CENTER FOR
POLITICAL ACCOUNTABILITY

MODEL CODE RESOLUTION EXPLAINER

When public companies choose to donate to third-party political groups, they expose themselves to reputational, business, and legal risks. The risks stem from a lack of transparency and accountability for how corporate money is spent.

Sound business practice requires that corporate leaders know where and how treasury funds are being used. But when it comes to political spending by third-party groups that a company supports – particularly 527 committees, trade associations and 501(c)(4) "social welfare organizations – corporations have little or no knowledge about where their money ends up and are not in a position to direct how it is spent -- or not spent.

This creates enormous risks to companies and exposes them to threats and intimidation by powerful political figures. It also can advance policies that conflict with a company's core values, business objectives and positions. The conflict can harm a company's reputation, undermine employee morale, alienate consumers and customers and have serious bottom line consequences.

Fortunately, companies can mitigate these risks by ensuring that organizations that receive corporate funds fully disclose how the funds are in turn used. Companies should then have the opportunity to object to use of those funds to support political causes and candidates that the company itself does not support. Full disclosure in how company's funds are used is an essential tool for protecting shareholder value. Companies must proactively retake control of and require reports from the groups about the use of their political contributions. These reports, in turn, need to be posted on the company's website to inform shareholders about the company's indirect political spending and possible risks the company may face.

Adopting the resolution, which draws on the CPA-Zicklin Model Code of Conduct for Corporate Political Spending, enables companies to exercise control over the use of corporate resources and manage the risks.

- **Recent events** have demonstrated the different and increasing risks posed to companies that engage in election-related spending.
    - **Reputational risks** - Corporate leaders must confront the fact that the ubiquity of social media and a resurgence in civic activism among consumers have had an impact on public attitudes toward political spending. Companies' brands and reputations are becoming irrevocably tied to how they spend corporate funds to support political causes and candidates.

      It is easier than ever for customers, shareholders, and employees to learn about a corporation's political spending and to object when that spending does not align with a company's publicly stated values and positions.

      When third-party political groups use funds donated by corporations in ways that contradict a company's values and positions, the reputational harm that results can pose a substantial risk to shareholder confidence, employee morale, and to customer loyalty.

        - **Public perception of hypocrisy**
            - Abortion

        - Democracy
        - Guns
        - Environment
    - **Boycotts** - Consumers are increasingly willing to boycott companies whose values don't align with their own, citing political donations as the #1 reason to boycott
        - Pepsi and the Texas Republican Convention
        - Home Depot, Rep Stefanik, & Jan 6
        - Walgreens & Jan 6
        - Martin's potato rolls
    - **Employee morale** is crucial particularly important in tight labor market
        - LGBTQ misalignment
        - Employee walk out at Disney
        - Work stoppage at Oracle
        - Amazon and the environment
  - **Business risks -** The risks that corporate political spending poses are not limited to public perception or reputation. Numerous recent examples demonstrate the unexpected and harmful financial risks that companies are exposed to when the public learns about the impact of their indirect political donations.
    - **Disney and Desantis**
    - **PHRMA**
    - **Pfizer vaccine and Florida**

  - **Intimidation risks -** When companies are confronted with the consequences of misaligned political contributions and attempt to change course by changing their political spending practices or their corporate values they are opened up to a further risk of financial or reputational harm.
    - CitiBank and House GOP threats
    - Georgia House strips Delta of Multimillion Tax Break

- **The collective impact** of these risk factors makes the status quo untenable for corporate leaders. In this challenging financial climate, corporations should take steps to ameliorate risk to their reputation, their bottom line, and their political relationships.

- **To mitigate** these risks, a company should require all politically active third-party groups receiving corporate funds to disclose precisely how those funds are spent. In today's civic and political climate, the risks of unintended and unexpected consequences of indirect political spending are far too great. The above examples show that scrutiny of this spending is inevitable, and so are the consequences if that spending contradicts a company's publicly stated values and positions. Companies can get ahead of these risks, however.

Requiring third-party groups to report to donating companies how they spend corporate funds allows corporate leaders to know exactly how their contributions are being spent and if that spending aligns with the company's values and publicly stated positions and policies. Armed with this knowledge, when potential conflicts arise, company leaders can be prepared to take action. Regular reports from third-party groups will also empower companies to change how they contribute long before bad press, boycotts, employee outcry, or threats of intimidation can generate serious risks.