Political Advocacy Piques Shareholders' Interest

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In this presidential election year, shareholders are increasingly curious about the political agendas of public companies.

Investors filed more than 100 resolutions this year asking companies to disclose what they spend on political advocacy, according to Institutional Shareholder Services, a proxy advisory service. The number of proposals for the first time exceeded shareholder resolutions on energy and environmental issues, which have long attracted significant interest from investors.

Shareholders want to know about direct donations to candidates as well as harder-to-track contributions to trade associations such as the U.S. Chamber of Commerce and other tax-exempt groups that support certain candidates or political parties. Their targets include influential Illinois companies Boeing Co., Allstate Corp. and Caterpillar Inc. All three companies came out against the proposals.

The growing shareholder pressure reflects a transformed political landscape where corporate interests and anonymous donors have greater influence on elections. Companies have always been active political participants, but a landmark 2010 Supreme Court decision expanded the scope of their spending.

Yet shareholders have little idea how companies are using their money in political campaigns. Only a handful of corporations voluntarily publicize their donations.

A 2010 study found that 86 percent of the Standard & Poor's 500 companies have no disclosed policies regarding money given to trade associations or other groups not controlled by a candidate, so-called indirect political expenditures that have become highly controversial during the 2012 campaign season.

Political giving can be tricky for companies, as Target Corp. recently experienced. In 2010, the retailer gave $150,000 to a Minnesota organization that supported a Republican gubernatorial candidate who opposed gay marriage. The donation prompted a backlash from some consumers and activists against Target, known for its progressive policies on gay issues. Target's chief executive ended up apologizing for the company's involvement.

"We feel that it's important for companies to disclose to shareholders how they are using shareholder money," said Bruce Herbert, founder of Seattle-based Newground Social Investment, an advisory firm focused on socially responsible investing. "Without that and proper broad oversight, money can be spent in ways that cause risk."

Newground and other socially minded investors have been behind many of the shareholder resolutions. But the pleas for transparency are growing louder and could lead to mandatory disclosure.

Luis Aguilar, one of five commissioners at the Securities and Exchange Commission, said earlier this year that shareholders are entitled to information about corporate political spending so they can see how their money is being used. They might not want to invest in companies that support candidates or causes they oppose, Aguilar said.

Residents also have been flooding the SEC with comments in support of a petition calling for mandatory reporting. The petition was filed last year by a group of academics led by Lucian Bebchuk of Harvard Law School and Robert Jackson Jr. of Columbia Law School.

The SEC has received more than 285,000 comments, an extraordinarily high number for a petition, Bebchuk said.

"We're optimistic, both because the case is strong and because the support in comments is quite strong as well," Bebchuk said.

SEC staff is considering the petition, said agency spokesman John Nester.

Opponents of mandatory disclosure argue that information on corporate spending in politics is available under federal, state and local election laws.

But Bebchuk said the current disclosure system doesn't work for two reasons: Digging through public records to put together a good picture of a particular company's political spending is a demanding task, and shareholders should not have to work that hard.

In addition, most corporate political spending goes through intermediaries, such as trade associations, and such donations are not public information. In some cases, these intermediaries don't have to disclose their donors.

"The secrecy poses a real threat to companies," said Bruce Freed, president of the Center for Political Accountability, a nonprofit that works with shareholders to make corporate political spending more transparent. "What happens is that companies lose control of the use of their money and in many cases do not know how the money is used."

The Supreme Court decision in the Citizens United case has made the need for disclosure far greater, supporters say. Historically, companies were prohibited from making indirect political contributions, and direct contributions to candidates in state and local elections, where permitted, could be made only through employee-funded political action committees.

In a bitterly divided opinion, the court lifted key restrictions on indirect political spending by corporations and unions in the name of the First Amendment. The decision left in place prohibitions on contributing directly to federal candidates and political parties but made it easier to spend unlimited money on elections through trade associations and other tax-exempt groups.

Some might forget that the court also upheld disclosure requirements, saying "transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages." But the court wrongly assumed that disclosure rules among public companies are adequate or uniform, supporters of disclosure said.

The Center for Political Accountability has been campaigning for more disclosure since 2003, and its efforts have been gaining momentum. The pressure has resulted in some of the largest U.S. companies, on their websites, voluntarily disclosing details of their direct spending. Also, 43 companies, including Chicago-based Exelon Corp., release some information about indirect spending on politics.

In the current proxy season, the group coordinated with shareholders to get more than 46 proposals that call for reporting direct and indirect expenditures, including measures at Boeing, Allstate and Caterpillar. Allstate and Caterpillar have not yet held their annual shareholders meetings this year.

The proposal at Boeing, filed by Newground Social Investment, failed earlier this month, receiving 29.4 of the votes cast, not counting abstentions, according to the Center for Political Accountability.

The resolution has been on Boeing's ballot in six of the past eight years, and the company has opposed it every time. The company said in the current proxy that it substantially complies with the proposal, including disclosing direct political contributions via its website. Boeing said it is against mandatory reporting of payments made to trade associations because they could reveal aspects of its strategy to competitors.

The company also said it made no political contributions last year. But Newground said Boeing's disclosure wasn't accurate.

According to Newground, public records show Boeing made a $200,000 in-kind donation in October to Keep Washington Rolling, a group that fought a ballot initiative related to transportation issues in the state. Boeing's commercial airplane unit is based in Seattle.

Boeing spokesman John Dern confirmed the donation. He said the proxy disclosure wasn't misleading, because the in-kind advertising Boeing provided doesn't qualify as "political contributions," which the company defines as money provided to a candidate in an election or to a group supporting a candidate.

But Dern acknowledged the company is reviewing its policies to see how it might handle disclosure differently.

Herbert said the situation calls out for the SEC to issue rules for disclosure that would require a higher level of accountability for Boeing and other public companies.

"The proxy doesn't reflect what they (Boeing) say they are doing," Herbert said. "It's very disappointing."