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Investors seek to reassess political spending at largest firms

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Investor scrutiny of companies' role in U.S. elections after the Jan. 6 insurrection is crystallizing into campaigns pressuring the largest asset managers and corporations to rein in corporate America's power in politics.

Shareholders managing $2 trillion are urging Business Roundtable members to reconsider all political spending activities, and institutional investors overseeing $1 trillion are pressing BlackRock Inc. to vote for more shareholder proposals seeking transparency on election-related spending.

"There's been growing concern amongst investors about the increased risk of political spending and I think Jan. 6 — it should be a wake up call for corporations," said Josh Zinner, CEO of the Interfaith Center on Corporate Responsibility, which is leading the Business Roundtable campaign, in an interview. "What the situation calls for is a real reevaluation of the risks of corporate political spending overall. It's not just about this instance."

After the deadly attack on the Capitol, 147 Republican members of Congress voted to overturn results in the 2020 presidential election. In the days following the insurrection, some companies said they would stop political contributions to those lawmakers, while others announced they would pause election-related spending generally. Many of the pledges applied only to corporate political action committees, which represent only one mechanism through which corporate dollars flow into politics.

Calls for corporations to end their financial involvement in politics are now escalating, as Democrats in Congress propose heightened regulation of spending. An open letter from consumer watchdog group Public Citizen with more than 50 organizations signed on asks companies to end all electioneering efforts and disclose payments to trade associations and other third-party groups that influence policy making.

Investors are joining calls for a reckoning with campaigns that could lead to proxy battles at some of the largest U.S. corporations.

ICCR, which joined Public Citizen's letter, also sent a statement to members of the Business Roundtable, a group of CEOs that lobbies for corporate interests, asking that companies stop all spending for six months and consider political spending-related risks in light of the insurrection.

Code of conduct

The group asks companies to adopt a code of conduct for political spending from the Center for Political Accountability, an advocate for corporate transparency, and the University of Pennsylvania's Wharton School as a bare minimum.

It urges corporations to consider permanently ending all federal, state and local spending, shutter PACs, end contributions to nonprofit groups that don't reveal donors and to state-focused 527 committees, and disclose payments to trade associations.

The statement says investors will be reaching out to discuss the issue with corporate leaders further. ICCR is circulating it among corporate shareholders, aiming to sign on additional supporters beyond its membership of religious organizations and environmental-, social-, and governance-conscious investors who manage $2 trillion.

Zinner said that corporate political spending poses risk to a company's own reputation and to democracy and society at large, which also threatens the long-term sustainability of businesses. The insurrection heightened that risk, he said.

The group initially targeted Business Roundtable companies because of a 2019 statement on corporate purpose from the group, which redefined accountability as to stakeholders such as employees and customers, rather than shareholders alone. ICCR believes its requests are consistent with that principle of stakeholder accountability.

Business Roundtable spokeswoman Jennifer Cummings did not provide a comment by press time. The group doesn't make political contributions itself.

Business Roundtable Chairman Doug McMillon said on a call with reporters in January that while companies must reevaluate their participation in elections, they have a role to play in politics as long as they're allowed to spend on campaigns.

ICCR's actions will likely escalate. Zinner said the group is planning outreach to additional companies and that members expect to file shareholder proposals on the subject if talks with corporate leaders don't work.

CPA President Bruce Freed told CQ Roll Call that shareholders are filing about 40 ballot requests seeking transparency on political spending from companies this proxy season, the span when most U.S. public companies hold their annual meetings each spring. CPA provides a model resolution for investors, and average support for the item climbed to more than 41 percent in 2020, Freed said.

While the timeline for filing proposals means many for proxy season won't address the insurrection directly, shareholders may raise the issue during meetings and in discussions with corporate representatives.

There may be new types of resolutions related to political spending in the fall or next year, Freed said. CPA is considering a formal request seeking implementation of its model code of conduct, which includes pledges to primarily contribute to politicians directly, full transparency, alignment of spending with company values and consideration of risks that spending could pose to society and the economy.

Another investor campaign is aiming to increase support for these types of shareholder proposals.

State treasurers and officials leading public or union pension funds who collectively oversee more than $1 trillion in invested assets sent a letter last week asking BlackRock CEO Larry Fink to reconsider the firm's own political spending activities and its voting on the issue at corporate shareholder meetings. The world's largest asset manager, BlackRock manages almost $8.7 trillion.

The message is led by Majority Action, a nonprofit that organizes shareholder campaigns on ESG issues, and the Service Employees International Union. They said in the letter that their investment returns rely on economic and political stability, and that the insurrection added urgency to concerns about political spending and lobbying.

Calls for BlackRock to change

The letter says BlackRock's public disclosure about its own political spending and lobbying activities fall short of its expectations for other companies. It calls on

BlackRock to directly halt donations to the 147 Republicans who voted not to certify President Joe Biden’s election, saying a pause on all PAC spending is insufficient.

BlackRock has for years voted against most shareholder proposals related to political spending, and the letter urges the firm to change course. BlackRock updated its expectations of companies related to political spending in December to say that it may support additional disclosure when spending is materially misaligned with a company’s stated positions, a change that was part of a broader promise to back more shareholder requests.

BlackRock spokesman Curtis Chou told CQ Roll Call that the firm provides transparency on political and policy activities in company disclosures and a firm website. He cited the firm's heightened expectations related to political spending.

“For companies in which our clients are invested, BlackRock’s investment stewardship team has stated that in 2021, it expects board oversight and enhanced disclosure by these companies including that they confirm that their corporate political activities are consistent with their public positions on material and strategic policy issues,” Chou said.

Majority Action Executive Director Eli Kasargod-Staub said the group is concerned about BlackRock directly seeking information confirming alignment between political spending and public positions that other shareholders, researchers and advocates are unable to assess if companies aren’t disclosing all information publicly. The letter describes the updated policy as insufficient.

Majority Action and SEIU are planning similar letters to other largest asset managers: The Vanguard Group Inc., State Street Corp., JPMorgan Chase & Co., Fidelity Investments and Bank of New York Mellon Corp.

Kasargod-Staub said these firms have the power to redefine what constitutes acceptable behavior across corporate America. They’re among most public companies’ largest shareholders.

“Over and over and over they have chosen to shield boards from accountability from shareholders on this critical accountability and step,” he said in an interview.

Political spending is meanwhile gaining attention from investors globally. A blog post this week from the UN Principles for Responsible Investment, a UN-supported ESG advocate whose signatories manage $103.4 trillion, encourages investors around the world to reconsider their own political spending and expectations of companies they own, and promises to work on a global approach to responsible practices.

That could involve more education for investors globally on regulatory landscapes and indirect means of influence, and will “very likely” involve new research-backed guidance on investment stewardship activities, PRI senior analyst for ESG Vaishnavi Ravishankar told CQ Roll Call in a statement. Stewardship generally involves correspondence and discussions with corporate representations, as well as voting at annual shareholder meetings.

As investors launch campaigns on political spending, their priorities for corporate action vary. While some shareholders are urging companies to consider ending political spending entirely, others support continued but more accountable, transparent contributions. ICCR’s Zinner said many investors broadly agree that they want disclosure and more governance oversight of political spending, and that the events of Jan. 6 warrant a reevaluation.

“From that point on, companies may take different approaches, investors may have different views — but the concern across the board is about the risk here, and for companies to really take a hard look at that,” he said.