Wharton/Zicklin Center – Center for Political Accountability

Conference on Corporate Political Spending:
Why There Is A Need to Revisit the Model Code of
Conduct to Manage Today's Heightened Risks

Friday, October 18, 2019

Time: 9:45 AM to 4:15 PM
Location: 641 John M. Huntsman Hall, 3730 Walnut Street, Philadelphia, PA 19104

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Setting the Scene

Over the past couple of years, political spending and engagement have come to present a much greater risk to companies. Witness the sharp criticism of AT&T, Intel, Walmart and Aetna last fall for their contributions to Rep. Steve King and Sen. Cindy Hyde-Smith who made racially charged remarks, and the anger directed at Publix Supermarket for its contribution to a Florida gubernatorial candidate who called himself "a proud NRA sellout." Earlier this year, the media tied AT&T and the leading US contraceptive manufacturers to the enactment of extreme anti-abortion legislation in Missouri, Georgia and Alabama through their political contributions to candidates and third-party groups.

The rise of social media and the activism of millennials and Gen Z have supercharged the risk. Whether they be consumers, stakeholders or employees, millennials and Gen Z are paying much closer attention to whether a company's political spending aligns with its core values and positions or associates it with controversial candidates or positions. Social media spreads criticism widely and quickly. Increasingly, companies are getting blowback from consumers and their employees for their PAC and corporate contributions and controversial actions and associations.

Twelve years ago, the Center for Political Accountability developed a model code of conduct for political spending. It focused on the process for companies to follow for disclosing, managing and overseeing their political expenditures with corporate funds. The code was adopted by several leading companies and included in The Conference Board Handbook on Corporate Political Activity issued in late 2010. Elements were used in creating indicators for the annual CPA-Zicklin Index, the widely accepted annual benchmarking of the political disclosure and accountability policies and practices of S&P 500 companies.

Today, the political environment companies need to navigate for their political spending has changed dramatically and the risk has increased exponentially. This new environment and risk level make the need for an updated code of conduct even more compelling. The updated code needs to incorporate a wider range of factors in decision-making, adherence and the assessment of the impact of contributions and the risks they pose. These include:

- Looking more closely at the consequences of the company's political spending and the risks they may pose not only to the company but to the environment the company needs to grow and thrive.
- Setting approval of the company's political spending at a level commensurate with the risks the company faces. This may mean requiring approval by the highest level of senior management and/or the board.
- Establishing a compliance regime and internal controls to ensure adherence by management and the board with the company's political spending policies and the code of conduct.

Beyond a company's internal policy needs, a revised code is essential for including the new expectations of various stakeholders and shareholders and accompanying risks in company spending decisions and policies, oversight and related policies. What companies have to deal with today is vastly different from the situation when the original code was released.

The purpose of the conference is to bring together corporate executives, corporate governance experts, investment managers, the socially responsible investment community, academia and other interested parties to develop an updated model code of conduct to guide companies on their political spending with corporate funds. It will also examine the role of investment managers and proxy advisors in the development of company codes and company adoption of policies to address the heightened risks posed by political spending.

The conference

WELCOME: Brief remarks by Prof. William S. Laufer and Bruce F. Freed **(9:45 – 10 AM)**

OPENING REMARKS: Why Is There a Need for a Code of Conduct for Political Spending? (Chief Justice Leo Strine, Jr., Delaware Supreme Court; Securities and Exchange Commissioner Robert Jackson) **(10 – 10:30 AM)**

Morning focus:

- The new environment for political spending and engagement
- Preview of 2019 CPA-Zicklin Index findings

I. Overview on Corporations and Politics: The New Terrain Companies Need to Navigate (10:30 – 11:30 AM)

Moderator: Bruce Freed
Presenters: Mike Cornfield – present findings of his social media research study and new polling data; Dan Carroll – present 2019 CPA-Zicklin Index findings

Afternoon focus:

- Updating the Model Code of Conduct: What Should Be Included
- Suggestions of areas and issues for investigation and study for the model code. Stimulate further research. The code as a living document.
- How to promote adoption of the code.
- How to ensure compliance with the code of conduct.

BREAK (NOON – 12:15 PM)

II. Creating the Model Code (12:15 – 1:30 PM)

Working Lunch
Moderators: Bill Laufer and Karl Sandstrom

Questions to open the discussion on updating the code

1. What are the risks to companies from not having a set of internal guidelines for participating in politics?
2. How are these risks different today?
3. What are the reasons for a company to know how its money is being used?
4. What role does a code of conduct for political spending play in creating a company's ethical culture?

III. **Framing the Updated Model Code (1:30 – 2:30 PM)**
Concrete suggestions for updated code provisions
Moderator: Karl Sandstrom

1. Should there be a set of internal controls to ensure compliance with the code? Does auditing need to be added to the regime?
2. How does a company retain accountability when contributing to third party groups?
3. What are the broader factors that need to be included in the code to address today's risks?
4. Is adhering to a code a commitment to shareholders broadly understood?

Break (2:30 – 2:45 PM)

IV. The Role of the Institutional Investor and Proxy Voting (2:45 – 3:45 PM)
Suggestions for guidelines for institutional investors on addressing corporate political spending

Moderators: Karl Sandstrom and Bruce Freed

1. Should institutional investors have guidelines for addressing how companies handle political spending?
2. Should institutional investors be examining what is in the interest of the individual investor in seeing that a company has a code of conduct for political spending and is adhering to it?
3. What should be the institutional investor code or guidelines for voting on corporate political disclosure resolutions?

V. Wrap Up (3:45 – 4:15 PM)

Following is background reading for the conference:

CPA Model Code of Conduct for Corporate Political Spending (2007): Attached

Open Windows: How Codes of Conduct Regulate Political Spending and a Model Code to Protect Company Interests and Shareholder Value (2007): https://nmcdn.io/e186d21f8c7946a19faed23c3da2f0da/5006ff10fe6f450fa2f1f01321ac6b5a/files/reports/cpa-reports/OpenWindows03-22-07.pdf

Harvard Business Review, "A Board Member's Guide to Corporate Political Spending" (2015): https://hbr.org/2015/10/a-board-members-guide-to-corporate-political-spending

Collision Course: The Risks Companies Face When Their Political Spending and Core Values Conflict and How to Address Them (2018): https://nmcdn.io/e186d21f8c7946a19faed23c3da2f0da/5006ff10fe6f450fa2f1f01321ac6b5a/files/reports/cpa-reports/Final_Draft_Collision_Report.pdf

Reuters, "As Strine prepares to leave bench, a call for institutional investors to push for change" (October 2, 2019): https://www.reuters.com/article/us-otc-strine/as-strine-prepares-to-leave-bench-a-call-for-institutional-investors-to-push-for-change-idUSKBN1WH2BU

2019 CPA-Zicklin Index on Corporate Political Disclosure and Accountability (**Electronic version to be e-mailed separately. Embargoed for release on Oct. 24, 2019**)