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ESG INVESTING

Corporations Are the New Activists After Capitol Riot. Stay Tuned for Proxy Season.

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Since this month's deadly siege of the U.S. Capitol by marauding supporters of President Trump protesting Joe Biden's presidential election victory, America's corporations have waded decisively into politics with a range of activist initiatives.

They have called on Vice President Mike Pence to invoke the 25th amendment to remove Trump from office, halted political donations, and dramatically reduced the president's ability to speak to his supporters by banning him from Twitter (ticker: TWTR), Facebook (FB) and Instagram.

The siege and the role of the president as well as Republican legislators who opposed certifying Biden's election victory drew criticism and action from corporate America that could have lasting effects, particularly in the coming proxy season, investors and shareholder advocates say.

The initiatives will make companies look better on increasingly popular environmental, social and governance (ESG) metrics, and fit in with the widening trend to stakeholder capitalism, or broad duties to the community. But they are also dangerous, some cautioned, because corporations can't be voted in and out like elected representatives.

"The most significant checks on the American president are coming from unelected CEOs with no direct accountability to anyone but potential consumers and the business base to sanction the president of the U.S.," says Ian Bremmer, founder of Eurasia Group, the geopolitical consultancy.

The initiatives included a public call from the National Association of Manufacturers for the invocation of the 25th amendment. There's also been a pause in political donations from companies including Amazon.com (AMZN), Airbnb (ABNB), Mastercard (MA).

Facebook "indefinitely" blocked Trump's account there and on Instagram, citing the "violent insurrection against a democratically elected government." Snap (SNAP) and Twitter banned him permanently. Alphabet (GOOGL) unit YouTube threatened to suspend rioters. Parler, an app widely used by the rioters, was removed by Apple (AAPL) and Google from their app stores, and from Amazon Web Services' hosting service. (JUST Capital has a summary of the actions here).

"The decision of Facebook and Twitter as to whether or not to allow Trump to persist on their platforms as a private citizen is in some ways the most significant action that will be taken to determine the trajectory of Trump's postpresidential influence," Bremmer said. "That is deeply concerning about the state of democracy and civil society in the U.S., and will have massive implications about how democracies are run and free speech is handled for a long time to come."

Still, sustainable investors applauded the moves as consistent with the wider move toward stakeholder capitalism, in which the needs of stakeholders like employees equal to those of shareholders. That need was amplified over the past year by the Covid-19 pandemic, the economic downturn, and widespread social unrest, which laid bare the vast inequality between the poor and the rich, between people of color and the white population in America.

"Companies understand that a large portion of the population expects companies to have a position on political matters," says Ben Allen, CEO of Parnassus Investments, the sustainable investment firm.

Partly because of the pandemic, a recent Edelman Trust survey found that people trusted CEOs more than the government, and expected their employer's CEO to speak up on issues ranging from income inequality to diversity and training for jobs of the future.

Indeed, the companies' actions since the insurrection improves their ESG characteristics, says Allen. "It demonstrates that they understand that there's an expectation from the broader stakeholder environment that they have a clear position on right and wrong and important social matters," he said.

Katherine Collins, head of sustainable investing at Putnam Investments, said the moves are consistent with the "expanding circles" of what companies "have to answer to." Collins looks to own companies "that are "thinking more systematically and holistically about [their] place in the world."

BlackRock (BLK), among other companies, is reviewing its political spending after last week's insurrection, including reconsidering its PAC. "BlackRock employees are expecting me to have a louder voice," BlackRock CEO Larry Fink said in an interview with *Barron's*. "More of the best CEOs recognize that they are playing a larger role and that role is impacting and improving the value of the company for shareholders."

Expect more transparency about political donations going forward. In the 2020 proxy season, some 22 resolutions filed by the Center for Political Accountability asking companies to disclose election spending were supported by an average 42% of shareholders. "This is a very high vote," says Bruce Freed, the group's president.

More than half the companies in the S&P 100 index already disclose or have agreed to disclose their spending, according to the center. "Investors recognize that political spending is a risk management issue and now the risk has become much greater," Freed says. He expects to file more than 40 similar resolutions with major companies in the 2021 proxy season.

Companies will also open up about political lobbying, predicts Tim Smith, director of ESG shareholder engagement at investment manager Boston Trust Walden, who has pushed for more transparency about the political spending to push particular agendas.

There are already signs that companies are open to it. Recently Chevron (CHV) filed a report on its climate lobbying after a resolution to disclose lobbying won 53% of the vote. "My belief is the wind is at our back in more investors pushing for companies to be transparent, that will result in companies stepping up and saying these are reasonable requests," Smith said.

The thorniest issues are for the companies that perhaps exert the most influence: Big Tech. Many companies, including Facebook and Alphabet, are still run by founders and have corporate structures with super voting rights. "They are empires in and of themselves, largely not beholden to shareholders," much less stakeholders, says Bob Eccles, an expert on sustainable strategies and a visiting professor at Oxford University.

"It's up for debate whether this is a firm stake in the ground for stakeholder capitalism," says Karina Funk, co-manager of Brown Advisory Sustainable Growth fund (ticker: BIAWX). "The social media companies have finally spoken … but Big Tech aren't the leaders here, they have been laggards."

Moreover, in the absence of regulatory guidance, social media companies "are destined to be too lax or go too far when it comes to content moderation," Funk said. "This is one of the reasons we exited Facebook."

Some critics also believe that stakeholder capitalism, undertaken at the discretion of CEOs, may not help stakeholders. Instead, it could impede or delay reforms that could benefit stakeholders, argue Lucian Bebchuk and Roberto Tallarita of the Harvard Law School. The professors suggest that laws and regulations could better force or incentivize corporations to improve stakeholder treatment.

All this suggests that the debate about the benefits of stakeholder capitalism is destined to continue despite stakeholder-friendly moves by companies. "Having discussions about lobbying out in front is good and important," says Eccles. "Let's see what the actions are."

Write to Leslie P. Norton at leslie.norton@barrons.com