

Corporate Accountabilities

Political Contribution Policies, Practices and Transparency

Company executives exercise wide discretion over the use of corporate resources for political activities. Relying on publicly available data does not provide a complete picture of those expenditures because decisions often involve political contributions for campaigns and membership dues to industry associations, a portion of which is used for political activities. Shareholders and, in many cases, management do not know how industry associations use their company's money politically.

Industry associations engage in political activity that may support or conflict with a company's positions on important issues like universal access to health care, biomedical research and global warming. For example, ExxonMobil is a member of the National Association of Manufacturers, which continues to take an outspoken position denying the existence of scientific consensus on global warming and opposing government action.

A new complication is the January 2010 Supreme Court decision in the *Citizens United vs. the Federal Elections Commission* case that threatens to release uncontrolled corporate spending to influence political elections. While there is disagreement on details, the nation's highest court has lifted the century-old ban on political spending by corporations and labor unions. The January ruling doesn't affect contributions to candidates, which remain restricted. However, it does mean corporations and unions can spend money as they wish on politics and run as many ads as they can afford, as long as they don't coordinate their efforts with the campaigns they are promoting or with other third-party groups that have similar political interests.

Prior to October 1, when legislation governing the nation's transportation and infrastructure was scheduled to expire, the Center for Public Integrity produced *The Transportation Lobby*. The report analyzed the industries, interest groups, cities and states weighing in on how to spend this money for the following six years. Some 2,100 lobbyists were arguing for 1,798 transportation interests. The special interests include:

- ❖ More than 475 cities and 160 counties in 44 states, the vast majority seeking funds for specific projects to be chosen by Congress;
- ❖ At least 95 transit agencies, 25 metro and regional planning organizations, a dozen individual states and national lobbying associations for all three groups;
- ❖ More than 45 rail organizations, 50 shipping companies and ports, and 45 additional transportation-centric outfits, from bicycle coalitions to research groups;
- ❖ More than 140 universities seeking funds for local projects or campus research centers.

As of May 21, more than 850 banks, hedge funds, companies, associations and other organizations had hired more than 3,000 lobbyists to work on the financial reform bills,

according to the Center's examination of lobbying disclosure data for all of 2009 and the first quarter of 2010. Its analysis of the latest federal records shows that the overall number of businesses and groups lobbying on climate legislation has held steady at about 1,160. Although amounts spent on lobbying by issue are not disclosed, the Center estimates that if the groups involved spent just 10% of their lobbying budgets on climate issues, they shelled out \$30.5 million in the third quarter—up nearly 13% from the previous quarter.

Responsible corporate governance requires involvement of informed shareholders, holding the board of directors and management accountable and ensuring that political spending decisions are transparent and for sound business reasons. The Citizens Union decision adds a new dimension to the shareholder campaign to encourage management to view transparency and accountability of corporate political spending as good corporate governance. Investors are likely to emphasize disclosure of the proposed budget for election campaigns, which candidates or issues supported or opposed, and perhaps the business case for those expenditures. AIG, on its May 12, 2010, proxy, was asked for a board policy such that shareholders be given the opportunity to vote on an advisory resolution, proposed by management annually, to ratify AIG's political spending program for the previous fiscal year. The vote was approximately 1%. A colleague learned that the U.S. government, which owns 90% of the shares and did not want to "meddle" (the colleague's word) in AIG's governance, voted for the management position—thus all votes started with 90% against them "so a 1% vote isn't bad after you subtract 90%."

Proposed Congressional legislation includes the Shareholder Protection Act, which in early May would:

- ❖ mandate prior shareholder approval for an annual political expenditure budget;
- ❖ require that each specific corporate political expenditure over a certain dollar threshold be approved by the Board of Directors and promptly disclosed to shareholders and the public;
- ❖ require that institutional investors inform all persons in their investment funds how they voted on corporate political expenditures; and
- ❖ post on the Securities and Exchange Commission website how much each corporation is spending on elections and which candidates or issues they support or oppose.

Addressing the impact of companies on this issue demonstrates the Sisters of Mercy's care and concern for justice in the world, ensuring that organizations are transparent in their business activities.

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