Directors & Boards

Corporate Political Spending: A Risk Boards Can No Longer Delegate

[ArticlesRisk]

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A new primer offers directors a framework for understanding and managing the risks tied to their company's political activity.

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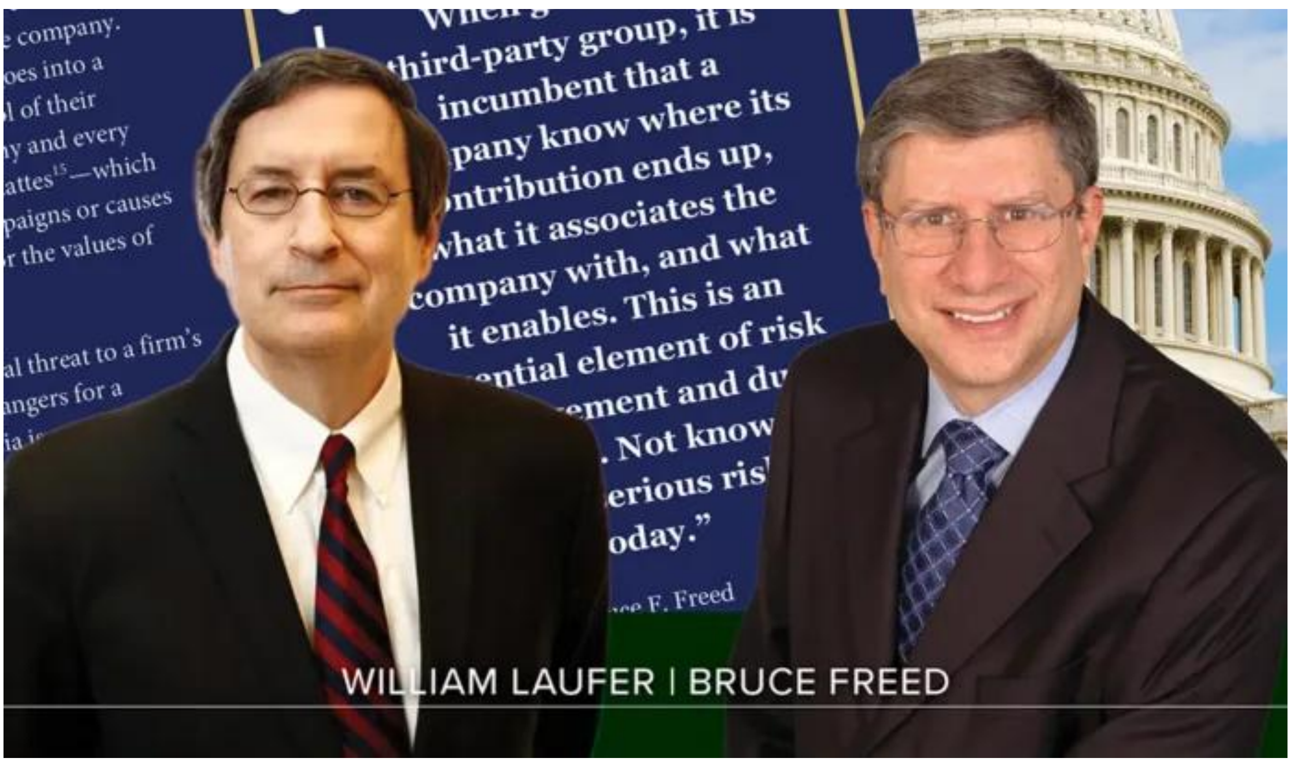

Today, the role corporate money plays in our politics and its impact on companies has changed drastically. Previously, company political spending focused on getting access to officeholders and candidates and facilitating a pro-business climate. Now, companies find themselves under pressure to contribute to obtain favorable governmental action or to avoid adverse action. At the same time, corporate giving is subject to growing media attention.

All of this has exposed companies to claims of engaging in corruption, which pose a major challenge for directors. How should they respond? What should they be doing to oversee their company's political spending? How does this affect the way they engage in due diligence when they make political expenditures? What policies should they be adopting on political spending and activity to protect their company?

The changed political environment undermines stability, predictability and the rule of law, which businesses rely upon to succeed. These are essential for a healthy business environment. Their absence has a direct impact on companies and their directors. Indeed, the role of directors is even more important not only for setting policy but for giving direction to management and assuring that the company's political spending does not pose a threat to the company or the environment it needs to operate, grow and compete.

A new primer on corporate political activity by The Impact, Value and Sustainable Business Initiative at the Wharton School of the University of Pennsylvania (Wharton Impact) and the Center for Political Accountability provides a guide for directors on how to view company political spending. It provides them with a framework for oversight, due diligence and the policies they need to adopt for their company.

The primer is a first. It is the joint product of one of the nation's top business schools and a leading nongovernmental organization. And it's an essential navigational tool for directors to understand and manage the heightened risks they and their companies face today from ill-considered political spending.

The primer couldn't be timelier, as companies brace for possible congressional investigations. Directors know that their companies' political donations will likely be subject to legislative scrutiny at the state and federal level.

The primer also comes out as corruption within the government has become a major political issue. A recent Gallup survey found a record-high 89% in the United States responded that government corruption is widespread. One aspect to that corruption is the amount of political spending individuals and companies are now engaged in. The following is a summary of the primer's findings.

Corporate political spending has surged since the Supreme Court's 2010 *Citizens United* decision allowed companies to make unlimited independent political expenditures. Much of that money flows through Super PACs and other hard-to-track third-party groups such as 527 committees (governors associations, state legislative campaign committees and attorneys general associations), 501(c)(4) social welfare organizations and trade associations, which are not currently required to disclose their donors.

Companies can damage their reputation if their money is not aligned with a company's core values, policies and positions. Contributions can expose companies to allegations of corruption when they benefit from government actions that follow the contribution. There are increasing stories in the media linking contributions to governmental action.

To manage the risks, directors must adopt policies that assure ethical and transparent political engagement by their companies. These include active board oversight and clear internal policies to ensure accountability and alignment with core values.

The Wharton Impact-CPA Corporate Political Activity Research Primer provides a guide. "By approaching the issue through the lens of risk and value, companies can protect themselves while also promoting their core values," the primer recommends. This goes to the heart of the role and responsibility of directors.

The primer endorses transparency and accountability in corporate political spending. It advises companies to ask six questions before spending, including "Can a strong case be made that the spending advances the corporation's key business objectives?" and "Are corporations that spend generously for political access engaged in a legal form of corruption?"

To illustrate the scale of the spending, the primer reveals that, since 2010, more than $1 billion has flowed from corporations and trade associations to six major political organizations known as 527 committees, including governors associations, state attorneys general associations and state legislative campaign committees. Of the $2.5 billion raised by the Republican and Democratic 527 committees over the past 25 years, more than 40% has come from public companies and their trade associations. They are by far the largest source of money.

The primer cites the Framework for Corporate Political Spending, developed by CPA and the Zicklin Center for Governance and Business Ethics, part of Wharton Impact, as the next step for companies to take to address the ethical challenges posed by political spending. The result of a Wharton Zicklin Center, CPA, corporate, investor and corporate governance expert collaboration, the Framework builds on the foundation of political disclosure and accountability. It provides directors the compass for assessing:

- The impact of their company's political spending.
- The range of risks it may pose.
- The policies they should adopt to manage the risks.
- Their company's responsibilities as a member of society.

The Framework makes ethical considerations a key part of due diligence and decisions about whether a company should spend politically or not engage in political spending.

The primer serves to educate directors, along with senior corporate management, about a risk that may not be getting their needed attention. The introduction asks, “Is it possible that one of the most critical, timely and impactful risk factors facing your company has been overlooked?”

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