open Secrets.

In an email statement, a Pfizer spokesperson said the company engages with legislative organizations on both sides of the aisle to advance policies "that support biopharmaceutical innovation and patient access to medicines and vaccines." The spokesperson added, "In no way does our support translate into an endorsement of an organization's position on any issue outside of this core mission."

Freed said that corporate disclosure of political spending is "absolutely essential" for investors to be able to assess the risk that companies may face from misalignment in their election-related spending. These risks extend beyond reputational or strategic challenges to employee morale problems and consumers' shifting their buying patterns adversely, he said.

To combat political spending misalignment, CPA extended and updated its Model Code of Conduct for Corporate Political Spending, which "sets a concrete framework for avoiding these kinds of consequences and for navigating the high level of risk that political spending poses today."

Part of the addition to the code is a requirement for the companies "to get reports back from third-party groups about where their specific dollars end up, which candidates they end up supporting, which issues it ends up associating these companies with," said **Jeanne Hanna,** CPA's research director.

CPA also works with shareholders to craft proposals on disclosures leading up to proxy season. In 2022, out of the 22 shareholder proposals submitted by its partners, 14 were withdrawn after an agreement with the company, and of the eight that were voted on, two passed. The average support for CPA proposals was 33.9%.

Passages of shareholder proposals "don't tell the full story," **Brigid Rosati**, director of business development at Georgeson, said, especially with many resolutions being approved by boards without going to a vote. However, the proposals that are enacted by companies "can often speak to what is ahead and the disclosures" others should be prepared to share.

Shareholder activist **John Chevedden** is considered by some to be a trendsetter in the realm of ESG proposals, and he was behind several resolutions in 2022 that demanded more information about corporate political spending. This year, he asked **Dollar General** "to disclose all of its electoral spending, including payments to trade associations and other tax-exempt organizations which may be used for electoral purposes — and are otherwise undisclosed," a move the company's board unanimously urged investors to vote against.

Instead, the proposal passed with just under 57% of the vote at the retailer's annual meeting in May. According to the company's proxy statement, Dollar General's board said the company doesn't participate in funding specific candidates or campaigns, and, instead, money goes to "certain industry trade organizations, primarily **Retail Industry Leaders Association**."

However, the Retail Industry Leaders Association has a political action committee that supports a range of individual candidates with differing views, including **Tim Walberg** (R-Mich.), who has consistently voted against climate legislation and voted against certifying the 2020 presidential election, saying it "contained irregularities."

The RILA did not immediately respond to a request for comment.

While Walberg was not specifically supported by Dollar General, the company's financing of the RILA may have contributed to his 2022 campaign, which seems to conflict with Dollar General's commitment to "reducing our carbon footprint and helping to mitigate the effects of global climate change."

Connecting companies' trade association contributions to specific political candidates might seem like splitting hairs, but the trail of money is easy to come across, and in the social media age, potential misalignment can create considerable risk, sources say.

"Shareholders have access to a lot more information than they have in the past," Rosati said. Political expenditure disclosure allows companies to show that their boards not only know where shareholder money is being spent but can also explain why they think their political involvement will help further the business.

Investors in **Travelers** and **Netflix** also voted to increase political spending disclosure during 2022. **Fox News** also faced such a proposal last week, and **News Corp.** shareholders are slated to vote on similar proposals next week. These proposals are based "less on a political agenda and more on the headline risk," Rosati added.

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