



Corporate Governance of Political Expenditures: 2011 Benchmark Report on S&P 500 Companies

By Heidi Welsh and Robin Young
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Table of Contents

Key Findings	1
Introduction	3
Goals	4
Report Structure	4
Executive Summary	6
Conclusions on Governance Policy	6
Conclusions on Formal Oversight	6
Conclusions on Spending and Disclosure Practices	7
Avenues for Further Exploration	10
Company Views	12
Patterns of Governance, Disclosure and Spending	14
Policy	16
Board Oversight	21
Management Transparency	24
Spending and Disclosure	26
Prohibitions	26
Political Action Committees	30
Corporate Treasury.....	31
Independent Expenditures.....	36
Indirect Spending.....	39
Spending Patterns and Intensity.....	47
Patterns at Companies with Board Oversight	51
Case Studies	53
PG&E and Ballot Initiative Spending.....	53
Procter & Gamble, Indirect Judicial Race Spending and Independent Expenditures	55
Research Approach.....	58
Profile Compilation	59
Profile Review.....	63
Appendix I: Context	65
Avenues for Political Spending	65
Federal Campaigns	65
State Campaigns.....	66
Other Political Activity	67
Shareholder Campaigns and Corporate Responses.....	68
The CPA Campaign.....	69
Indirect Spending.....	70
Advisory Votes on Spending.....	72
Lobbying.....	73
Individuals	73
Other Public Policy Resolutions.....	74
Other Campaigns to Change Corporate Behavior	74
Recent Policy Developments	78
Appendix II: Company Policy Excerpts on Independent Expenditures.....	81

Key Findings

- **Board oversight has increased:** There has been a sizeable jump in political spending oversight by boards of directors in the last year. Thirty-one percent of S&P 500 company boards now are explicitly charged with oversight, an increase from 23 percent at the same time in 2010. This increase occurred in all revenue tiers, although it moved unevenly through the ten different economic sectors, with the largest proportional increases among Utilities. Information Technology companies remain the least likely to have any board involvement in political spending.
- **Management transparency has grown:** More companies now are being transparent about who is making decisions about political spending, compared with 2010. The changes occurred irrespective of revenue size or sector, and nearly two-thirds of the S&P 500 index identifies the officers who make decisions. The biggest jumps occurred for Utilities, Information Technologies, Materials and Financials companies.
- **More companies say they do not spend on politics:** The overall number of companies that assert they do not spend money in politics has grown to 57, up from 40 a year ago. But a comparison of spending records and policy prohibitions shows that only 23 companies with 'no spending' policies actually did not give any money to political committees, parties or candidates in 2010 (though they may still lobby). Only 17 of these firms avoided all forms of political spending, including lobbying. (Another 57 companies have no policies about spending but also do not seem to spend.)
- **More companies prohibit direct candidate and party support:** At least some companies are becoming less willing to give directly to candidates and parties. Fifty-nine companies in the index now say they will not give to candidates, about twice as many as in 2010. Overall, the number of companies with explicit prohibitions on campaign contributions to candidates, parties or committees has increased from 40 companies in 2010 to 64 this year, even as campaigns are revving up for the 2012 Presidential election.
- **Corporate treasury spending disclosure is up but limited:** Voluntary company disclosure of political spending remains limited and only 20 percent of S&P 500 companies report on how they spent shareowners' money. Two-thirds of the companies that appear to spend from their treasuries do not report to investors on this spending. The least transparent are Telecommunications and Financials firms; by contrast over 40 percent of Health Care companies explain where the money goes.
- **Independent expenditure bans are up:** There has been a significant increase in the number of companies that discuss independent expenditures, which following *Citizens United* are allowed at the federal level for the first time in 100 years. Comparing companies in the index in both years (468 firms) shows that 19 more companies now say they will not fund campaign advertisements for or against candidates, generally will not do so, or are reviewing their policies—up from 58 last year. But only five companies now acknowledge in their policies that they make independent expenditures, even though careful scrutiny of voluntary spending reports adds a few firms to this tally.

- **Indirect spending policies have jumped:** The proportion of companies that have adopted policies on indirect political spending through their trade associations has grown from 14 percent in 2010 to 24 percent. Half of the 100 biggest companies now disclose their policies on indirect spending through trade groups and other politically active non-profit groups, but this commitment evaporates at smaller companies.
- **Other non-profit group mentions are under the radar:** Only 26 companies in the entire S&P 500 index acknowledge any relationship with 501(c)4 social welfare organizations that are playing a key role in funding issue ads in campaigns.
- **Indirect spending disclosure has grown and includes \$41 million reported:** Just 14 percent of the S&P 500 report on how much of their trade association dues are used for political purposes. The 39 companies that disclosed such spending in 2010 reported a total of \$41.1 million that went to political purposes—much of it to lobbying.
- **Corporate treasury disbursement benchmarks in 2010:** Most of the money companies spend in the political arena comes after candidates are elected. Data supplied by the Center for Responsive Politics and the National Institute on Money and State Politics show S&P 500 companies allocated \$979.3 million (87 percent) of the \$1.1 billion they gave in 2010 to lobbying. They spent a further \$112 million (10 percent) on state level candidates, parties and ballot initiatives and \$31 million (3 percent) on federally registered political committees.
- **Biggest companies spend the most:** The top two revenue quintile companies were responsible for the vast majority of both federal lobbying and treasury contributions to national political committees and state political entities, with \$915 million (93 percent) of the S&P 500's total.
- **Ballot initiatives get the most state-level support:** Two-thirds of the money companies spent in 2010 at the state level went to ballot initiatives (\$75.2 million), while the rest was split fairly evenly between parties and candidates (a little more than \$18 million for each).
- **Utilities are the most intensive spenders, especially PG&E:** The most intensive spending from companies, figured per million dollars of earned revenue, came from the Utility sector, where PG&E spent six times more than any other company in the S&P 500, half of which went to a failed ballot initiative in California that would have made it more difficult for competitors to enter the market.
- **Correlation between oversight and spending intensity:** The 151 companies with board oversight of their spending disburse on average 30 percent more than their peers that do not have such oversight, when the latter comparison is controlled for revenue size. This may give some comfort to investors and others concerned about accountability and transparency, but not to those who think that corporate governance could be used as a lever to reduce spending.

Introduction

Much popular sentiment looks askance at large companies using their vast wealth both to determine who gets elected and then to influence elected officials. Just the opposite case is made, however, by those who say the Constitution gives companies a fundamental free speech right to participate and spend money in the political process. The latter camp achieved a major victory on Jan. 21, 2010, when in *Citizens United vs. the Federal Election Commission* the U.S. Supreme Court threw out spending limits in federal elections that had been in place for decades. The decision did not strike down the ban on direct corporate contributions to federal candidates, nor disclosure mandates; reformers therefore are emphasizing transparency in their current campaigns.

The political dispute engenders a corporate governance discussion: What and whom should govern how, when, why and how much a company participates in political spending. A growing number of investors are concerned about how companies govern this spending since it uses shareowners' money and since such spending is "high impact." It has a disproportionate risk/opportunity equation compared to most other forms of corporate spending. Therefore, for eight years activist investors have been asking companies to voluntarily tell them more about political spending governance and disbursements. Since 2004, the non-profit Center for Political Accountability (CPA) has taken a leading role in that effort. Social investment firms, public pension funds, religious groups and labor unions have pursued their goals of more board oversight and spending disclosure by filing shareholder resolutions that investors consider at corporate annual meetings. These activists are not contesting the legality of political contributions by corporations, or arguing in favor of their elimination, but are instead seeking to inject greater oversight, accountability and transparency into the process. They have earned substantial support from mainstream investors in this quest and companies have begun to respond.

In 2011, the number of proposals on corporate political spending rose by more than 50 percent, broadening the set of questions from traditional disclosure issues to 1) the proposition that shareholders should vote on political spending and 2) that companies should provide more complete information to investors on direct and indirect lobbying. Average support for the 35 CPA resolutions that went to votes increased to 33 percent, up from 30 percent last year, an unusually high benchmark for dissident resolutions. There was one majority vote (53 percent) at **Sprint Nextel** and eight other votes over 40 percent, at **Coventry Health Care, EOG Resources, Halliburton, Lorillard, R.R. Donnelley & Sons, State Street, WellCare Health Plans** and **Windstream**. In addition to the 55 resolutions which reached a vote so far this year (results from two more have yet to be tallied), activists withdrew 28 proposals on the various political spending resolutions after companies agreed to disclose more about their political spending and put in place better governance of it, up from 14 in 2010.

Even as companies have responded to requests for changes in their oversight and reporting about political spending, spending overall has increased. Just how much comes from corporate treasuries remains unclear. This report uses data from the National Institute on Money in State Politics and the Center for Responsive Politics to show that in 2010 alone, S&P 500 companies contributed from their treasuries \$112 million to contests in the states and \$30.8 million to nationally registered political committees.

Company spending after elections through direct federal lobbying is well regulated and disclosed, and in 2010 the S&P 500 spent \$979.3 million on efforts to influence national laws and regulations. Yet how much companies give indirectly through their trade associations and other non-profit groups that both spend in elections and on lobbying is not known; the 39 companies in the S&P 500 index that disclosed this type of giving for 2010 alone contributed \$41.2 million. A breakdown of how much of this indirect spending went to electoral politics and how much to lobbying is not available.

Goals

This study takes a close look at the nature and extent of the voluntary governance reforms companies have made, using a broad definition of “political spending,” to see how these practices affect key disclosure and accountability concerns raised by critics. We examined:

- Direct contributions to state-level candidates, party committees and ballot initiative committees;
- Direct contributions to political committees registered with the Federal Election Commission (FEC), known as “527 committees” for their tax code designation;
- Direct federal lobbying expenditures; and
- Available information on indirect contributions made through trade associations and other non-profit groups.

We also look at levels of oversight, levels of transparency, and whether those governance structures and processes have any impact on how much companies spend.

The report is impartial and non-partisan. It does not advocate for particular policy solutions nor take a position on the legitimacy of corporate spending. Rather, it provides advocates, policy makers, corporate decision makers, shareowners and commentators a set of baseline facts to which they can apply their own analyses. This study is more comprehensive than other assessments of corporate political spending governance, which have focused only on the 100 largest companies; it also looks at spending alongside governance factors, tiers the companies by revenue size and analyzes the results by sector. Importantly, it is the only report to compare two years of governance data, which allows identification of trends and changes in the corporate governance of political expenditures.

Report Structure

The overall findings from Si2’s research appear first in this summary of the report, showing the results from an in-depth examination of what S&P 500 companies say publicly, including feedback some firms provided on profiles Si2 compiled of their governance and spending in September 2011. (The profiles sent for review to companies also included data aggregated by the Center for Responsive Politics and the National Institute on Money in State Politics on how much each firm spent in the 2010 election cycle on campaign contributions at the state level, registered political committees and federal lobbying.) An executive summary of the findings and survey research is followed by a more detailed presentation of the underlying research on patterns of governance, disclosure and spending. Since we examined many

of the same governance indicators in 2010,¹ we present findings on the extent of change in the last year, showing that there is measurably more oversight and disclosure although tremendous scope for additional transparency, particularly with regard to indirect spending.

Two case studies look at 1) ballot measure spending in California by PG&E and 2) indirect support for independent expenditures in Ohio judicial elections by Procter & Gamble. Our research approach is described after the presentation of findings.

In the appendices we also present a short primer on avenues for political spending and include additional background that explains the context for the research: a shareholder resolution campaign from activist investors that enjoys growing support from mainstream financial institutions, U.S. campaign finance law and the current reform proposals making the rounds in Washington. The most likely immediate avenues for change focus on disclosure and are being considered at the Securities and Exchange Commission (SEC), since campaign finance reform bills that died in 2010 face extremely dim prospects in the current Congress. Reformers also are pursuing regulatory change at the Federal Election Commission, at the Internal Revenue Service and at the Federal Communications Commission. But any movement even within the various government agencies that have skin in the game of money in politics also remains highly uncertain given the dysfunction that has Washington firmly in its grip. The voluntary corporate political spending governance reforms companies are pursuing, at the request of a growing number of their investors, therefore have critical relevancy to any consideration of company influence on our political system.

¹ *How Companies Influence Elections: Campaign Spending Patterns and Oversight at America's Largest Companies*, October 2010, at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1692739.

Executive Summary

Conclusions on Governance Policy

Disclosed policies: Compared to a year ago, more companies of all sizes and sectors in the S&P 500 have publicly adopted some kind of policy that addresses their corporate political spending. The number of companies in the top 100 that say nothing about political spending on their websites has fallen to just five and now includes only **Amazon.com, Berkshire Hathaway, Costco Wholesale, Google** and **Sunoco**. Overall in the index, there was a 7 percentage point jump in policy incidence, and just 15 percent now do not address the issue. Thirty percent of policies are stand-alone documents that investor activists have been requesting in shareholder proposals over the last several years.

Lobbying: Investor activists increasingly want more information about company lobbying, and the 2012 proxy season is likely to see a big jump in shareholder proposals on the subject. This is at least partly driven by popular discontent about the extent of corporations' influence on lawmaking, but also because Securities and Exchange Commission staff recently made clear that lobbying proposals were appropriate subjects for investor consideration as long as they did not focus on a particular issue (such as climate change).

Federal lobbying is highly regulated and records filed as required with the U.S. Congress document that 80 percent of the S&P 500 spend money on it. Yet only 13 firms in the entire index provide easily accessible information for their investors and other interested parties on how much they spend, through website reports or by providing direct links to Congressional reports that contain the information. Two-thirds of companies in the S&P 500 do not mention lobbying when they talk about political spending, confining their statements to campaign spending issues. Sixty percent of the 100 biggest companies do discuss lobbying (and they are the biggest spenders of lobbying dollars), but there is a striking drop-off among those outside the top revenue tier. Just half of the 25 companies that spent the most on lobbying in 2010 (each more than \$8 million) have disclosed policies about this activity. Less than a dozen companies explicitly acknowledge the "grassroots" lobbying efforts they make to mobilize their various stakeholders, including employees and the public, in attempts to influence public policy.

Justifications for spending: In the last year, more companies of all sizes and in all sectors have begun to provide public justifications for why they spend money in politics. Overall, just one-third provide justifications, but this is up from just one-quarter a year ago. Nearly 80 percent of the top 100 companies explain themselves, up from just two-thirds in 2010, and while less than half of all the smaller firms provide justifications, proffered reasons for spending clearly rose in every revenue tier. Utilities are the most likely to provide reasons for their spending (63 percent) and Financials firms the least (30 percent).

Conclusions on Formal Oversight

Boards: More boards now are paying attention to how their companies spend money in politics and fully 31 percent of S&P 500 boards now have formal, explicit corporate governance responsibilities to review or (in half a dozen cases) approve corporate political spending. The number has increased from only two board oversight mandates in 2005. This clearly reflects the broader trend for greater board

involvement in enterprise risk management that encompasses heretofore unquantified social and environmental factors affecting long-term sustainability. Board oversight is one of the key indicators investors watch most closely to gauge corporate reaction to the intense investor and public scrutiny about the role they play in elections. Information Technology companies are the least likely to have board oversight (just 20 percent of the sector) and Health Care companies are the most likely to have it (almost 45 percent).

Most boards, when they do attend to political spending, conduct annual reviews, not the semi-annual frequency most prized by reformers. But two companies (**ConocoPhillips** and **General Mills**) say their boards must provide approval for any direct use of independent expenditures to support or oppose candidates in elections, while delegating other decisions to managers. Five other companies—hospital firm **HCP**, **Occidental Petroleum**, **Bed Bath & Beyond**, **Newell Rubbermaid** and natural gas exploration firm **QEP Resources**—also report direct board involvement in specific spending decisions. (Additional information on indirect spending policy and oversight appears below.)

Management transparency: More companies now explain which officers take part in political spending decisions, with a 7 percentage point jump from one year ago, bringing the total to 64 percent for the index as a whole. Utilities, Information Technology firms and Financials saw the largest proportional increase on this indicator. However, Financials remain the least likely of any sector to explain who makes political spending decisions at their companies, a point that may have particular resonance with those questioning the influence of Wall Street firms.

Conclusions on Spending and Disclosure Practices

'No spending' companies: Compared to 2010, 17 more companies in the S&P 500 now assert that they do not spend money on politics. But the nature and specificity of these prohibitions varies widely and when companies say they do not spend, it does not necessarily mean shareholder money does not make its way into political campaigns. It certainly does not indicate that companies do not lobby. Just 17 of the companies with apparent spending bans in the entire index actually spent no money on campaigns or lobbying in 2010, the snapshot year Si2 considered. Another 57 did not appear to spend any money but did not publish policies about it. As might be expected, smaller revenue sized companies were less likely to spend. In the largest revenue quintile, just two companies—**Schlumberger** and **Philip Morris International**—did not spend on politics domestically. (The latter is not to be confused with its former parent, **Altria**, which spends handsomely throughout all levels of the U.S. political system.) Information Technology companies were markedly less likely to spend, with one-third of them not doing any federal lobbying and not giving to federally registered political committees or state parties, candidates or ballot initiatives.

Twice as many companies in the index now explicitly forbid contributions directly to political candidates compared to 2010 (59 firms versus 27 last year). Bans on party giving also increased to 43 companies, up from only 25 in 2010. These were the most commonly stated types of prohibitions; overall, 40 companies in the index articulated a set of spending prohibitions in 2010, while 64 now do.

Voluntary company spending reports versus the public record: In the post-*Citizens United* era, when companies may contribute unlimited funds from their treasuries to benefit or denigrate specific candidates at all levels of the political process, investor advocates believe the case for full transparency about spending is particularly compelling. Money that is given to groups that do not have to report on the sources of their funding need not be disclosed now—a particularly irksome burr under the saddle for many. But it may not always remain undisclosed, given the intense public interest in the subject that may prompt unsanctioned disclosure and the potential for regulatory change or legal change that may require it. *Citizens United* removed spending limits but did not cast aside disclosure requirements, a point not lost on campaign finance reformers.

Si2 compared voluntary company reports with what information can be gleaned from the public record, using data compiled by the Center for Responsive Politics and the National Institute on Money in State Politics. This gap analysis allows both reasonably accurate benchmarking of the corporate spending by all companies in the index, as well as an assessment of key gaps in the public record. In addition to the “known unknown” of sums obtained and spent by trade associations and other non-profit groups, the other missing component in public databases is a nationwide aggregation of state-level political committee data.

After excluding identifiable PAC spending from the state-level records,² we combined the totals and found that 106 do not appear to spend, 99 companies in the index both spend and report (in some fashion) and 278 companies spend and do not report on it (two-thirds of the spenders). Telecommunications and Financials companies are the least likely to report, doing so less than 20 percent of the time, while Health Care companies are the most likely to do so—with 43 percent of spenders reporting. Fully 60 percent of the largest revenue tier companies report to their investors, but only 10 percent of the bottom 60 percent of the index does.

Independent expenditures: Seventy-eight percent of the S&P 500 do not make their positions known on the use of independent expenditures. In the last year there has been a significant increase in the number of companies that do discuss the practice, though. Just four mentioned independent expenditures in 2010 and 38 company policies now do.

Indirect contributions: Illustrating substantial movement on a key focus of investor activists, just under one-quarter of S&P 500 companies now have disclosed policies on indirect political spending through trade associations and other non-profit groups, up from 14 percent a year ago. Utilities are the most likely to have such a policy (40 percent) and Financials and Telecommunications firms the least (less than 15 percent). For Financials, this is a big improvement from 2010 when only 5 percent talked about trade group giving, but seven of the largest firms still do not mention it, including **Allstate, American International Group, Bank of America, Citigroup, JPMorgan Chase, Morgan Stanley** and **Travelers**. Reflecting the efforts of the Center for Political Accountability and its investor allies, half in the top revenue quintile have trade group policies now, but less than 20 percent do in the bottom three revenue quin-

²As explained on p. 32, Si2 excluded from its corporate money tallies contributions to candidates and parties in states where only PAC giving is allowed, and then reviewed all the remaining state spending records to exclude any clearly identifiable PAC money.

titles. Despite the growth in importance of political spending by 501(c)4 social welfare organizations, a scant 26 companies in the S&P 500 include mention of these groups in their policies.

Reporting thresholds—Companies that do report on indirect spending usually set dues thresholds that trigger reporting; 66 companies do so now, up from 41 last year—with about half saying they will report on this spending when information is available from their trade groups that receive dues of \$50,000 or more. Just four companies appear to commit to disclosing all their indirect spending: **Dell, eBay, Wisconsin Energy** and **Williams Cos.**

Membership and spending disclosure—Even if a company articulates a trade group spending policy, it does not always report on the groups it has joined. A subset reports on the amounts given: just 14 percent of the index as a whole (up from only 9 percent last year when year-over-year statistics are considered), with most reporters in the top revenue quintile. The 39 companies reporting on corporate giving to trade associations and other non-profits disclose between them that they contributed \$41.2 million that was used for lobbying and other political expenses.

Policy disconnects—Shareholder advocates, particularly in the 2011 spring corporate annual meeting season, vigorously took aim at company support for trade associations that advocate for public policies contrary to the positions these firms take. Activists plan to push these critiques again in 2012, and we likely will see an expansion of this type of scrutiny. We found that 14 companies in the S&P 500 acknowledge their trade associations may take positions contrary to their own, and a few high profile defections from the U.S. Chamber of Commerce have occurred over climate change issues—notably **Apple, Exelon** and **PG&E**, among others. But the companies that discuss this issue say for the most part that there are compelling business reasons to retain their memberships, as they pursue public policies that will further their joint interests.

Spending patterns: Si2's analysis of available data about corporate spending (excluding identifiable political action committee money that comes from individuals affiliated with a company) shows that S&P 500 companies spent \$1.1 billion in 2010. This includes contributions to federally registered 527 political committees and state-level candidates, parties and ballot initiatives—as well as money disbursed for federal lobbying efforts.

Footprint variations—Federal lobbying accounted for 87 percent of the total (\$979.3 million), federal political committees 3 percent (\$31 million) and state contributions 10 percent (\$112 million). Companies in the Industrials and Utilities sectors spent the most overall when all three parts of this spending footprint are tallied up (about \$225 million and \$175 million, respectively), while Materials and Telecommunications firms each spent less than \$50 million apiece. Setting federal lobbying aside shows that Utilities companies spent more than twice what any other sector did, for a total of about \$55 million (38 percent of what the entire index spent). These figures are skewed by heavy spending from just one company, **PG&E**. The top two revenue quintiles were responsible for nearly all the spending of both federal lobbying dollars as well as national political committee and state-level contributions.

Ballot measures—Two-thirds of state-level spending, about \$75 million, went to ballot initiatives, where the U.S. Supreme Court has upheld the right to unlimited spending since 1978. A dozen companies each spent more than \$1 million on ballot initiatives, with PG&E the largest spender by far, with just under \$44 million spent in 2010 on an unsuccessful effort to prevent local electricity competition in the California utility market.

Spending intensity: To make possible a meaningful comparison of spending across the index, Si2 calculated a “spending intensity” figure that divides each firm’s total disbursements by earned revenue, producing the amount each spent per million dollars of revenue earned. This approach mimics the carbon intensity analyses used to assess corporate contributions to climate change, although we acknowledge that the toxicity quotient of political dollars is not the same as carbon dioxide. Utilities and Health Care companies spent proportionately more than any other sectors (\$255 and \$185 of political spending per million dollars of revenue), not surprising since each faces a legislative and regulatory context much in flux. Consumer Staples, Telecommunications and Consumer Discretionary sector firms were at the bottom end of the spending intensity scale, with each spending less than \$100 per million dollars of revenue.

Oversight and spending correlations: Investor activists and companies have different but sometimes complementary reasons for adopting strong corporate governance practices for political spending. Investors want accountability, and evidence that spending strategically bolsters business interests and not those of individual executives. Some investors also carry with them an implicit goal of reducing overall company spending, a goal that “good government” reformers make explicit. Companies put in place more explicit governance policies to provide investors with the requested accountability and blunt critiques that can harm their reputations, and to make their spending more efficient. But some also find that formalized procedures can help turn back what can be relentless requests for campaign cash from politicians and their supporters.

Only a small number of companies seem to concur that they should cut back on corporate spending in politics, however. In fact, a comparison of the 151 companies in the S&P 500 that give their boards explicit board oversight responsibility to those that do not shows that those with oversight spend, on average, substantially more per dollar of revenue: 20 percent more than the index average and 31 percent more than companies with no oversight. This provides little solace for reformers who want to use governance as a lever for spending cuts, but it does suggest that board involvement increases in step with political spending intensity, a central demand from investor activists.

Avenues for Further Exploration

Last year’s study focused on collecting data on corporate policies, governance practices and disclosures on political spending to obtain a snapshot of these data in the wake of the landmark *Citizens United* decision. This second-year effort goes a step further to look at actual spending practices in the context of corporate governance policies and disclosure. We have tried to answer at least some questions about whether, for example, greater board oversight, stricter corporate policies or more disclosure of political spending appear to have any impact on the amount of a company’s political spending. An obvious next

set of questions is whether the nature and volume of corporate political spending and its corporate governance has any impact on financial performance and shareholder returns.

Some recent work has been done in this area. Harvard Professor John C. Coates published “Corporate Governance and Corporate Political Activity: What Effect Will *Citizens United* Have on Shareholder Wealth?” in September 2010 as part of the Harvard Law School Working Paper series.³ The paper focuses on the relationship between the governance and the performance of corporations with different levels of political spending in the S&P 500. Coates found a negative correlation between political activity, as measured by levels of donations and spending on lobbying, with the existence of shareholder-friendly governance features. At the same time, he confirmed that shareholder-friendly governance features strongly correlated with firm value. Coates concludes, “in the time period beginning in 1998 and through 2004 shareholder-friendly governance was consistently and strongly negatively related to observable political activity before and after controlling for established correlates of that activity, even in a firm fixed effects model,” and that “political activity, in turn, is strongly negatively correlated with firm value.” These findings, he observes, “imply that laws that replace the shareholder protections removed by *Citizens United* would be valuable to shareholders.”

Coates’s study focuses on the relationship between a company’s broader governance features—ownership dispersion, insider ownership, blockholder ownership, shareholder rights and CEO pay—its political activity and shareholder value, and the paper offers important findings for shareholders to weigh and for further examination by researchers. However, it does not look at governance features that in particular address board and management oversight of political spending. It also does not explore the relationship between disclosure of political spending and overall transparency in reporting on the issue or how these correlate, if at all, to shareholder value. Further research in these areas is warranted.

There are obvious obstacles to providing shareholders and other stakeholders with a clearer picture of the relationships between governance, political spending and shareholder value. Several *more years of data* on policies and disclosure practices are needed to run longer-term models of at least five years. Further, *gaps in company spending records* mean we simply do not have a complete picture of the magnitude of spending, although the gap analysis Si2 presents in this study should help make clear where more work can be done. More time series data also could examine if *changes in a company’s policies* or disclosures have any clear long-term impact on actual levels of political spending.

³ Coates, IV, John C., Corporate Governance and Corporate Political Activity: What Effect Will Citizens United Have on Shareholder Wealth? (September 21, 2010). Harvard Law and Economics Discussion Paper No. 684. Available at SSRN: <http://ssrn.com/abstract=1680861>

Company Views

SEC Disclosure

New federal campaign finance legislation has no immediate prospects for passage in the U.S. Congress, so reformers are pursuing changes in various government agencies that could affect how companies disclose information about their political spending. One such initiative, as explained on p. 78, asks that the Securities and Exchange Commission require all publicly traded companies to make standardized disclosures about their spending in securities filings.

A communications equipment company told Si2 this would be a good idea, since “transparency on this issue is important for all stakeholders.” None of the other companies that responded on this subject agreed, however. **Pfizer** said, “We do not support a one-sized-fits-all approach.” Others also felt that existing disclosure is sufficient. A global electronics firm said, for instance, “We believe that public companies are already saddled with extensive compliance disclosure burdens and political spending disclosure would only add to this burden. Moreover, we already disclose political spending [in our annual sustainability report]. Reporting political spending to the SEC is redundant and repetitive since the majority of the information is already widely publicly available.”

A multinational machinery company agreed and also felt information on political spending could reveal confidential business strategy:

Companies already have a duty to disclose political spending to the extent it is material to the company. If a particular issue or issues become so important that the potential for an impact on the company, either in terms of the amount of spending or the impact on operations and markets, reaches a level that is material, then under existing disclosure requirements the company would be required to disclose it. To require companies to disclose political spending that is not otherwise material would run the risk of prematurely exposing their business strategies and place yet another burden on public companies that does not apply to many of their domestic and global competitors.

Shareholder Advisory Vote

One idea being proposed in shareholder resolutions (as well as in the Shareholder Protection Act) is that investors should be given the chance to vote on political spending, as they now do in the United Kingdom. None of the companies thought this was a good idea save one, which already eschews any spending. A financial services company said, “Placing this information in the proxy statement would be costly, and shareholders have many other options to communicate their advice.” The machinery maker also said this would be a poor move:

Corporate management has a duty to protect its investors’ investment and to fulfill its obligations to its employees and customers. When government, at any level, proposes changes in law, regulations or policy that potentially affect a company’s ability to fulfill its duties and obligations, the decision to use corporate funds to communicate its opinions to government officials with decision making authority is part of managing the business of the company. These decisions relate to business strategy and operations and should be left to company management, as they are in the best position to assess the relative benefits and detriments to the company of such spending.

Best Buy, for its part, said its current efforts are sufficient. It said the company “has a long history of productive dialogue with its shareholders and other key stakeholders regarding these and other issues. Best Buy believes that its ongoing engagement in this space provides the more appropriate and responsive way to ensure its policies and practices reflect shareholder concerns and input.”

Independent Expenditures

Si2 asked companies about their plans to use independent expenditures at the federal or state level to support or oppose candidates, and their reasoning behind these plans. Just one of the respondents, a leading electric utility, said it had yet to make any decision on the issue. The rest of those that replied said they did not use independent expenditures. **Pfizer** noted, “We have adopted policy that prohibits us from engaging in direct independent expenditures as a result of the *Citizens United* case.” A nationwide food company also said it has just instituted a new ban on political spending of all kinds, that it has decided to stop giving to 527 committees, and that will not use independent expenditures. The communications equipment company said it does not use independent expenditures or make any other political contributions, since “We believe that directing our resources into our core business activities—not political contributions—best serves our business and our stakeholders.”

Best Buy’s response was more equivocal, though: “In 2010, Best Buy did not make any independent expenditures with corporate funds and does not have any currently contemplated expenditures. Best Buy nonetheless reserves the right to provide corporate funding to candidates and/or issue campaigns that align with the company’s business objectives and public policy goals. Best Buy has and will, of course, disclose any contributions allowed by law made in support of candidates or public policy issue campaigns.”

Oversight Changes

Despite the findings reported in this study, only a few companies that replied to the questions Si2 posed about changes in political spending oversight in the last year explained these changes. **Pfizer** said it “constantly revisits” its policy and meets “with investors and shareholders to hear their concerns first hand.” **Best Buy** also noted it had established a new steering committee last spring, which occurred after a shareholder resolution asked for more oversight following the controversy about independent expenditures in the 2010 Minnesota gubernatorial race. Finally, a nationwide property management firm that currently spends little on politics noted, “Despite our limited spending, we understand there is a growing interest in how public companies participate in the political process. As a result, we are in the process of considering whether to adopt and disclose a more formal policy.”

Patterns of Governance, Disclosure and Spending

This section of the report presents the detailed results from our analysis of governance and disclosure practices for the S&P 500, alongside their spending patterns—the basis for the summarized findings presented above. Results for the entire index appear first, noting what has changed since Si2 made this examination one year ago in 2010. The results are disaggregated by economic sector and revenue quintile to explore variations in policies and spending. We found, as noted above, that oversight and transparency about spending policies have increased substantially, as boards appear to be responding to intense pressures from investors as well as the changed regulatory landscape since *Citizens United*. But disclosure of what companies spend remains inconsistent—particularly when it comes to indirect spending through trade associations and other politically active non-profit groups.

While Si2's 2010 report looked at the *types of recipients* within the political arena that received identifiable corporate money, this year we look more precisely at the *amounts* companies give to political committees (527s) registered at the federal level and state-level candidates and parties. New this year also is an analysis of how much companies spent on federal lobbying. (Si2 has excluded from the analysis any identifiable PAC spending.)⁴ The sum of all three recipient categories provides a fairly comprehensive public “political spending footprint.” Critically, however, as noted above, it excludes the largely unquantifiable sums companies provide to non-profit groups (including trade associations and non-profit “social welfare” organizations, organized under sections 501(c)6 and 501(c)4 of the federal tax code), some of which makes their way into political campaigns and lobbying efforts waged after candidates reach office. There is no requirement for these groups to disclose their donors and voluntary disclosure is spotty, at best. To get a glimpse of this indirect treasury spending, the report examines the nature of the relatively minimal information companies voluntarily disclose on their memberships and contributions to non-profit organizations that have begun to play an important role in political campaigns. Only 14 percent of the index discloses indirect spending, and only a few disclosures are comprehensive.

To deepen last year's analysis, the report this year also calculates a “spending intensity” figure that normalizes each company's spending footprint by revenue, producing comparable figures on political dollars spent for each million dollars of revenue earned. The dataset would allow additional examination of correlations with standard financial metrics, such as firm value, revenue growth, return on equity, total shareholder return, or other measures of considerable interest to some. Instead of venturing deep into the contentious thicket of assessments about how such measures may have some causal relationships with political spending, however, we focus primarily on spending policy, oversight and actual expenditures. We do note the overall correlation between governance and spending intensity, however, showing that the 151 companies with board oversight of their spending actually disburse on average 30 percent more than their peers that do not have such oversight, on a revenue-normalized basis. This

⁴ PAC spending, which includes money contributed by individuals affiliated with companies from their own resources, substantially augments the already considerable spending that comes directly from corporate coffers, but we exclude this spending given our focus on investors and the use of their money, which comes from the corporate treasury. Any direct contributions to federal candidates from companies still must come from PACs. Si2's analysis suggests that about half the total amount of money connected to companies at the state level comes from corporate PACs and about half comes from company treasuries.

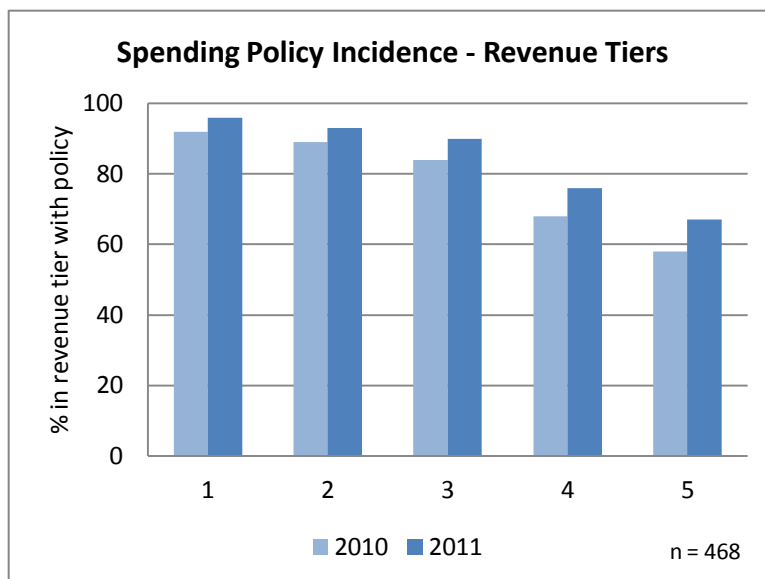
suggests that board involvement in spending does not reduce the sums companies spend, although a more rigorous examination of additional indicators would have to occur before any sort of causal relationship could be established. This preliminary evidence may give some comfort to investors and others concerned about accountability and transparency, but not to those who think that governance could be used as a lever to reduce spending.

A related issue—whether corporate political spending in campaigns and on lobbying helps or hurts the company and its shareholders financially—is difficult to establish. This year’s snapshot of spending intensity per dollar of earned revenue suggests some possible conclusions, but much more additional spending efficacy research could be done. The benchmarking dataset used in this report could be used to explore how often company money goes to winning candidates, for instance—to see if companies are making the right bets about winners and thus earning the access they seek. One also could look at which of those winning candidates once in office are lobbied by the same companies, on what issues, and with what results—to see what kind of policy dividends companies effectively earn for their campaign spending. Specific legislative favors provided in exchange for campaign contributions are, of course, illegal. But money nonetheless remains a central component in the great game of influence and power where companies, legislators and their various competing stakeholders operate.

A small but growing number of companies report on their political spending to investors, although comprehensive accountings are still rare, as we document below. About 20 percent of the index does not appear to spend any money in politics (half of these formally ban spending in published policies while the rest do not take a public position on spending but refrain from contributing), about 20 percent spends and reports, and the remainder spend and do not report. We critically examine, for disclosing companies, what they include in their spending reports and how this differs from information contained in publicly available databases. Companies do not control how their spending is reported by state campaigns, which can inaccurately attribute individual contributions as coming from corporate coffers or identify PAC money as a corporate contribution. Si2 sent the governance and spending profiles to each of the companies included in the study and received detailed corrections on the spending data from a handful of firms. They largely corroborated the federal data on lobbying and 527 spending, but found some inconsistencies in the state-level data given the more uneven reporting mechanisms in place there and the gaps in data collected by the National Institute on Money in State Politics. As noted above, state level information from non-party political committees is missing, which means the publicly available information on corporate spending substantially understates how much money flows into these elections from companies. The final analysis in this report includes any corrections provided by companies, which indicated some contributions came from individuals, not the corporate treasury, or from a PAC that was not identified as such in reports from campaigns.

Policy

The vast majority of S&P 500 companies (84 percent) make some kind of statement about political spending, however minimal, on their websites.⁵ This is an increase from 78 percent in 2010. As in 2010, the largest revenue earners are the most likely to have such statements, which can be loosely termed “policies.” The number of companies in the top revenue tier that say nothing about political spending has fallen to just five (down from nine last year) and now includes only **zon.com, Berkshire Hathaway, Costco Wholesale, Google** and **Sunoco**. In the second revenue quintile, just eight companies do not have any policy this year (down from 11 last year): **Apache, Consolidated Edison, Jabil Circuit, Kimberly-Clark, Loews, ONEOK, PACCAR** and **Southwest Airlines**. Policy incidence rates still drop commensurate with revenue, as they did in 2010, but more companies of all sizes now say something about political spending.

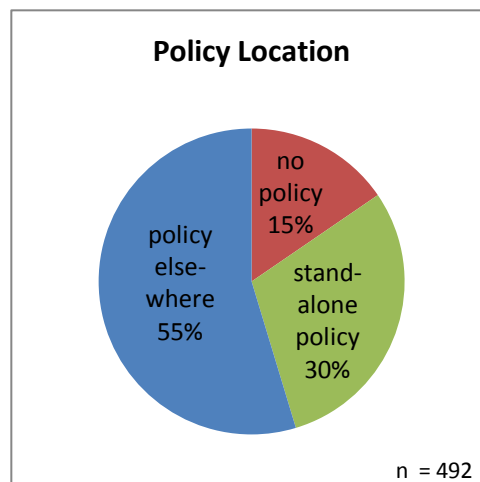


Looking just at the 468 companies that were in the index in both years, Si2 found that a total of 29 more companies established policies in the last year, a jump of 7 percentage points, from 78 percent to 85 percent. Proportionally, Telecommunications and Utilities sector companies saw the biggest growth in policy statements compared with 2010—while the Health Care and Materials sectors saw the least year-over-year change (these two sectors already had comparatively high rates of policy incidence). Looking at all sectors comparatively shows that all nine Telecommunications companies now mention political spending, as do more than 90 percent of firms in the Consumer Staples, Utilities, Materials and Industrials sectors. But only little more than three-quarters of Financials, Information Technology and Consumer Discretionary companies have a policy statement.

The nature of these policies varies substantially, from limited acknowledgements of a company’s participation in public policy formulation to detailed explanations of how the firm comes up with its public policy positions, decision-making processes for contributions, and detailed reports on all forms of giving, as is explored in more detail below.

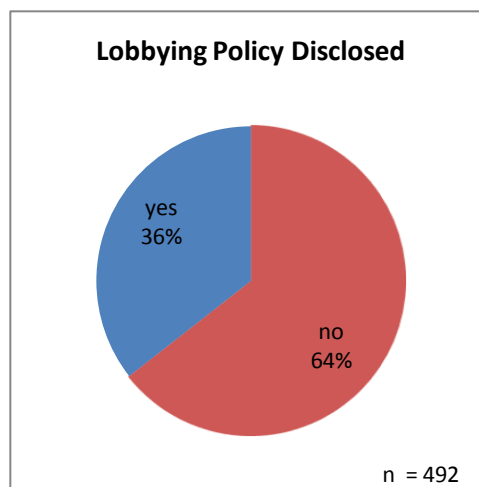
⁵ Si2 gave companies credit for having a political spending policy if they mentioned anything about spending corporate money in politics, by any means—although companies most often discuss the ways in which they give directly to candidates and parties in political campaigns. Some companies do not discuss any domestic political spending but indicate in their ethics policies that they comply with the anti-bribery provisions of the Foreign Corrupt Practices Act; if this was the only mention of political spending, we did not give companies credit for having a policy. Credit was also withheld for companies that only provided policies for employee political contributions with no corporate connection.

Policy location: Investors advocates who are pressing companies to take more action on political spending want companies to have easily accessible stand-alone policies that provide clear statements about when and where they spend corporate money in all parts of the political arena. Si2 therefore catalogued whether companies articulated their policies in this manner, and found that just 30 percent (144 firms) have the separate, stand-alone policies investor advocates want to see. Finding a company’s policy is not always a straightforward proposition, but Si2 did not try to measure the ease with which policies can be found. Baruch College researchers recently did measure the accessibility of political spending information on company websites among the S&P 100, though, and concluded just 30 percent of those firms made such information “easy” to find on corporate websites.⁶ Policies often are found most often with a company’s corporate governance documents, but they also can appear only in a corporate responsibility report.



Lobbying: The 2011 spring annual meeting season saw a growing number of shareholder proposals that asked for more information about companies’ lobbying. Shareholder proponents appear poised for an expansion of these types of proposals in 2012, according to investors who have shared their initial plans with Si2.⁷ For some time, investors have evinced particular interest in the indirect expenditures made by trade associations and other non-profit groups that receive corporate money and use it for both political campaigns and in lobbying, but information on this type of spending remains hard to come by. (See pp. 39-46 for more on Si2’s findings about voluntary corporate disclosures regarding association memberships and indirect corporate political spending by them and other non-profit groups.) But shareholder proposals in 2011, sponsored by American Federation of State, County and Municipal Employees (AFSCME) and the Laborers’ International Union (Liuna), also asked companies to report on both “direct lobbying and grassroots lobbying” expenditures. These resolutions appear to open a new front in the investor campaign for corporate disclosure on political spending.

Given the increased investor interest in this aspect of political spending, we carefully examined data about companies’ lobbying policies, how often companies provide information on their lobbying, and data on direct federal lobbying expenditures as aggregated by the Center for Responsive Politics. In general, we



⁶ See *Baruch Index of Corporate Political Disclosure* at <http://www.baruch.cuny.edu/baruchindex/index.htm>.

⁷ As part of its impartial research for member institutional investors, Si2 closely tracks—but does not advocate about—shareholder proposals filed on shareholder resolutions and what happens to them over the course of the spring annual meeting season.

found that a substantial majority of companies do not discuss either direct or indirect lobbying when they talk about political spending. Such expenditures, however, are a critical part of companies' efforts to influence how laws are made and comprise a far bigger proportion of the total amount of corporate money spent in the political arena, writ large, than the sums they spend in political campaigns. As with corporate campaign contributions, money for lobbying comes from the company treasury; most companies view their spending on lobbying as part of the usual course of business. Direct federal lobbying is highly regulated and disclosure of expenditures must be reported to the U.S. Senate. Still, trolling through the reports and identifying all lobbying connected to a company still can be a challenge. Lobbying data at the state level is a whole additional frontier, which we did not explore.

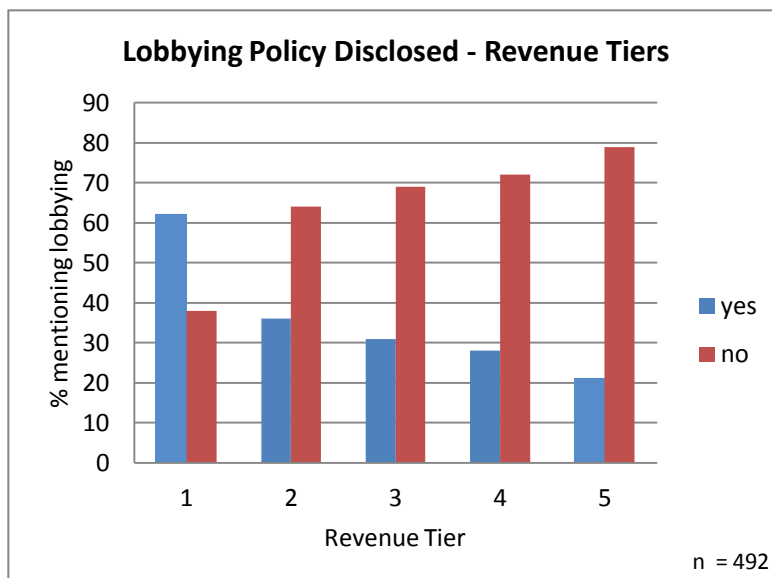
'Grassroots lobbying'—A handful of companies acknowledge that they take part in "grassroots lobbying," in which they articulate a particular view on key public policy issues and encourage their stakeholders, including employees, to promote these views with their elected officials. Si2's research found mentions from eight companies last year and another two this year. Officials from **Merck** and **Exelon** told participants at an October 2011 Conference Board symposium that they both encourage employee involvement in public affairs that affect their companies, but that these efforts take little time or money. Merck noted it does not make any candidate-specific recommendations to its employees.

One of the most explicit descriptions comes from **ConocoPhillips**, which notes that these efforts supplement its formal lobbying and "typically include the development and distribution of information and mobilization of stakeholders to contact officials." ConocoPhillips adds that it "will participate in grassroots activity on a case-by-case basis based on collaboration between appropriate Government Affairs and business unit personnel." It goes on to explain what it does and why:

Issue advocacy may also include support of an initiative that would defeat anti-energy and/or anti-business measures. Actions typically include development and distribution/broadcasting of information either jointly or solely, and may include signature gathering on initiative petitions which the company has expressly supported. ConocoPhillips will be active in such issues, provided: there is a compelling ConocoPhillips business rationale; there is an agreement to participate between the affected business units and Government Affairs personnel and management; and where there is distribution/broadcasting of information, significant ConocoPhillips and/or energy industry involvement, input and approval of the message development and the tactics taken in the initiative process.

Altria discusses its activities as part of stakeholder outreach, noting it provides "materials that describe our position on issues and with suggestions for how to contact government officials. When appropriate, we ask our stakeholders to share their views with government officials on proposed legislation." **Marathon Oil** notes that it created a public issues advocacy program in 2009, which is supplemented with a "website that makes information easily accessible." **Aetna** points out the existence of an "employee-driven grassroots program" that is coordinated with its PAC. Most companies that conduct such activities provide civic engagement justifications, such as that offered by **Dow Chemical**: "Dow employees and retirees in the United States are active in the policymaking and political process, contacting their legislators through grassroots campaigns" and the company PAC, which Dow supports "as a way to promote open and transparent civic engagement" given that "the impact of government policy is so critical to our survival and success."

Policies—Only 36 percent of S&P 500 companies mention lobbying in their political spending policies; articulated policies are particularly scarce for companies outside the top revenue tier. A little more than 60 percent of tier-one companies mention lobbying, but—in a striking drop-off—each of the remaining tiers mention it less than 40 percent of the time, and only one-fifth of the bottom quintile does so. Sector standouts are Consumer Staples (where 46 percent discuss lobbying) and Industrials (where only 28 percent do so).

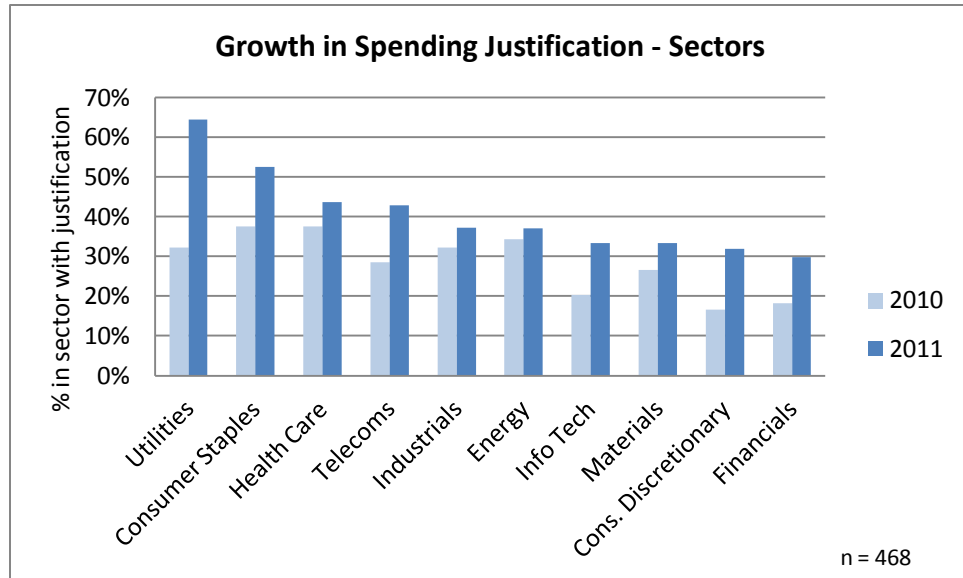


Spending and limited disclosure—The vast majority of companies do spend money on lobbying at the federal level, however, as shown by records filed with the U.S. Senate Office of Public Records. Si2 searched these data, as aggregated by the Center for Responsive Politics, and found information for such spending in 2009 and 2010 by 80 percent of all S&P 500 companies. Yet only 13 companies in the entire index (3 percent) provide easily accessible information for their investors on how much they spend on lobbying, by mentioning it on their websites or by providing direct links to the company-specific Senate reports. These companies are **Adobe Systems, American Electric Power, Baxter International, DTE Energy, Exxon Mobil, Hormel Foods, Intel, McGraw-Hill, PPG Industries, Procter & Gamble, U.S. Bancorp, Wellpoint and Wisconsin Energy.**

Drawing connections between the existence of a lobbying policy, disclosure for investors and any tendency to spend more or less is problematic, since the numbers are so small. About half of the 25 companies that spent the most on lobbying in 2010 (each with \$8 million or more of expenditures) have disclosed lobbying policies, and two (**American Electric Power** and **ExxonMobil**) report on what they spend in investor reports. An examination of federal lobbying records filed with the U.S. Senate for 2009 and 2010 shows that **Alpha Natural Resources, PG&E, Netflix, BlackRock, Washington Post, Ecolab, R. R. Donnelley & Sons, NetApp, Masco** and **Noble Energy** all saw their lobbying increase by more than 70 percent between 2009 and 2010, although they were not among the biggest overall spenders of lobbying dollars. Yet none of these ten companies, which had the biggest proportionate increases in lobbying expenses between 2009 and 2010, either mention lobbying in their policies or disclose this spending directly to investors.

Reasons for giving: It is still not common for companies to provide information on why they give money in political campaigns and how they pick candidates or issues to support. Just over a third do so, but this is a big jump from 2010, when only about one-quarter did. Companies of all shapes and sizes seem to be responding to the growing scrutiny about their corporate political spending by offering justifications for why

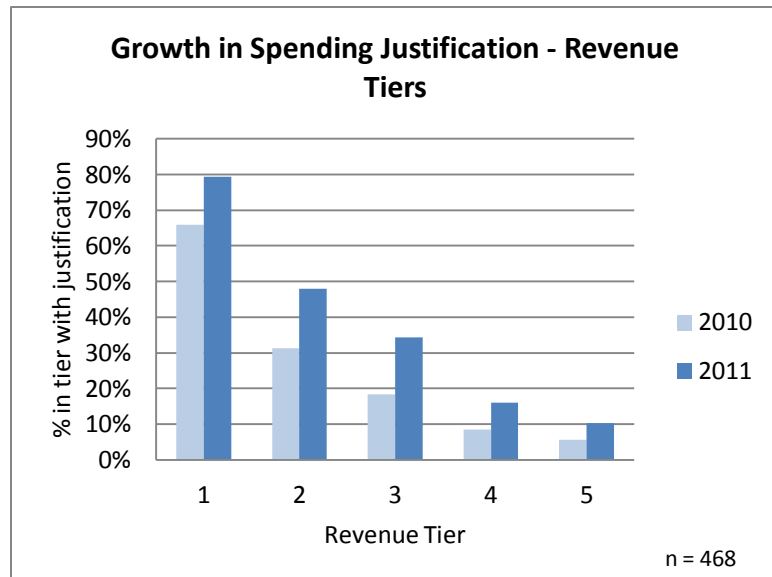
they do it. For the companies examined in both years, Si2 found that 124 firms in the S&P 500 offered spending justifications in 2010, but this year that number jumped to 179. The biggest proportionate increase occurred among Utilities, where twice as many (63 percent) now provide justifi-



cations compared with 2010. Just more than half of Consumer Staples companies now provide their reasons for giving, too—up from less than 40 percent last year. Energy companies had the least amount of change in providing justifications for any sector, hovering a little above 30 percent each year.

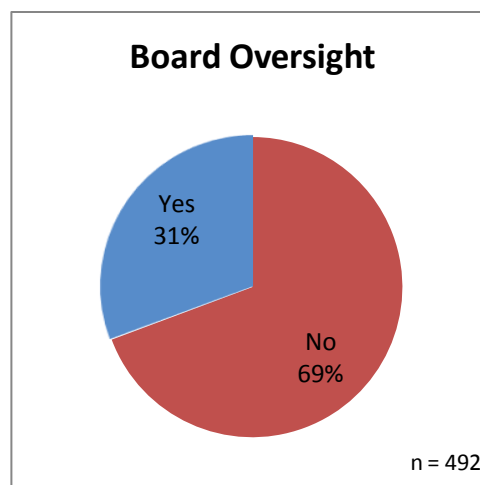
The very largest companies still are the most likely to provide a justification for political spending—with nearly 80 percent doing so, even more than the two-thirds that did so in 2010. But half of second-tier companies now provide justifications, too (up from only 31 percent last year) and one-third of third-tier firms (up from only 18 percent in 2010). The number of companies that offer justifications rose even among the smallest revenue tiers. Clearly, firms of all sizes seem to feel they need to explain why they spend money in politics.

A few have had the opposite reaction, though. Notably, **John Deere** this year says nothing about its spending. Last year, however, it explained, “Because accomplishing business objectives often depends on sound public policy, John Deere places a high value on involvement in the political process,” and noted its “employee-involvement programs” that included its PAC and its John Deere Government Action Information Network, which “asks employees to contact elected officials about pending legislation of interest to the company.”



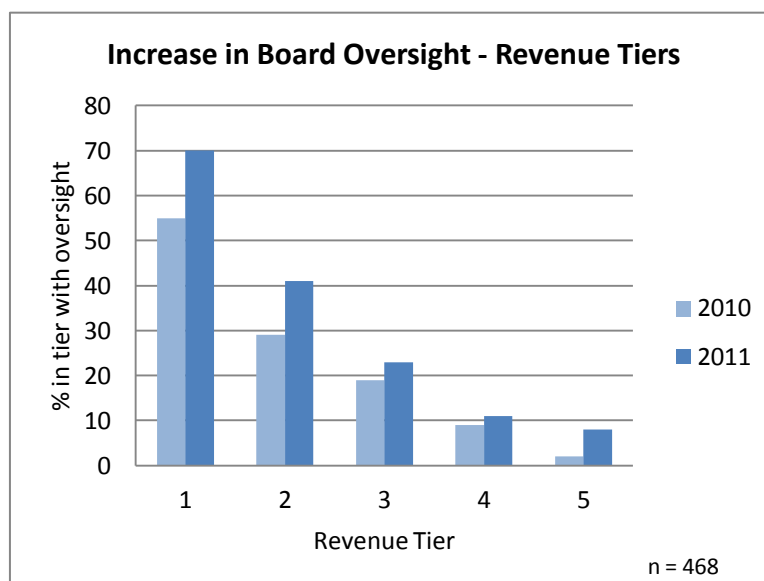
Board Oversight

There has been a sizeable jump in political spending oversight by boards of directors in the last year. Thirty-one percent of S&P 500 companies now explicitly acknowledge in their board committee charters or in policies posted on their websites that the board, in some capacity, has oversight responsibility for the company's spending in political campaigns. Last year the figure was just 23 percent. As we observed in 2010, the true number with board oversight is probably slightly higher than this because a handful of companies—particularly the very biggest—have board level committees that oversee public affairs generally. Si2 considered that a board had oversight only when the company indicated its board receives reports on political spending or if a particular committee charter specifically mentions policy oversight or review of such spending.

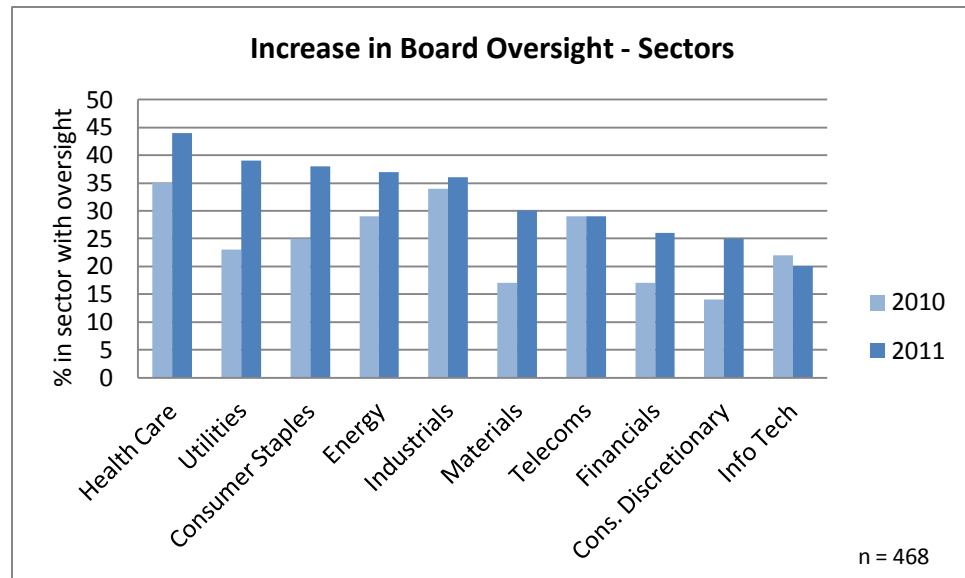


Most common at the top but growing elsewhere: Board oversight of political spending increased most significantly in the top revenue quintile companies. Comparing the 468 companies in the index in both years shows that 70 percent of the biggest firms now have board oversight, up from 55 percent last year. There was a 12-point increase for tier-two companies, pushing them to just above the 40 percent mark, and all the smaller companies increased their likelihood of board oversight, although in less dramatic fashion. About 10 percent or fewer of the bottom two revenue quintiles report any sort of board oversight. But these rates of board involvement are notable compared to historical levels. In 2005, when the Center for Political Accountability surveyed 120 large companies, it found only two that required board approval of political spending. (See pp. 68-74 for more on the shareholder campaigns and recent developments.)

Sector variation: While there has been substantial movement in the overall number of companies putting in place some form of board oversight for political spending, not all sectors seem to share the enthusiasm for this sort of high-level scrutiny from directors. Utilities were the most likely to put in place board oversight in the last year, followed by companies in the Consumer Staples, Materials and Consumer Discretionary sectors. Overall, though, Health Care companies re-



tained a clear lead in board involvement—a result that probably can be pegged directly to how deeply involved these companies have been in the ongoing debate over health care reform and how much critical attention they have received about this high-stakes discussion. There was little



or no change in the proportion of Industrials and Telecom firms that have board involvement in political spending. In addition, despite the contentious financial reform debate, Financials companies remain among the least likely to have any board oversight.

Types of oversight: We looked closely at how companies describe their board oversight processes, to determine the nature of director involvement in companies' decisions to spend. No company in either 2010 or 2011 indicated that the board makes recommendations on spending, and nearly 90 percent of the board involvement, when it occurs, is to review what management has done—as might be expected. A small group of company boards appears to get more closely involved, though, with about dozen reporting director involvement in approving contributions:

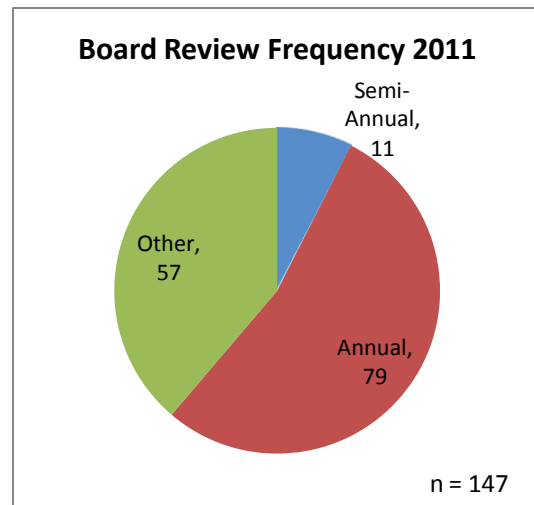
- Five companies report board involvement in specific spending decisions. At **HCP**, a hospital company, and at **Occidental Petroleum** (for both direct and indirect spending), the board must approve all contributions. **Bed Bath & Beyond** requires an unspecified “authorization” from the board, similar to the “prior authorization” required of **Newell Rubbermaid's** board. Both stand in sharp contrast to the natural gas and exploration company **QEP Resources'** very specific requirement that its board “reviews and approves the use of all corporate funds or assets intended to influence the nomination or election of any candidate for public office.”
- Four companies indicate their boards set budgets, and then must approve contributions that go beyond it. At **Caterpillar**, for instance, the Public Policy Committee reviews and approves an annual budget for charitable and political contributions and—“at least annually”—the committee also approves all such contributions; in addition, the chairman can be involved in approvals, the company's policy says. At **AT&T**, the board approves an aggregate budget “for the purpose of supporting or opposing any party, candidate, political committee or ballot measure,” but says that “except for contributions for ballot measures, no corporate expenditure over \$1,000 may be made unless approved by the Chief Executive Officer.” **Boeing** and **Wellpoint** also report their boards set annual budgets for political spending.

- At three companies the board’s involvement kicks in when the sums increase. For **Exelon** companies (including Exelon, ExGen and ComEd), company CEOs may give up to \$10,000 per candidate or committee, but the CEO and Lead Director “must approve any such contribution after the aggregate of all contributions to candidates and candidate political committees exceeds \$100,000 in any calendar year, determined on a consolidated basis for Exelon and its subsidiaries.” At **Jacobs Engineering Group**, the board also must approve contributions over \$10,000. For **McDonald’s**, government relations staff handle smaller amounts, with input from “legal counsel, compliance personnel and members of the Company’s management,” but

any Political Contributions to a single candidate, political party or ballot initiative that will aggregate to more than U.S. \$100,000 in a calendar year shall require the approval of the McDonald’s area of the world president of the market in which the contribution will be made. Political Contributions in excess of the spending limit established by the Board or any other exceptions to this Policy must be approved in advance by the Corporate Responsibility Committee.

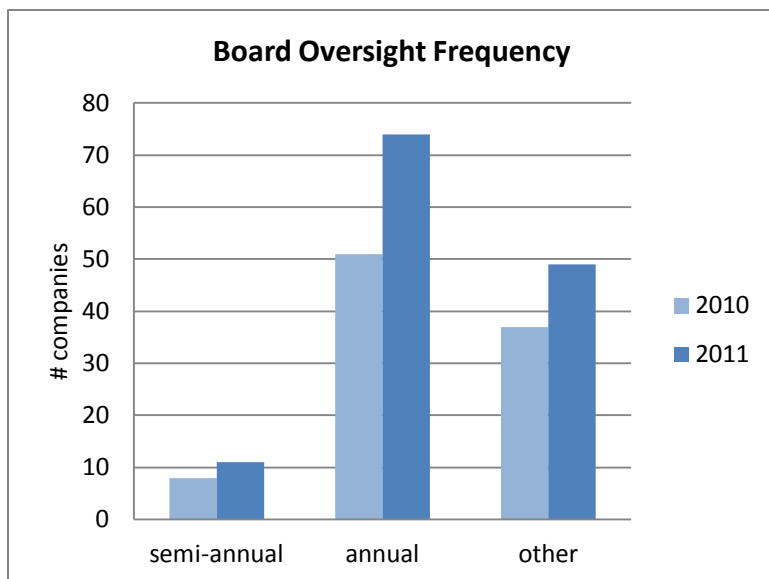
- Addressing the controversial method companies now may use to spend in federal elections, two companies say their boards also must approve any independent expenditures. At **ConocoPhillips**, responsibility for contributions usually falls on government affairs personnel, but the Public Policy Committee must approve independent expenditures advocating for or against specific candidates. **General Mills** makes the same stipulation, requiring approval for any direct independent expenditures from its Public Responsibility Committee. (Indirect independent expenditures via trade or other groups are a different matter, however, and no company mentions that the boards must get involved in such spending, although some companies forbid their trade associations from using contributions for political purposes, as is explained starting on p. 39.)

Two more companies appear to indicate their boards may become involved in spending decisions, but they do not say when or why. **CMS Energy** says, “The company, individual employees and PACs all may contribute to state and local ballot question committees, voter education initiatives and other political expenditures as approved by the legal department, executive management and, in some cases, the board of directors.” At **Juniper Networks**, the board’s non-specific involvement is also invoked: “The Company’s funds or assets must not be used for, or be contributed to, political campaigns or political practices under any circumstances without the prior written approval of the Company’s General Counsel or Chief Financial Officer and, if required, the Board of Directors.”



Frequency: Investor activists seeking greater accountability from companies about their political spending want boards to be involved in regular policy and spending reviews. Increasingly, companies are taking them up on this idea, although most have yet to adopt semi-annual reviews that the reformers favor most highly. A little more than half of the 147 companies whose boards review spending do so annually. A select few—now 11 firms, up from eight last year—look at the issue twice a year. New semi-annual reviewers are **Edison International, General Electric, Gilead Sciences, Merck, Target** and **Tesoro**.

Last year the group also included **American Express, Campbell Soup, McDonald's, Pfizer, Tellabs, United Health Group, United Parcel Service** and **US Bancorp**—but neither American Express nor Campbell's now say they are conducting reviews this frequently. The remaining 57 boards do not indicate how often they touch the issue.

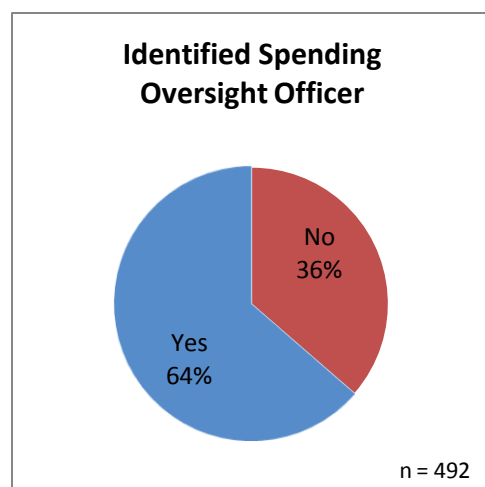


Comparing only the companies in the index during both 2010 and 2011, we found that most of the boards that added oversight did so through annual reviews (23 more companies compared to 2010).

Health Care companies are the most likely of any sector to have semi-annual reviews (close to one-fifth of these companies whose boards review spending do so twice a year). But no firms in four other sectors have made this kind of commitment: Consumer Staples, Materials, Telecommunications Services and Information Technology companies either review annually or don't say how often their oversight occurs.

Management Transparency

Growing corporate transparency about who is making decisions on political spending is apparent in another key area highlighted by investor activists. Nearly two-thirds of S&P 500 companies now identify which officers make spending decisions, growing to 65 percent from 58 percent in 2010, up 7 percentage points. There was growth in the disclosure of political spending officers no matter how big a company is, with the most substantial leaps occurring in the top and bottom revenue quintiles. Eighty percent of the largest tier companies now identify an officer responsible for decisions about political disbursements, up from about 70 percent in 2010, while a little more than 40 percent of the smallest



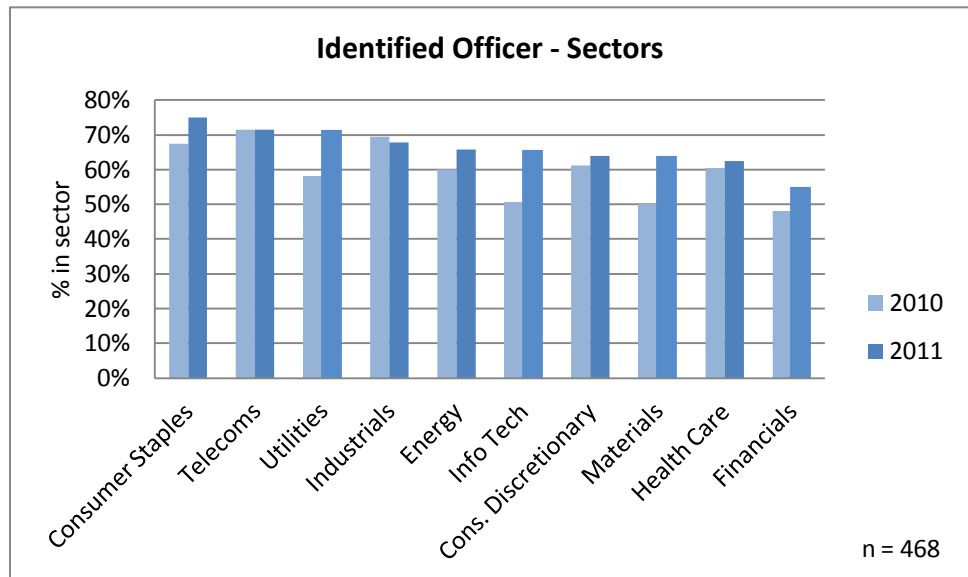
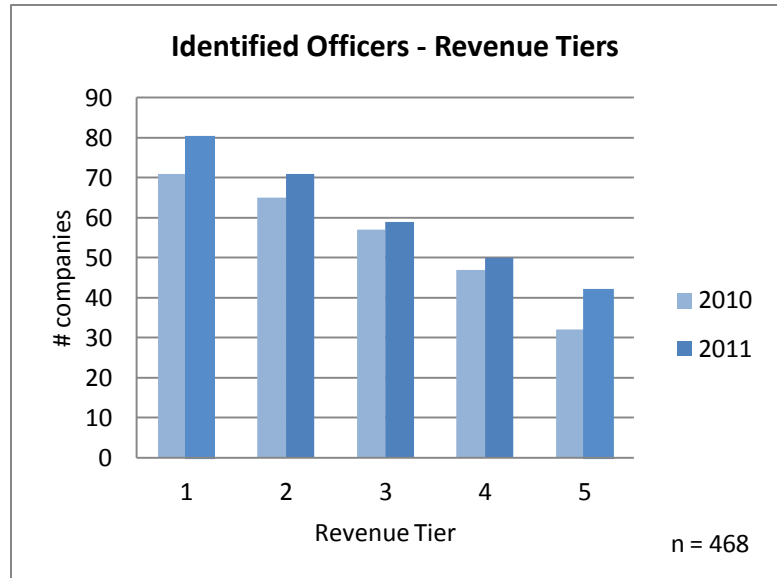
group now makes this information known, also a jump of about 10 percentage points from 2010.

Disclosure continued to vary among sectors. Looking at the 468 companies in the index for both years shows the biggest increases in disclosure of officers among Utilities, Information Technology and Materials firms, with 13 to 14 percentage point increases for each. Financials companies were the least likely to disclose which officers make decisions about political spending last year and while there has been some improvement, they remain the least transparent about how they give money, explaining who is involved just half the time.

Hewlett-Packard continues to stand out with its detailed explanation of how it forms its public policy positions and who makes decisions about its political spending. The company lists all the involved officials' titles—everyone from the PAC board of directors to its Political Contributions Committee and a separate Political Contributions Advisory Council. It also explains its process:

A committee of HP managers annually reviews eligible recipients of funds for both the HP PAC contributions and corporate contributions and develops an HP PAC contributions plan and a corporate contributions plan. The HP PAC plan is presented to the HP PAC Board of Directors, which reviews, revises and approves the plan. Both the HP PAC plan and the corporate contributions plan are then presented to the CEO for review and approval. Once approved by the CEO the plan is presented to the Audit Committee of the HP Board.

Upon approval of the plans, the HP Political Contributions Committee, comprised of HP government affairs managers, implements the plans by reviewing all specific political contributions requests and events requir-



ing corporate and HP PAC funding and makes recommendations to the Political Contributions Advisory Council. Once the Political Contributions Advisory Council approves the requests, the funds are disbursed.⁸

Spending and Disclosure

This section first presents information on how companies do and do not spend money directly on political campaigns and through lobbying. We examine what it means when companies say they do not give money in politics, the nature of treasury spending, and evolving policies on the use of independent expenditures. Briefly noted is how many companies have political action committees. Next, we look at indirect spending policies and how this has changed since last year, showing how a small but growing number of firms have policies and disclosure on their giving to trade associations and other non-profit groups that are politically active.

Prohibitions

The overall number of companies in the S&P 500 index that assert they do not spend any money on political contributions has grown to 57, up from 40 just a year ago. But it is still the case that the nature and specificity of these prohibitions varies significantly. When companies say they do not make political contributions, most of the time this does not mean they do not spend shareholder money directly on candidate campaigns. It certainly does not mean that corporate money is not used to influence lawmakers after they are elected. Out of the 57 companies (see table) that have policies apparently prohibiting political spending, only 23 companies actually did not give money to political committees, parties or candidates—although they did lobby. Just 17 (highlighted in blue) spent virtually no money at all in 2010 on either lobbying or on political campaigns via 527 political committees, state candidates, state parties or ballot initiatives, according to available data. Another 57 companies do not appear to spend any money in these areas but also have not publicly disclosed policies that explicitly ban such spending (list, p. 28).

Companies With 'No Spending' Policies and 2010 Corporate Expenditures							
Company	2010 Expenditures			Prohibitions			
	Federal Lobbying	527 Groups	States	Candidates	Parties	Ballot Initiatives	527 Groups
Air Products & Chemicals	\$1,555,000			X			
Allegheny Technologies	\$50,000			X	X		
American Int'l Group**				(temporary moratorium on all but state lobbying)			
Baker Hughes				X	X		
C. R. Bard	\$160,000			X	X		
CB Richard Ellis Group				X			
Chipotle Mexican Grill			\$400				
Cincinnati Financial	\$70,000			X	X	X	
Colgate-Palmolive	\$1,090,000			X	X		
Cummins	\$2,304,191			X	X		
Dun & Bradstreet	\$203,000						
Expeditors Int'l of Wash.				X	X		
Family Dollar Stores				X	X		
Flowserve				X	X		
Gannett	\$60,000		\$3,678				
Goldman Sachs	\$4,610,000			X			X

⁸ "HP Political Contributions Policies" at <http://www.hp.com/hpinfo/abouthp/government/us/engagement/policies.html>.

Companies With 'No Spending' Policies and 2010 Corporate Expenditures							
Company	2010 Expenditures			Prohibitions			
	Federal Lobbying	527 Groups	States	Candidates	Parties	Ballot Initiatives	527 Groups
H.J. Heinz	\$120,000	\$10,000		X	X	X	X
Health Care REIT				X			
Hershey	\$475,000		\$1,000				
Hess	\$1,100,000			X	X		
Illinois Tool Works	\$813,000						
Int'l Business Machines	\$5,330,000			X	X		X
Integrus Energy	\$280,000		\$1,250				
Interpublic Group	\$390,000			X			
Invesco	\$280,000						
J.M. Smucker				X	X		
Joy Global	\$40,000			X			
Lab Corp. of America	\$670,000			X			
LSI Corp.				X	X		
National Oilwell Varco	\$137,500			X	X	X	X
Nordstrom				X			
Novellus Systems				X	X		
Nvidia							
NYSE Euronext	\$1,580,000			X	X		X
Parker Hannifin	\$410,750			X	X		
PerkinElmer	\$120,000			X	X		
Pinnacle West Capital	\$710,000						
ProLogis	\$490,000						
Regions Financial	\$540,000		\$6,200	X		X	
Sara Lee	\$240,000	\$10,750					
SCANA	\$900,000		\$57,000	X	X		
Schlumberger				X	X		
Sealed Air							
Sherwin-Williams	\$40,000		\$65	X	X		
Snap-On***			\$399	X	X		
St. Jude Medical	\$690,000			X	X		
Stericycle	\$160,000	\$22,000	\$3,000	X	X		
Stryker	\$110,000			X	X	X	
Tellabs				X	X	X	X
Teradyne							
Texas Instruments	\$1,600,000			X	X		
Viacom	\$3,640,000		\$1,635,651	X	X		
Vulcan Materials	\$500,000		\$7,000	X	X		
Washington Post	\$840,000	\$25,900		X	X		
Waters Corporation	\$190,000			X	X		
Xerox	\$1,024,000	\$110,000		X	X	X	
Zimmer Holdings	\$713,038			X			

*Si2 excluded any identifiable PAC spending from this tally but state level campaigns may have inaccurately attributed some spending to companies (and thus their treasuries) even though the money came either from the corporate PAC or from individuals who gave on their own and reported their employers as being the company in question. This table includes any corrections companies provided to state spending data Si2 sent for review.

**The Center for Responsive Politics shows records for 527 giving by American International Group subsidiary AIG Centennial of Fort Washington, PA, in 2010 of \$2,030, but AIG says it has a temporary moratorium on political contributions and federal lobbying and these did not come from the company, but it was unable to provide a further explanation in time for this report.

***Snap-On affirmed its policy is not to give any corporate money to candidates or parties and said these expenditures likely came from its employees and were incorrectly attributed to it by campaign reporters.

Viacom's exceptions: One company that particularly stands out for having an apparent spending ban that nonetheless did not preclude more than \$1.6 million in contributions at the state level that appear to come from the corporate treasury at the state level is **Viacom**. The company's *Global Business Practices Statement* seems to forbid contributions, asserting:

Viacom policy—and in many countries, the law—prohibit the contribution of Viacom funds, assets, services or facilities to or on behalf of a U.S. political party, candidate or political action committee (“PAC”). Viacom policy also significantly restricts contributions to foreign political parties and candidates. None of these restrictions is intended to discourage or prohibit Viacom employees or directors from voluntarily making personal contributions or participating in other ways in the political process. However, this must be done on your own time and at your own expense. Viacom will not compensate or reimburse employees or directors for any political contribution.⁹

Yet the policy makes it clear money is spent, since it identifies who can approve expenditures: “No Viacom funds, assets, services or facilities of any kind may be contributed to any foreign official, political party official, candidate for office, governmental organization or charity—whether directly or through an intermediary—without advance approval from a Viacom Corporate Compliance Officer, your Company’s General Counsel or Viacom Government Relations.”

Viacom makes no political spending disclosure to investors, but data from the National Institute on Money in State Politics indicates it contributed \$35,000 to New York Assembly and Senate party campaign committees (both Democratic and Republican) and \$1.6 million to the “No on 24 – Stop the Jobs Tax” ballot initiative committee in California. Championed primarily by the California Teachers Association, the measure would have repealed corporate tax breaks approved in 2008 during the tenure of former Governor Arnold Schwarzenegger (R). Viacom was joined by other broadcasting and motion picture companies, including **Time Warner**, **Walt Disney**, **News Corp.** and **CBS**, which between them spent nearly \$6 million from March to October 2010. Despite an \$8.9 million campaign from the teachers,

Non-Spending Companies in 2010 with No Explicit Spending Bans

Akamai Technologies	Int'l Flavors & Fragrances
Altera	Jabil Circuit
American Tower	JDS Uniphase
Amphenol	Kimco Realty
Analog Devices	Kohl's
Bed Bath & Beyond	Marathon Petroleum
Bemis*	Mattel
Big Lots	MEMC Electronic Materials
BMC Software	Microchip Technology
Broadcom	Molex
Cabot Oil & Gas	Motorola Mobility Holdings
Cameron International	Pall
Citrix Systems	Patterson Cos.
Coach	Peoples United Financial
Dentsply International	Philip Morris Int'l**
Diamond Offshore Drilling	Polo Ralph Lauren
Dover	Priceline.com
Dr. Pepper Snapple Group	Public Storage
E*Trade Financial	Quanta Services
Electronic Arts	Ross Stores
EOG Resources	Rowan Cos.
F5 Networks	Sandisk
Fastenal	Total System Services
FMC Technologies	Urban Outfitters
GameStop	Ventas
Genuine Parts	W.W. Grainger
Harman Int'l Industries	Western Digital
HCP	Xilinx
Hudson City Bancorp	

*Policy says no spending allowed, but says exceptions can be made; no evidence of current spending.

**Spends outside the U.S. only.

⁹ Viacom's Global Business Practices Statement, at http://www.viacom.com/investorrelations/Investor_Relations_Docs/Global%20Business%20Practices%20Statement%20-%202009%20-%20Universal%20-%20FINAL.pdf

voters defeated the measure by a 16-point margin, apparently agreeing with the companies' contention that it would hurt business development and job creation in the state.

Variations in policy and practice: There was no significant variation among sectors or revenue tiers in the proportion of companies that have policies that forbid spending. But in actual practice, smaller revenue companies were more likely not to spend any money in U.S. politics in 2010, the year Si2 scrutinized. Just two companies in the largest revenue tier eschew all easily discernable domestic political spending. They are **Schlumberger** and **Philip Morris International** (which does spend outside the United States to support its foreign tobacco operations; it is an independent company not to be confused with Philip Morris USA, the **Altria** subsidiary that contributes large sums in many areas of domestic political life). In the second revenue quintile, just five companies refrain from any spending: **Baker Hughes**, **Genuine Parts**, **Jabil Circuit**, **Kohl's** and **Motorola Mobility** (which has no spending track record since it was spun off early this year but might spend in the future). In the bottom revenue quintile, 34 companies have no 2010 spending records.

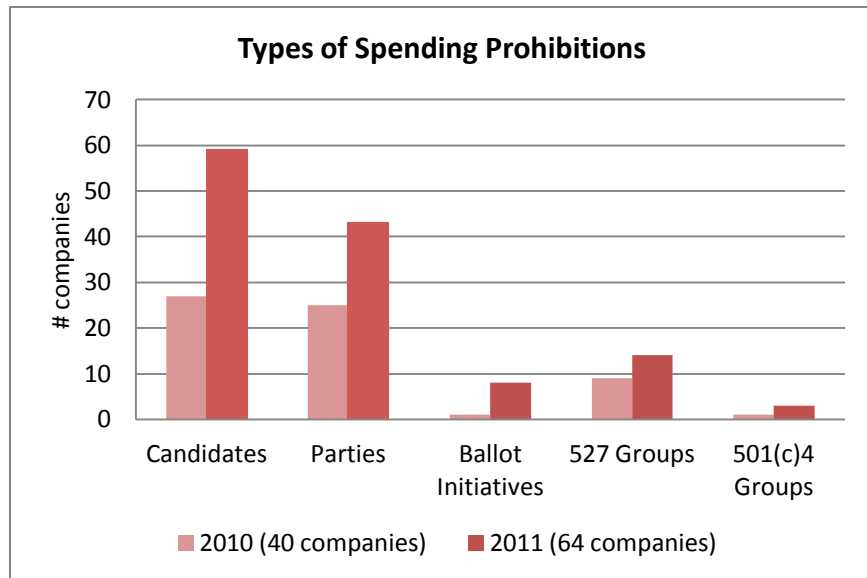
In addition, Information Technology companies were markedly less likely to spend than those in any other sector, with one-thirds of them not contributing in any category. On the other end of the scale, all 32 Utilities spent money somewhere, and only two out of the 50 Health Care companies (4 percent) and just three of the 41 Consumer Staples companies (7 percent) did not spend.

PACs: As noted above, 23 of the "no-spending" companies did have direct federal lobbying expenditures in 2010, and 15 of these also have political action committees—as do 70 percent of all S&P 500 companies. As we observed in 2010, corporate policy prohibitions generally relate to the use of corporate treasury money, and do not cover the spending company PACs make, disbursing the pooled contributions of company employees and other individuals in the restricted group that may support a PAC.¹⁰ Last year, just three of the 40 companies that expressly banned political contributions indicated their political spending was confined to a company PAC, while about half of the "no spending" policy companies had PACs, where spending is directed by committees made up of senior corporate officials. This means that some companies say they make no political donations on the one hand (usually indicating no support for candidates or parties), and on the other, they specify which officials at the company must approve political spending (encompassing PAC giving and non-candidate recipients of electoral spending such as ballot initiatives or political committees that companies may be excluding from their "political contributions" tally). In a handful of cases, companies also mention who has oversight for lobbying. (See p. 30 for more on PACs.)

Types of prohibitions: Twice as many companies now explicitly forbid contributions to candidates as did in 2010. While this translates to only 59 companies, it is the most common prohibition. The number of companies that say they will not give to political parties also jumped to 43, up from 25 last year. Other less common prohibitions are in place for ballot initiatives (eight bans now compared to just one last

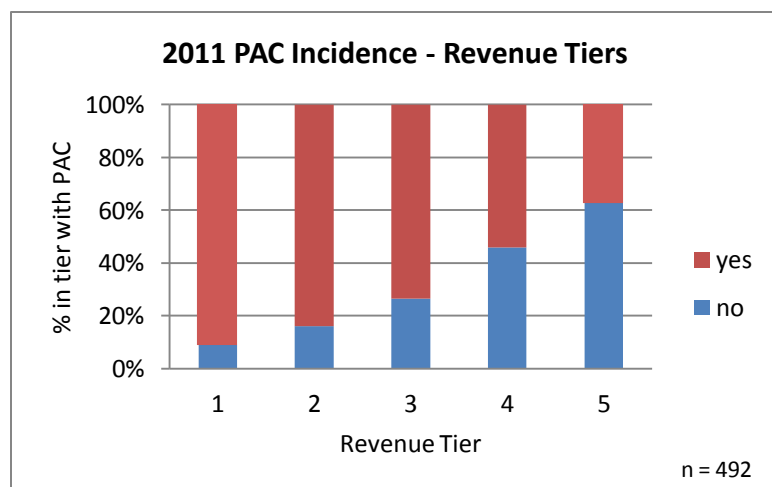
¹⁰ A company-sponsored political action committee, also known as a special segregated fund or SSF, must include the sponsoring company's name in its title and may only solicit funds from a restricted class of donors, who may include "the corporation's stockholders, executive and administrative personnel and the families of both groups," according to "SSFs and Nonconnected PACs," FEC Fact Sheet, May 2008 at <http://www.fec.gov/pages/brochures/ssfvnonconnected.shtml>.

year) and 527 political committees (14, up from nine). These figures suggest that at least some companies are becoming less willing to give directly to candidates and parties. But corporate policies about giving indirectly to the closely watched 501(c)4 social welfare organizations that have become so important remain a cipher: last year just **US Bancorp** said it would not give to these groups, and this year it is joined by only two more—**Unum** and **Wells Fargo**. Overall, the number of companies that place some kind of explicit prohibition on campaign spending has increased, though, from 40 firms in 2010 to 64 this year. (The accompanying chart shows the number of named prohibitions, with some companies having more than one type.)



Political Action Committees

The debate in corporate governance circles and the social investing community about corporate political activity often bypasses PAC spending, since this is not investor money but rather cash contributed by executives and others in the restricted class allowed to contribute to a PAC. This type of spending also is highly regulated under campaign finance laws and disclosure in regular reports to the Federal Election Commission is routine. But omitting PAC money from the discussion leaves a blank patch on the full portrait of corporate political spending and influence, since the risks and rewards resulting from the spending are associated with the corporation. As the discussion above on policies shows, companies talk about both methods of spending when they discuss political spending, even though the two are legally separate. The officials responsible for making decisions about corporate contributions are almost always the same ones that determine how PAC money is spent, as well, as Hewlett-Packard’s description makes plain. The full impact corporations and their executives have on campaigns and government therefore must take into account the relationships between treasury and PAC spending, corporate decision-makers



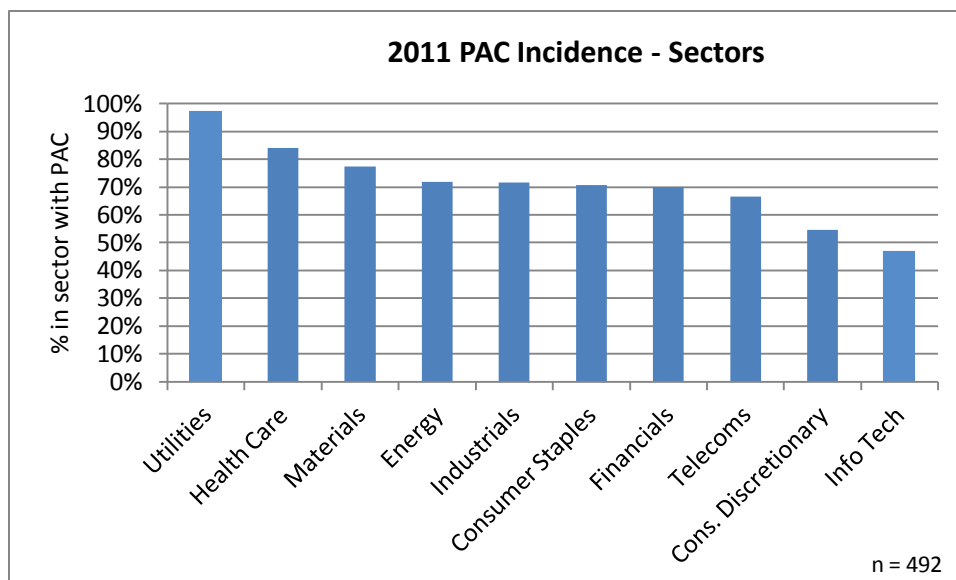
and government relations strategies, although we do not examine these issues.

Given the investor accountability angle pursued by investor activists, this report focuses primarily on the use of corporate funds. But it is worth noting that about two-thirds of S&P 500 companies have PACs: (320 out

of the 468 companies in the index in both years in 2011 and 321 in 2010). Bigger companies are much more likely to have PACs, with more than 90 percent of S&P 100 firms having one compared to fewer than 40 percent in the bottom revenue quintile. Disaggregation by sector shows that Utilities are far and away the most likely to have a PAC; only **Wisconsin Energy** does not.¹¹ In sharp contrast, less than half of the Information Technology firms have a PAC. These proportions have not changed significantly since 2010.

Corporate Treasury

Investor activists want companies to disclose how they spend corporate treasury money on politics not only because this is their money, but also because of their generally-held belief that political spending can pose risks to shareholder value.¹² Now that companies can spend unlimited sums from their treasuries on ads that promote or oppose specific candidates, right up to Election Day because of the changes prompted by the *Citizens United* ruling, these investors believe the case for full disclosure of all types of corporate spending is made even more urgent. The amounts of money in play are potentially far larger and disclosure is much less certain than in the past. At the same time, if companies give money without reporting on it to groups that take particularly strident positions in campaigns, it is not certain such spending will remain forever secret, especially given the intense public interest in learning who is spending the increasing amounts of money in campaigns. This raises the prospect that executives ultimately may have to explain any contributions somewhere down the road, and why they did not want to make such giving public. As with many scandals, the most damage can come from a cover-up, not the original action. Indeed, corporate ethics policies routinely exhort employees not to privately involve the com-



¹¹The PAC-intensive nature of the Utilities sector may be explained by the federal ban until recently on any corporate contributions by public utilities, leaving PACs as their only way to influence legislation. The Public Utility Holding Company Act of 1935 (PUHCA), which included the ban, was repealed in February 2006. This started electricity deregulation and a scramble that continues—with considerable political jockeying and commensurate spending—on how these services are delivered and priced around the country.

¹² Bruce F. Freed and John C. Richardson, *The Green Canary: Alerting Shareholders and Protecting Their Investments*, Center for Political Accountability, 2005. Available at <http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/i/920>.

pany with anything that they would not feel comfortable being publicized on the front page of *The New York Times*.

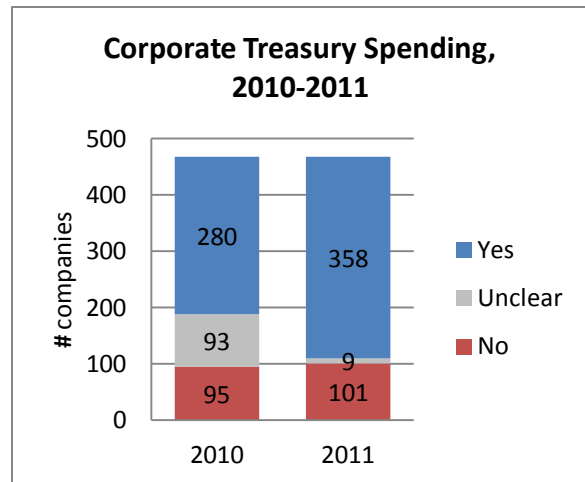
Political spending is not done without reason, though. The opportunities presented to companies that help elect candidates sympathetic to their viewpoints clearly make many boards and executives conclude that the risks dissident shareholders raise are less significant than activists suggest. How much might a change in tax policy benefit a company and its investors, for instance? As the example about California Proposition 24 shows (p. 28), companies spent several million dollars but kept in place tax breaks that ultimately may be worth far more to their bottom lines. If a legislator comes to office with support from a friendly company, and then feels obliged to hear the company's lobbyists express concerns about legislation after the election, certainly campaign spending can be a good investment. Whether this is good for democracy is a separate, though critical, question.

Sources of data: For this report, we compiled publicly available data on corporate giving to 527 political committees and campaign contributions records for state candidates, parties and ballot initiatives collected by the National Institute on Money in State Politics, as noted. While voluntary company disclosure has improved in the last several years, company reports nonetheless remain highly inconsistent and can include or omit large swaths of spending, making them an imperfect source of benchmarking data for the S&P 500 index as a whole. Si2 reached this conclusion after carefully comparing the reports from the 100 companies that make some form of disclosure to their investors with information in the public databases.

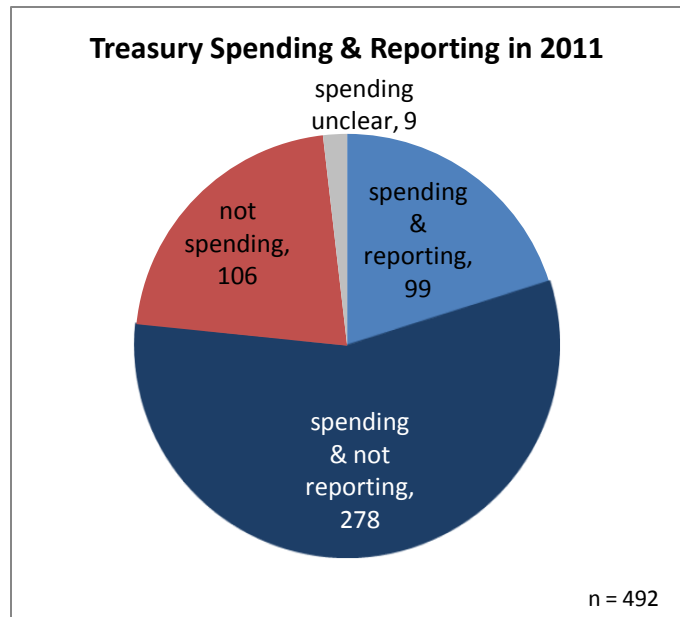
A key area where the voluntary reports are helpful, however, is in differentiating between PAC and corporate money. Giving at the state level can come from both treasuries and PACs, depending on the state (see p. 66 for more on state laws), and disclosures from campaigns do not always make clear which is the source of company-connected money. Si2 excluded from its corporate money tallies contributions to candidates and parties in states where only PAC giving is allowed, and then reviewed all the remaining state spending records to exclude any clearly identifiable PAC money. This winnowing process left a likely pool of corporate money spent in state politics. We sent the spending profiles we compiled to all companies in the index, soliciting their feedback and corrections. Companies that responded largely confirmed the accuracy of the data derived from public databases, with small corrections, so we are confident the analysis provides a reasonably accurate assessment.

As the discussion on spending footprints below points out, however, a close examination of gaps between the most comprehensive voluntary company reports and the public databases shows that the latter understate total corporate spending, sometimes significantly. This is because reporting about the donors to state level political committees is uneven. The National Institute on Money in State Politics does not collect state or local level political committee data, and these expenditures also are not captured by the Center for Responsive Politics 527 database. State political committees do have to report their contributions and expenditures in most states, so the potential exists for filling this gap in the national account book that has been imperfectly filled in by voluntary corporate reporters.

Comparisons with 2010: Last year our approach to assessing treasury spending was a little different, and relied primarily on an analysis of corporate policies. One-fifth of the companies in 2010 said they did not make political contributions at all, although these sorts of statements are an unreliable measure of whether money is actually spent in campaigns, as we have shown above. Another fifth in 2010 did not indicate one way or the other if they spent from the treasury, while eight firms said corporate money did not go to candidates or parties but might be spent in some other fashion in campaigns. We concluded in 2010 that 60 percent (280 companies) appeared to acknowledge corporate money was spent in political campaigns, about 20 percent did not, and that corporate spending could not be determined for the remaining 20 percent.



Because our assessment of the extent of treasury spending this year is grounded in actual spending records, it clears up much of what was unknown in 2010. Looking at the 468 companies in the index for both years, we found little change in the proportion of companies that do not appear to spend treasury money on campaigns (setting aside the issue of lobbying, which also is funded from the treasury). This figure remained at just over 20 percent. These non-spending figures are comparable, since we confirmed in 2010



whether companies spent anything. The more intensive examination of the state spending records did uncover more treasury spending this year, but the difference in method means the findings about affirmative treasury spending from the two years are not strictly comparable, and cannot by themselves suggest that corporate treasury spending has become more prevalent. But the exercise underscores that an accurate picture of company spending practices must be based not on what companies say they are doing, but on records of what they actually do.

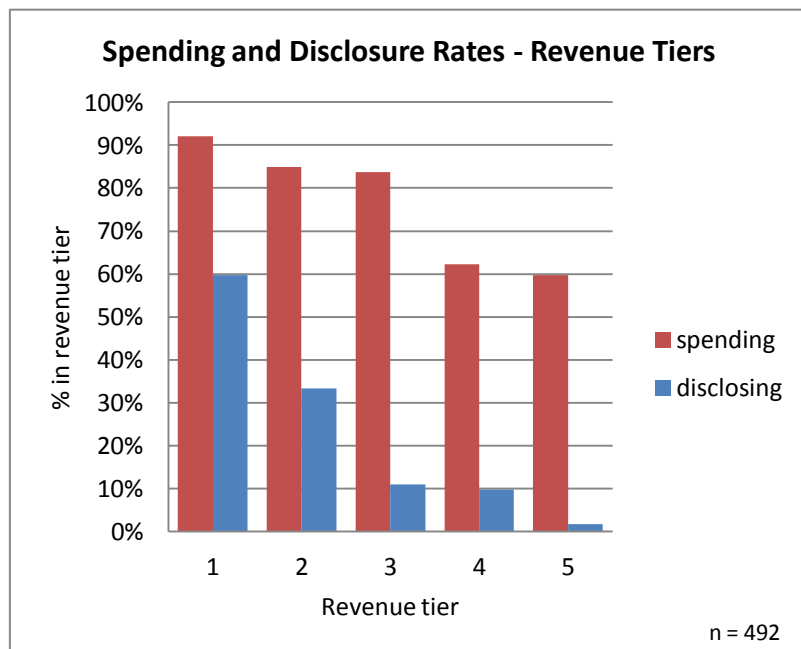
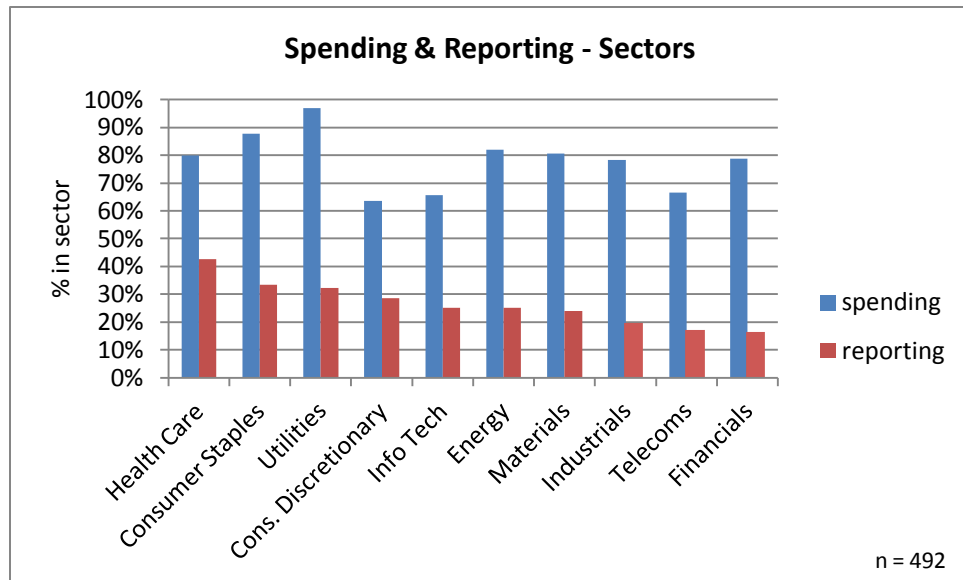
Voluntary disclosure of spending: In addition to examining in 2010 and 2011 whether companies spent from their treasuries, this year we also tallied precisely how many of the companies report to their investors on this spending. While there has been growth in the transparency of corporate political activity in the last several years, this comparison shows there is still tremendous scope for improvement. Two-

thirds of the companies that spend shareowner money fail to tell their investors where and how it is spent.

Two sectors stand out for particularly low rates of spending disclosure. Less than 20 percent of the Financials and Telecommunications companies that

spend corporate dollars on politics issue reports. As with other indicators examined in this report, the Health Care sector comes out on top, with the highest rate of reporting, but even there, less than half (only 43 percent) of the companies that spend issue provide details.

Slicing the data by revenue tiers produces even more striking patterns for many of the indicators we have explored. More than half of the biggest companies (60 percent) report on their spending. This clearly reflects the success of the investor campaign for disclosure, which has been focused almost entirely on these largest of firms. To date, though, the rest of the index shows little sign of following suit. The drop-off in reporting for smaller sized companies is substantial, with about 10 percent or fewer of spending companies reporting in the bottom three revenue quintiles. Just one out of the 58 corporate spenders in the smallest tier reports on its contributions to investors—**Southwestern Energy**.¹³ That company stands out in its revenue tier both for having disclosure and also for comprehensive reporting over two years. The smaller firms spend far less in aggregate than their larger peers, though, as discussed on p. 48—so the stakes are lower and for some the accountability imperative may be less compelling.



¹³ See <http://www.swn.com/corporategovernance/Pages/politicalactions.aspx>.

Two methods of disclosure: One of the best disclosure reports comes from **Pfizer**, which posts on its website an 85-page report¹⁴ detailing its spending in the 2010 election cycle (including contributions in both 2009 and 2010). The report includes the company's policy on giving, lists the names and titles of executives who make decisions about corporate and PAC spending, and explains why and how the money was spent. Not only does the report detail the names, party affiliations and offices to which the candidates aspire, it also indicates if each won the election and whether the candidate represents a constituency where Pfizer has a facility. Further, the report includes information on all the company's giving to leadership PACs, trade associations and party committees, at the federal, state and local level—although its threshold for political spending payment reporting by trade associations is \$100,000, the highest threshold any disclosing company sets. Finally, the report gives a bottom line for Pfizer's spending, noting the totals it contributed. During this period, Pfizer and its then newly acquired subsidiary Wyeth together spent \$2.8 million on candidates (\$812,000 of which was Pfizer corporate money) and \$4.2 million on leadership PACs, trade groups and parties (\$3.3 million of which was from Pfizer's treasury). Pfizer also makes available on its website archived reports about its past giving, making it possible to assess whether the company is becoming more or less generous to political actors.

The quality and comprehensiveness of other company reports varies, but another that stands out for a different reason is the report **Altria** makes on its political giving. The company posts on its website what appears to be a comprehensive accounting.¹⁵ Like Pfizer, Altria makes clear its positions on public policies and regulations affecting its tobacco and alcohol products, the procedures officers use to make decisions, and the board oversight that is in place to monitor this process. When it comes to disclosure of what is spent, however, the company's manner of reporting makes it impossible to get to the bottom line without a great deal of effort. Altria presents an interactive map on its website showing that it contributes in state contests in all but seven states and the District of Columbia, and for federal races (through AltriaPAC) in all but six states and the District. To learn how much it gives, though, one must click on each individual state, pull up a list of candidates that shows the names, offices, and amounts given (though no party affiliation), and scroll through it. To aggregate the information one would have to retype the entire list for each state since the information cannot be copied. Only the most recent election cycle (2009 and 2010) data are available. An Altria official told Si2 that it could not provide the information in a more accessible format because of technical hurdles concerning the way it tracks its spending. Data from the Center for Responsive Politics and the National Institute on Money in State Politics indicate that in 2010 the company gave from its treasury \$2.1 million to nationally registered 527 political committees and what Si2 estimates to be \$4.1 million to candidates, parties and ballot initiatives in the states.

¹⁴ See http://www.pfizer.com/about/corporate_governance/political_action_committee_report.jsp.

¹⁵ See http://www.altria.com/en/cms/About_Altria/Government_Affairs/Political_Contributions/default.aspx.

Independent Expenditures

When Si2 looked at corporate political spending policies in 2010, companies mostly had yet to formally react to the *Citizens United* decision and its potential impact on their political spending practices. In the intervening year, a growing number of companies have put in place policies that make varying commitments to ban spending or be transparent about it, as we have seen.

However, corporate giving to trade associations or other non-profit organizations that are politically active may have the effect (whether deliberate or inadvertent) of circumventing those policies, particularly since those entities are not required to disclose their donors. (See pp. 39-46 for more about company policies on this subject.)

Last year we found only seven companies in the whole index that referenced on their websites independent expenditure giving, which became legal at the federal level after *Citizens United*. Early adopters that pledged not to use corporate money for electioneering were **Citigroup**, **Ford Motor**, **Kroger** and **Microsoft**, with Microsoft noting its prohibition extended to its trade association fees; the Microsoft commitment remains one of the only ones of its type. Three others last year were less adamant: **ConocoPhillips** said it might make independent expenditures “if a compelling business purpose exists,” **Gi-lead Sciences** said it did not plan on “significant amounts of such expenditures in the near future,” and **Goldman Sachs** said only that it did not spend company money “directly on electioneering communications.”

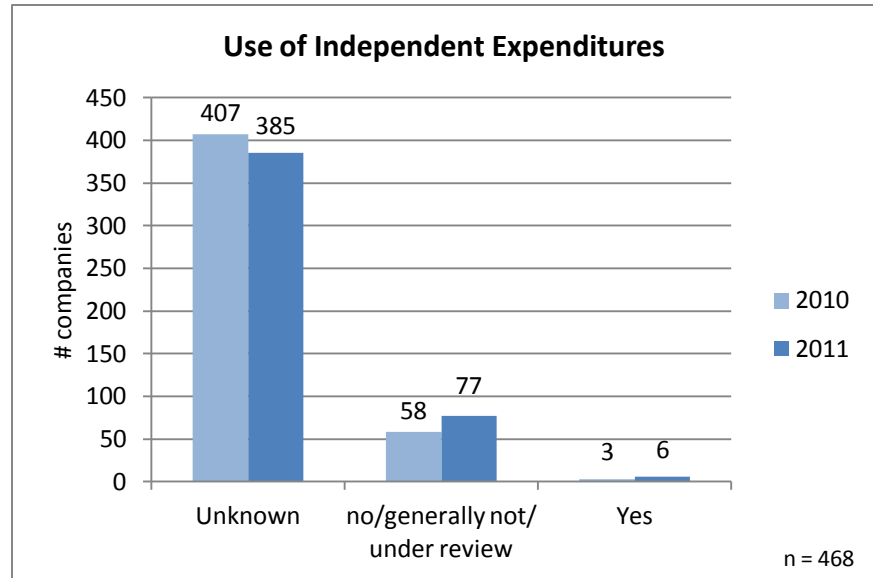
To look beyond website disclosures last year, Si2 also asked all companies in the S&P 500 about their policies. Three companies—**Discover Financial Services**, **Harley-Davidson** and **Texas Instruments**—said they had never acted in elections this way and did not intend to do so in the future. On the other hand, **Southern** said it did allow this type of spending “in certain circumstances.” Southern today remains one of only five firms—which also include **3M**, **Best Buy**, **Edison International** and **Target**—in the whole index that explicitly acknowledge in their policies that they have used independent expenditures. Voluntary reports from a few big health care companies, including **Abbott Laboratories** and **Pfizer**, also note their support for state level independent expenditure committees set up by the Pharmaceutical Research & Manufacturers’ of America (PhRMA), while **PG&E** also voluntarily reports giving to California independent expenditure committees—all of which would constitute *indirect* use of independent expenditures.

The Center for Political Accountability wrote to the CEOs of the S&P 500 in July 2010, trying to pinpoint the use of both direct and indirect independent expenditures. Fifty-five companies responded to CPA, and 31 said they did not plan to engage in independent expenditures themselves, although they took a hands-off approach to indirect support for trade association independent expenditures. Only seven said they intended to put any conditions on their trade group payments.¹⁶ (Indirect spending is explored more below.)

¹⁶A detailed report on the CPA’s July 2010 findings is available in the organization’s September 2010 newsletter at <http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/i/3918>.

Change in the last year:

Since 2010 there has been a significant increase in the number of companies that make public mention of their positions on the use of independent expenditures, as well as an increase in the number that have committed not to spend this way. Still, the positions and practices of 78 percent of S&P 500 companies remain unknown regarding independent expenditures.



We incorporate for a 2010 baseline information gleaned both from the CPA's findings on independent expenditures and from Si2's research. Looking at the 468 companies in the index during both years shows that 19 more companies now either say they do not use independent expenditures, generally do not do so, or (in one case) is reviewing their use. The total tally of companies with bans, near bans or scrutiny of bans on electioneering now stands at 80 for all of the 492 U.S. companies in the index (16 percent of the total), up from 58 last year. Four companies—**Best Buy, Deere & Co., ExxonMobil** and **McDonald's**—told the CPA in 2010 that their policies on the subject were under review. Best Buy now acknowledges it uses them, ExxonMobil and McDonald's say they will not, and Deere remains mum about its position. (Bucking the trend for increasing disclosure, Deere also has removed some information about its political spending practices from its website since last year.)

The five companies that acknowledge they currently use independent expenditures have fairly complete statements about this spending and why they use it (see table). But none of them indicates how much it spends on electioneering to support or oppose specific candidates, nor commits to such precise disclosure anytime in the future. Disclosure from three companies exists about the independent expenditure committee MN Forward. None of the companies mention it, but the group supported the failed 2010 Minnesota gubernatorial candidate, Tom Emmer (R), whose views on gay rights so incensed the largest lesbian, gay, bisexual and transgender rights group, The Human Rights Campaign, and its allies—particularly those who were customers of Target and supporters of its generally gay-friendly policies. This sparked a high-profile, nationwide boycott of the company and required substantial damage control by company executives. The group's other corporate donors, including **3M** and **Best Buy**, largely escaped unscathed. But the Target firestorm has become a cautionary tale for many companies and seems to be a key incentive for corporate policy movement towards either avoiding independent expenditures or putting in place more stringent oversight.

Aside from the companies noted here that currently allow independent expenditure spending are several that say they have not spent this way so far (**Aetna, Exelon, Gilead Sciences, Kimberly-Clark, Merck** and **Weyerhaeuser**) but do not have firm bans. Of these, Merck and Weyerhaeuser make clear commitments to disclose such spending if it does occur. Merck's statement about indirect independent expenditures is the most nuanced:

With regard to trade association independent expenditures, Merck will actively monitor independent political expenditures made by associations or other tax-exempt groups where the issue relates to pharmaceutical policy. We do not plan to condition our membership specifically on an association's decision relative to its policy on reporting independent expenditures, but we do encourage disclosure of political activity on the part of all organizations to which we belong.

Policy and Disclosure at Companies Using Independent Expenditures		
Company	Policy	Spending Disclosure
3M	"The U.S. Supreme Court ruled in 2010 that companies and labor unions may make expenditures that are not coordinated with candidates or political parties to express First Amendment protected views relating to federal or state elections. In September 2010, 3M contributed \$100,000 to MN Forward, a Minnesota-based independent expenditure political committee that expressed its views regarding private sector job creation and economic growth in the 2010 Minnesota state elections. That contribution was properly reported by 3M and the recipient."	No disclosure of any political spending amounts, aside from acknowledgement in policy of 2010 contribution to MN Forward.
Best Buy	"Direct corporate contributions to candidates and committees are prohibited at the federal level and in some states. However, corporations may make independent expenditures on behalf of candidates and committees. Thus, Best Buy may provide corporate funding to candidates and/or issue campaigns that align with the company's business objectives and public policy goals."	Disclosure of amounts contributed in 2010 to political committees with independent expenditures, including MN Forward.
Edison International	"In addition to Edison International PAC's federal campaign contributions and other permitted company contributions made to state candidates, the EIX companies may make expenditures to support or oppose candidates, so long as the expenditures are not made in cooperation or consultation with, or at the request of, any candidate."	None.
Southern	"Additionally, Southern Company, but not its subsidiaries, is permitted under this policy to use corporate funds to make independent expenditures, and to contribute to organizations making independent expenditures, at the federal, state or local level as permitted by law."	None.
Target	"The Policy Committee reviews and approves any use of general corporate funds for electioneering activities or for ballot initiatives. This approval process applies whether the contribution is made directly to a candidate or party, or indirectly through an organization operating under Section 527 or 501(c)(4) of the U.S. Internal Revenue Code."	Disclosure of amounts contributed in 2010 to political committees with independent expenditures, including MN Forward.
<i>(See Appendix II, p.81, for a complete listing of policy statements about independent expenditures.)</i>		

Two more companies have a wait-and-see attitude. **ConocoPhillips** generally does not plan to spend on electioneering but says exceptions could be made (unchanged from last year), while **United Technologies** seems to be waiting for a clear signal from the Federal Election Commission. It says, “The Federal Election Commission, which regulates such activity, is considering regulatory changes following this Supreme Court decision, and the U.S. Congress is considering changes in law. UTC may review its position depending on the outcome of these initiatives.” Further, both **General Mills** and **Home Depot** require board approval but do not make it clear if this has ever been granted. Finally, **Altria** and

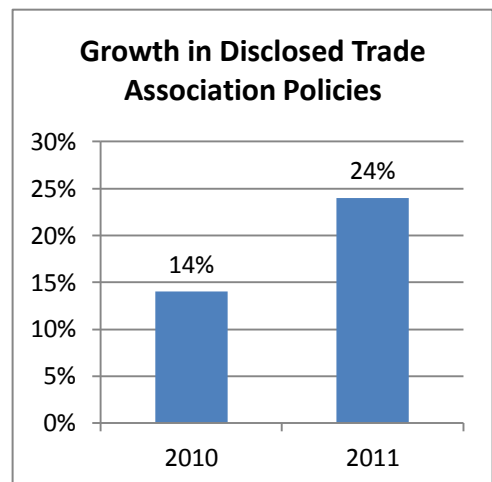
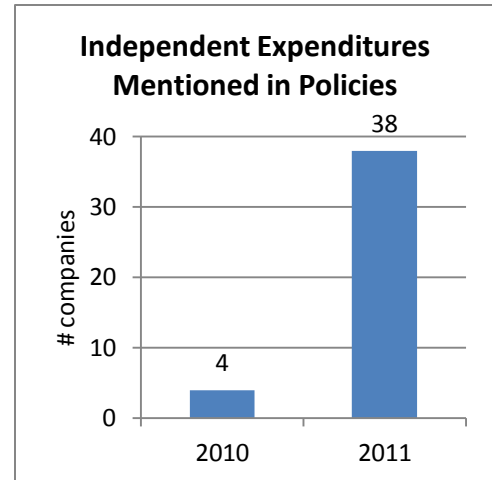
Oracle say any independent expenditures are included in their current reports, but in those reports they do not break out which sums these might be. Both **Abbott Laboratories** and **Pfizer** note in their most recent reports that they gave during the 2009-2010 election cycle to the Pharmaceutical & Research Manufacturers of America’s independent expenditure committee in California.

All in all, there has been a clear increase in the last year in the number of companies that explicitly discuss on their websites their views on independent expenditures. While Si2 found only four that mentioned the subject as of September 2010, 38 now do so. (Appendix II lists these policy statements and other disclosures companies have made about their practices.)

Aside from public mentions of independent expenditures, one confidential response to Si2’s inquiry this year came from a leading retailer, which said it tried to avoid any political involvement at all—through independent expenditures or otherwise. The company wrote, “We decided a long a long time ago that we should not involve ourselves in politics except only in very rare instances. Our customers have opinions on both sides and we are bound to disappoint those who might have a different opinion, so we choose not to donate to individual campaigns.”

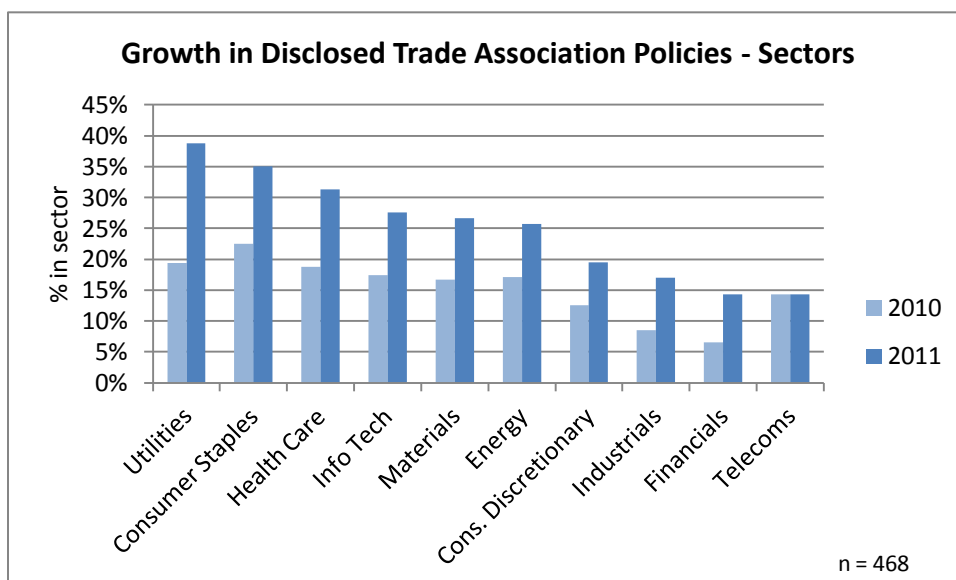
Indirect Spending

Investor activists proposing shareholder resolutions on political spending disclosure emphasize their view that companies should disclose not only their direct contributions to candidates, parties, committees and ballot initiatives, but also indirect spending, as we have noted. Companies are not keen on the idea of opening the books on their support for trade associations and other politically active non-profit groups, though. Their reluctance is apparent in wariness about taking action on independent expenditures by trade associations, as we have seen. But in the last year disclosed policies about giving to trade associations nonetheless have blossomed. This has been a central request from investor activ-



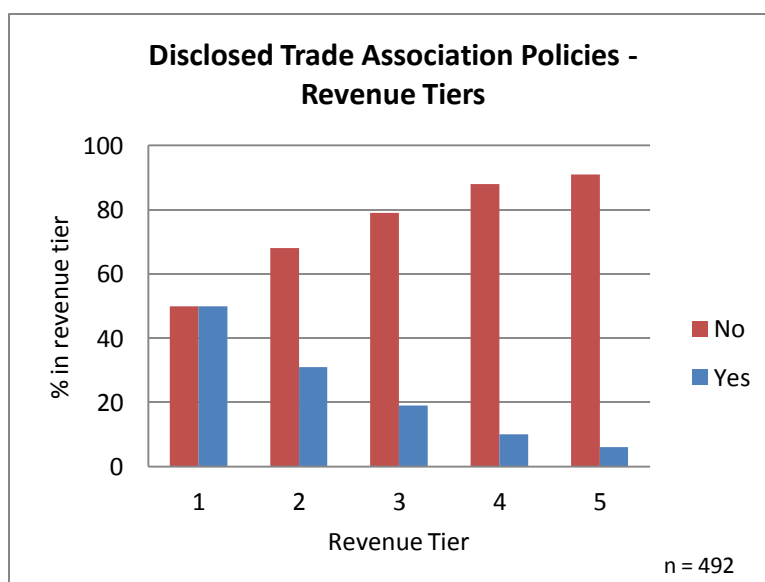
ists. Examining the 468 companies in the index in both years shows that 46 more companies have policies now, compared to a year ago—albeit from a low baseline. Comparing the companies in the index in both years, the proportion has jumped from 14 percent to 24 percent.

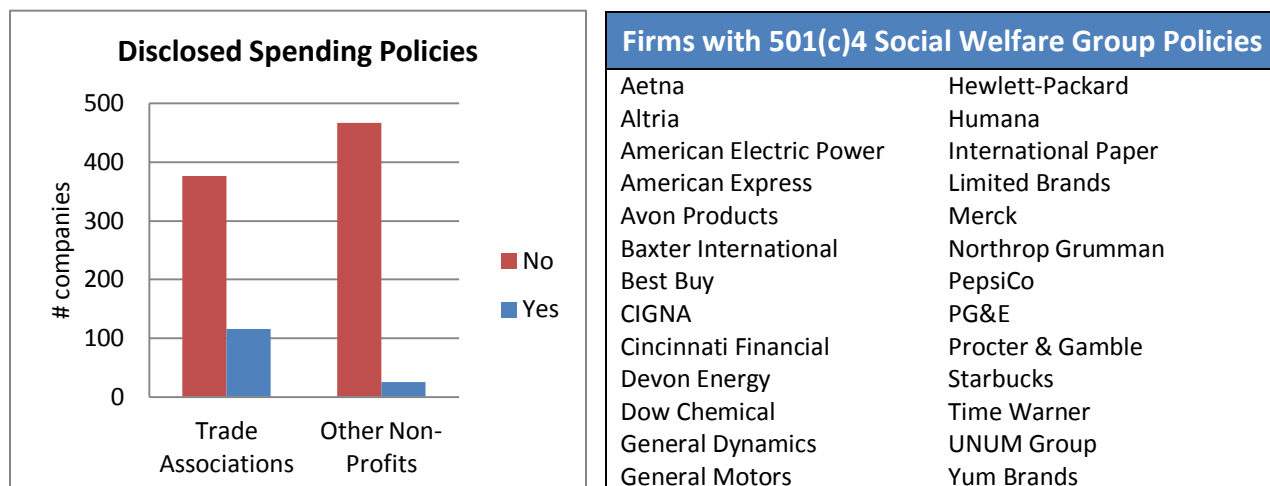
Change has moved unevenly through the different sectors, however. Nearly 40 percent of Utilities now have publicly articulated policies, double the rate in 2010. This sector has pushed aside Consumer Staples companies who previously were the most likely to disclose trade associa-



tion policies. Financials and Telecommunications companies remain the least likely to have a stated trade association spending policy, although Financials have improved from the abysmally low rate of just above 5 percent last year to nearly 15 percent this year. Trade groups now show up for **UNUM Group, Plum Creek Timber, Comerica, U.S. Bancorp, NYSE Euronext, Wells Fargo** and **Goldman Sachs**, where they did not in 2010. On the other hand, some of the country’s largest financial institutions still refrain from discussing their memberships and giving to industry associations, with no mentions from seven of the biggest: **Allstate, American International Group, Bank of America, Citigroup, JPMorgan Chase, Morgan Stanley** and **Travelers**. (American International Group told Si2 that it presently has in place a moratorium on any political contributions and federal lobbying, however.)

Among the 100 largest companies, half now have disclosed what their policies are with respect to political contributions and trade associations, although less than 20 percent have done so in the bottom three revenue quintiles. Stand-outs among the smaller companies include the natural gas pipeline owner **El Paso**, which reports on its trade association memberships and the political

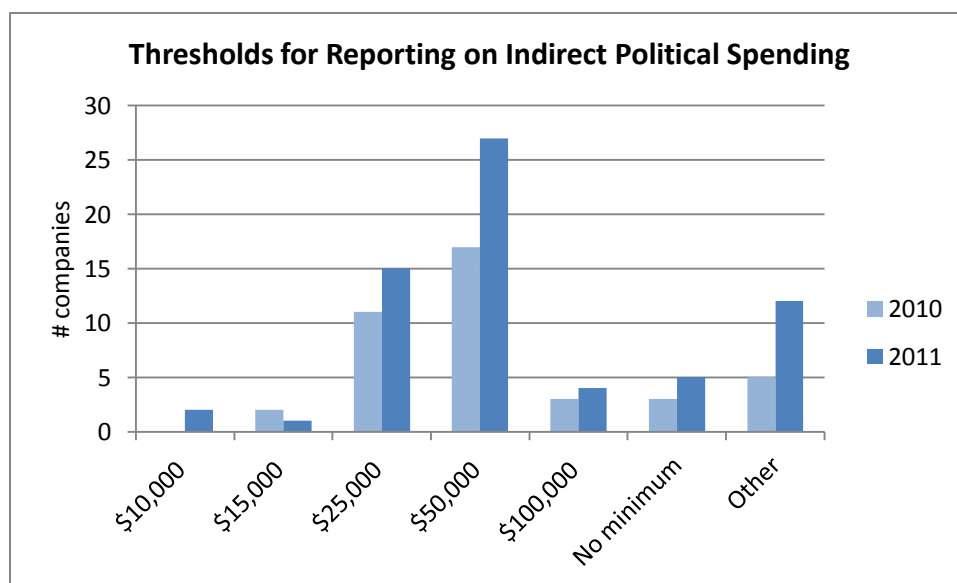




spending portion of its dues for groups that receive from it more than \$50,000. **NYSE Euronext**, the stock exchange company, sets a \$25,000 threshold to report memberships and a separate minimum to report any portions of dues used for political purposes that exceed \$25,000. The most complete reporter for the smaller tier companies is **Wisconsin Energy**, which provides gas and electric services in Wisconsin and Michigan; it is alone in the mix of these firms to report on all its memberships and dues used for political purposes, setting no minimum.¹⁷ While the number of companies now disclosing their policies about political spending and trade associations has grown, very few—a scant 26 companies in the whole index (see box)—acknowledge any relationship with 501(c)4 social welfare groups.

Reporting thresholds: We found in 2010 and 2011 that companies which make disclosures about their indirect spending set widely varying minimums about when they will disclose either their memberships or the political

spending supported by their payments to trade associations and other non-profit groups that are politically active. Just 41 companies last year specified some sort of threshold payment amount that would trigger reporting; that number now has grown to 66 companies.



¹⁷ See http://www.wisconsinenergy.com/csr/SO6_Lobbying.pdf.

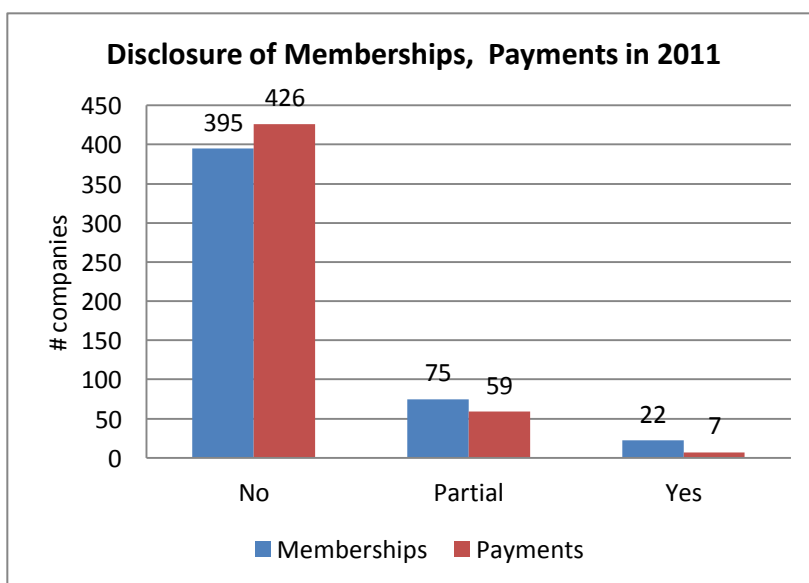
The sum of \$50,000 in dues is by far the most common (27 companies), followed by \$25,000 (15 firms). Three companies set very low thresholds (\$10,000 for **Campbell Soup** and **Colgate-Palmolive**, \$15,000 for **Hewlett-Packard**), while five set the thresholds so high as to make the disclosure ring somewhat hollow (**Abbott Laboratories**, **Avon Products**, **Bristol-Myers Squibb**, **Intel** and **Pfizer**).

Colgate takes an unusually strong stance against trade association political spending, attributing its stance to Boston Common Asset Management, which has been active in the shareholder campaign for disclosure:

To help ensure that the trade associations do not use any portion of the dues paid by Colgate for political contributions, Colgate's Chief Ethics and Compliance Officer annually informs the US trade associations of our policy prohibiting such contributions. In addition, the Company's Chief Ethics & Compliance Officer requests each US trade association to which the Company pays in excess of \$15,000 annually to provide a written confirmation (i) that the Company's dues or other payments were not used for contributions to political parties or candidates and (ii) a breakdown of any portion of the Company's dues which are not deductible pursuant to the Internal Revenue Code, to additionally verify that no amounts are being used for political contributions....Colgate thanks Boston Common Management, whose concerns about the potential use of trade association dues for political parties or candidates prompted the Company to adopt this annual procedure.¹⁸

ConocoPhillips disapproves of industry PACs, saying "Large contributions to trade association PACs" are to be "generally avoided." It elaborates:

Many industry and special interest groups have created their own political action committees to elect candidates to office. State and national petroleum marketing associations, for example, have created PACs and are soliciting members and suppliers. Corporate contributions to these external PACs are strictly prohibited under ConocoPhillips policy if the contributions are intended to be used to fund candidates or their election campaigns. This includes the expensing of any costs for events such as golf and fishing tournaments, hunts, dinners, silent auctions and other types of activities used by these PACs to raise funds. Corporate contributions to fund administrative costs of certain external PACs may be permitted if allowed under applicable law, if doing so advances company goals, and if approved by Government Affairs and Legal.¹⁹



¹⁸ See <http://www.colgate.com/app/Colgate/US/Corp/Governance/GlobalEthicsandCompliance/PoliticalContributionsPolicy.cvsp>.

¹⁹ See http://www.conocophillips.com/EN/susdev/policies/political_policies_giving/Pages/index.aspx.

Just four companies appear to commit to disclosing all their trade association and other tax-exempt group spending; these standouts are **Dell** and **eBay**, joined this year by **Wisconsin Energy** and **Williams Cos.**

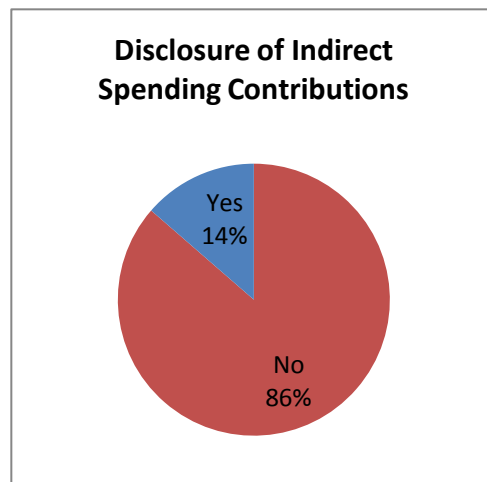
Membership disclosure: Companies are more likely to disclose their memberships in trade associations than they are to report on the amounts of dues money that these organizations use in either political campaigns or for lobbying.

Spending disclosure: While nearly one-quarter of all companies now have disclosed their policies about trade associations (and to a lesser extent other non-profits) and politics, it is certainly not the case that all those who make policy statements actually report on how much they have given to these groups. In fact, just 14 percent of companies have made such disclosures, a number that falls woefully short of the aspirations of investor activists. Reflecting the policy incidence pattern, Utilities and Health Care companies are the most likely to report on their indirect spending (25 percent and 22 percent do so, respectively). But less than 20 percent in all the other sectors report on indirect spending, and three sectors are especially non-transparent: only 10 percent of Financials firms (eight out of 72), 8 percent of Energy companies (three out of 36) and none among the nine Telecoms. One-third of those in the top revenue tier do report on indirect spending, as do just under one-quarter in the second quintile. After that, indirect spending disclosure is virtually non-existent, with only 11 companies in the third and fourth tiers combined and none in the bottom tier. The proportion of companies that discloses indirect political spending has grown, though, and is up from only 9 percent last year.

Company reports—Estimates of precisely how much all the S&P 500 companies give to trade associations and other politically active non-profit groups are problematic given the lack of required disclosure. Parsing how much of the contributions may be spent on lobbying and how much on political campaigns presents a further hurdle to transparency. The limited available information clearly documents that the overall sums are not insignificant, however. The 39 companies that make voluntary reports about this spending in 2010 report that \$41.2 million went to political expenses incurred by trade associations and other politically active non-profit groups. Details on these amounts and the conditions companies put on their disclosures appear in the table below.

Aside from the companies listed here, a few more companies make available reports on spending that is either more or less recent. **Aetna**, **Computer Sciences**, **Du Pont**, **Entergy**, **First Energy** and **United Technologies** together report on 2009 spending that totaled another \$2.4 million, while **Limited Brands** and **Texas Instruments** just report on 2011 spending, which combined so far has been about \$570,000.

United Health says it will include in its semi-annual report any political expenses from groups that receive from it more than \$50,000 in dues, but included no such expenditures in its current report; it does not make previous reports about its giving available on its website. Finally, four companies just report



the percentage of their dues that is used for political activities—these companies include **Capital One Financial, International Paper, General Dynamics, Weyerhaeuser** and **Whirlpool**.

Voluntary Disclosed Corporate Giving to Trade Associations and Other Non-Profits in 2010						
Company	Policy		Disclosures		Political/ Lobbying Expenses Reported	Notes
	Trade Groups	Other Non- Profits	Member- ships	Payments		
Alcoa	Yes	No	Partial	Partial	\$317,525	\$25,000 reporting threshold, if >10% for lobbying
Amer. Elec.Pwr	Yes	Yes	Partial	Partial	\$4,540,442	"reasonable de minimus limits" on reporting
Avon Products	Yes	Yes	Partial	Partial	\$72,245	\$100,000 dues threshold before reporting
Baxter Int'l	Yes	Yes	Partial	Partial	\$291,362	\$50,000 dues threshold before reporting
Best Buy	Yes	Yes	Yes	Partial	\$1,386,000	Notes % of non-deductible dues but not amount
Bristol-Myers Squibb	Yes	No	Partial	Partial	\$1,645,314	\$100,000 dues threshold before reporting.
Campbell Soup	Yes	No	Partial	Partial	\$123,857	Allows extra giving to groups for political use
Chevron	No	No	No	Partial	\$500,000	
CIGNA	Yes	Yes	No	Partial	\$657,359	
Cummins	Yes	No	Partial	Partial	\$84,577	
Dell	Yes	No	Yes	Yes	\$265,703	Reports all memberships, political expenses and "normally" forbids more political payments
Dominion Res.	Yes	No	Partial	Partial	\$1,176,378	\$50,000 dues threshold before reporting
Dow Chemical	Yes	Yes	Partial	Partial	\$2,834,622	Includes trade association lobbying in public reports
eBay	Yes	No	Yes	Yes	\$165,400	Reports all memberships, political expenses
Edison Int'l	Yes	No	Partial	Partial	\$477,498	\$50,000 dues threshold before reporting
El Paso	Yes	No	Partial	Partial	\$133,846	
EMC	Yes	No	Partial	Partial	\$328,307	Trade association percentages given.
Exelon	Yes	No	Partial	Partial	\$1,037,727	\$50,000 dues threshold before reporting
General Motors	Yes	Yes	Partial	Partial	\$10,954	\$50,000 dues threshold before reporting
Gilead Sciences	Yes	No	Partial	Partial	\$160,461	\$25,000 dues threshold before reporting
Hartford Finan. Services	Yes	No	Partial	Partial	\$308,915	\$25,000 dues threshold before reporting, forbids use in campaigns
Hewlett-Packard	Yes	Yes	Partial	Partial	\$293,682	
Humana	Yes	Yes	Partial	Partial	\$590,829	
Intel	Yes	No	Yes	Yes	\$559,051	
Merck	Yes	Yes	Partial	Partial	\$8,639,384	
Metlife		No	Partial	Partial	\$1,988,284	\$50,000 dues threshold before reporting
Microsoft	Yes	No	Yes	Partial	\$1,236,344	\$25,000 dues threshold before reporting
NYSE Euronext	Yes	No	Partial	Partial	\$24,000	\$25,000 dues threshold before reporting
P&G	Yes	Yes	Partial	Partial	\$1,540,689	Forbids use of funds for independent expenditures
Prudential Fin.	Yes	No	Partial	Partial	\$2,256,886	
Pulte Group	Yes	No	Yes	Yes	\$95,217	
Target	Yes	No	Yes	Partial	\$819,000	
Time Warner	Yes	Yes	Partial	Partial	\$9,447	
U.S. Bancorp	Yes	No	Partial	Partial	\$699,886	
UPS	Yes	No	Partial	Partial	\$2,958	\$50,000 dues threshold before reporting
Wellpoint	Yes	No	Partial	Partial	\$3,020,347	\$50,000 dues threshold before reporting
Williams Cos.	Yes	No	Yes	Yes	\$2,036,361	Reports all memberships, political expenses
Wisc. Energy	Yes	No	Yes	Yes	\$170,896	Reports all memberships, political expenses
Xcel Energy	Yes	No	Partial	Partial	\$689,233	
Total					\$41,190,986	

Policy disconnects: Shareholder proponents, who want companies to disclose more about their relationships with trade associations and other organizations, contend that companies face reputational risks if their own policies are contradicted by the positions these groups take on controversial public policy matters. Companies generally do not see it that way, though, despite some high-level defections from the U.S. Chamber of Commerce over climate policy. Walden Asset Management and other socially responsible investment firms have pushed this point in their campaigns, in particular. The Chamber has aggressively challenged health care and financial reform and worked to defeat national climate change legislation—contradicting the stated views of some of its largest contributors, these investors point out. In an oft-cited case, **Apple** cancelled its membership in October 2009 because it disagreed with the Chamber’s views on climate change, in an oft-cited case.²⁰ **Exelon**, which has taken particular pains to build its credentials as a green energy company, also cancelled its Chamber membership. But many remain. Shareholder proponents take careful note of which firms have leadership positions within the Chamber and other trade groups that have taken robust action on public policy issues, and companies can continue to expect public quizzes about how they may be working to moderate the views these groups express.

Fourteen companies acknowledge possible disconnects between trade group positions and their own, but they all say this by itself is not enough to make them abandon these associations, given the compelling business reasons to stay. Still, some companies clearly seem to have noted the criticisms and point out that that continually evaluate the efficacy of their trade group memberships. Comments include the following:

- Baxter “Baxter believes that membership in these organizations is generally consistent with the company’s interests as well as those of its shareholders, customers and patients. Even when Baxter does not share all of the views of one of these organizations, it believes that membership is worthwhile because such organizations encourage dialogue on important policy issues and help to move the industry to a consensus on such issues.”
- Coca-Cola “Because our Company’s vision and values are an outgrowth of our unique brands and people, we recognize that political candidates and organizations may support positions that align with some, but not all, aspects of our contribution policy. In these instances, we base our involvement on those areas of mutual agreement that we believe will have the greatest benefit to our shareowners and key stakeholders.”
- Cummins “While Cummins might not agree with the positions these associations take on every issue, the Company believes participating in these groups helps ensure the Company’s voice is heard.”
- Dell “In some instances, the official policy position of Dell may differ with that of the supported organization. Dell is a member of the organization because of the total value the organization brings to Dell, Dell employees and Dell shareholders. Dell constantly re-evaluates membership with all the organizations to which it belongs and adds and drops membership on an ongoing basis.”
- Dow Chemical “Many trade and business associations have diverse memberships and diverse member views on matters of public policy. Dow endeavors to participate actively in the leadership of its key trade associations. However, we may from time to time find ourselves in disagreement with the prevailing views of the majority of the association’s membership. It is our practice, and our preference, to work within the association policy process to assure that Dow’s views are adequately communi-

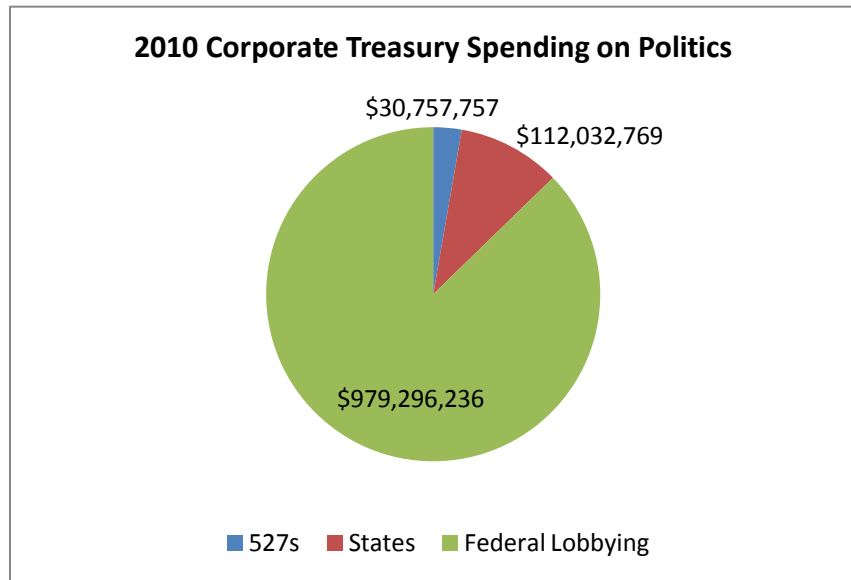
²⁰Lisa Lerer, “Apple Ditches Chamber,” *Politico*, October 5, 2009, at <http://www.politico.com/news/stories/1009/27935.html>.

cated and represented in association policy, strategy and tactics. In all cases, any Dow position on a matter of public policy is the prevailing company position, irrespective of any trade association position to the contrary.”

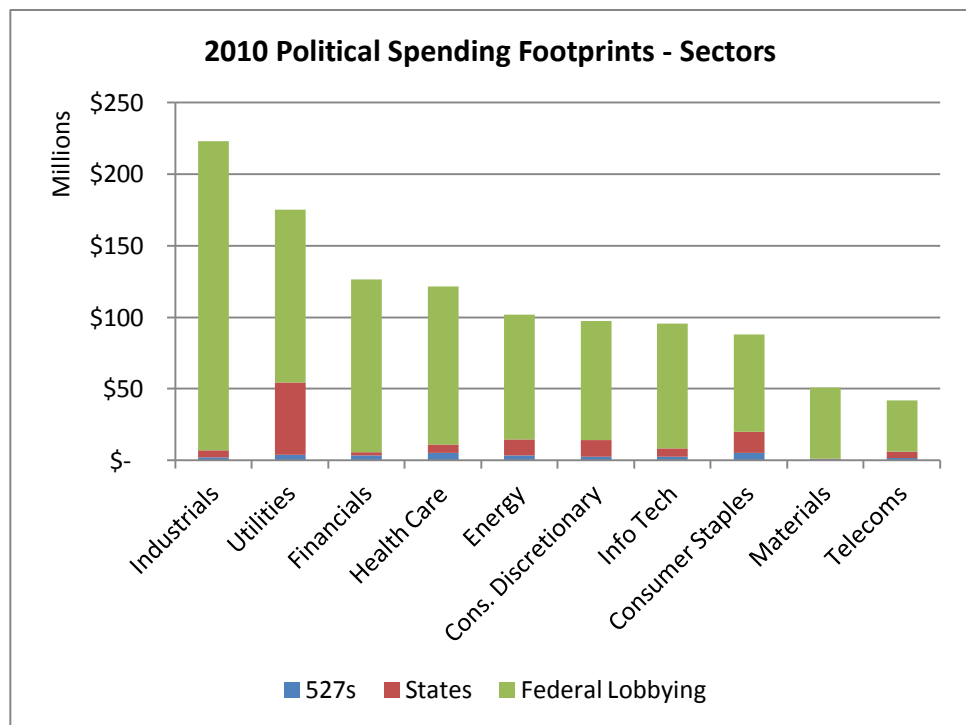
Duke Energy	“Duke Energy may not always agree with political positions taken by trade associations and chambers of commerce of which it is a member, however, on balance, the Company receives more benefit than detriment from these memberships.”
Ford Motor	“Of course, we do not always agree with each and every position...In cases where we don't agree, we have to determine if, on balance, we agree with enough of the organization's positions that we should continue to engage with them. And, we always reserve the right to speak with our own voice and make our own positions clear, even when they may not align with the positions of associations to which we belong.”
Intel	“During 2010, significant controversy surrounded the U.S. Chamber of Commerce's public statements and actions on the topic of climate change, including opposition and lobbying against provisions in proposed climate legislation. Some stakeholders asked Intel and other companies to clarify their positions on climate change or to pull out of the organization altogether. After continued review of the issue, Intel decided to remain a member of the Chamber, because the organization provides a strong industry voice on a wide range of policies that affect our business, not only in the U.S., but around the globe through Chamber affiliates and other organizations. The Chamber has a diverse membership, and we are not aligned 100% with the group on all policy matters. Likewise, our positions do not always align with those of other industry and trade organizations to which we belong.”
Kroger	“It is important to note that we do not always share the same perspective on legislation as does our trade associations.”
Merck	“At times we may not share the views of our peers or associations. Merck representatives on the boards and committees of industry groups and associations ensure that we voice questions or concerns we may have about policy or related activities. We may even recuse ourselves from related association or industry group activities.”
PepsiCo	“We work with these groups because they represent the food and beverage industry and the business community on issues that are critical to PepsiCo's business and its stakeholders. Importantly, such organizations help develop consensus among varied interests. At times we do not share or agree with all of the views of each of our peers or associations. PepsiCo representatives on the boards and committees of such groups ensure that we voice PepsiCo's position about policy or related activities. As such, there may be times when we will not fund certain initiatives sponsored by such organizations. In addition, we require any trade association to obtain specific consent from PepsiCo to use PepsiCo's dues or similar funds for funding of exceptional political expenditures beyond regular dues and business matters. We annually review the benefits and challenges from membership in our major trade associations.”
Pfizer	“Pfizer's participation as a member of these various industry and trade groups comes with the understanding that we may not always agree with the positions of the larger organization and/or other members, and that we are committed to voicing our concerns as appropriate through our colleagues who serve on the boards and committees of these groups.”
Praxair	“While the company may or may not agree with every public policy position that these associations advocate, Praxair monitors, and aims to be an active participant in shaping the policy agenda, if any, of any group of which it is a member.”
Wells Fargo	“Our participation in these groups comes with an understanding that we may not always agree with every position the trade association takes.”

Spending Patterns and Intensity

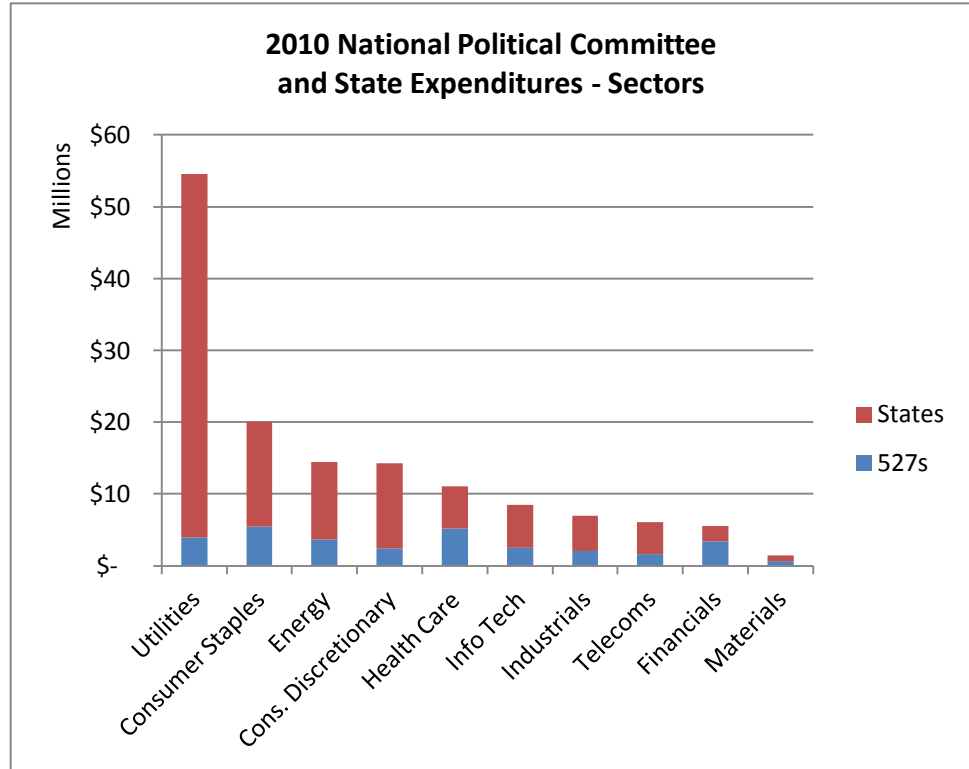
Most of the money companies spend in the political arena is disbursed after candidates are elected. Available data from the Center for Responsive Politics and the National Institute on Money in State Politics show that 87 percent of the \$1.1 billion S&P 500 companies spent from their corporate treasuries in 2010 went to federal lobbying. Nonetheless, nearly \$31 million went to political committees registered with the Federal Election Commission (3 percent of the total) and companies gave about \$112 million at the state level to candidates, political parties and ballot initiative committees. (These figures exclude identifiable PAC spending, but additional and probably significant sums of corporate treasury money not captured here also went to state and local political committees.) As explained in the introduction to this report, Si2 combined information about these three categories of spending to build a political spending footprint for each U.S. company in the S&P 500 index.



This assessment allows a comparison of spending between the different economic sectors. The results show that companies in the Industrials and Utilities sectors far outspent the other sectors, although the vast majority of Industrials' spending went to lobbying. Utilities companies stand out for their heavy spending at the state level, while neither Materials nor Telecommunications

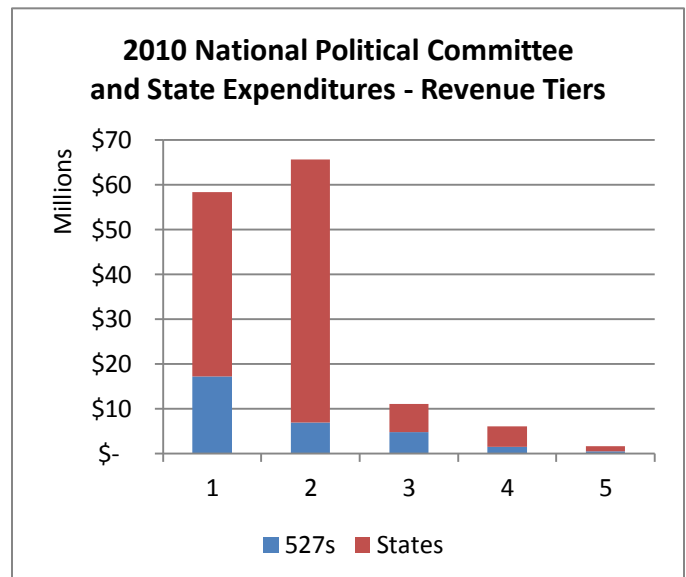
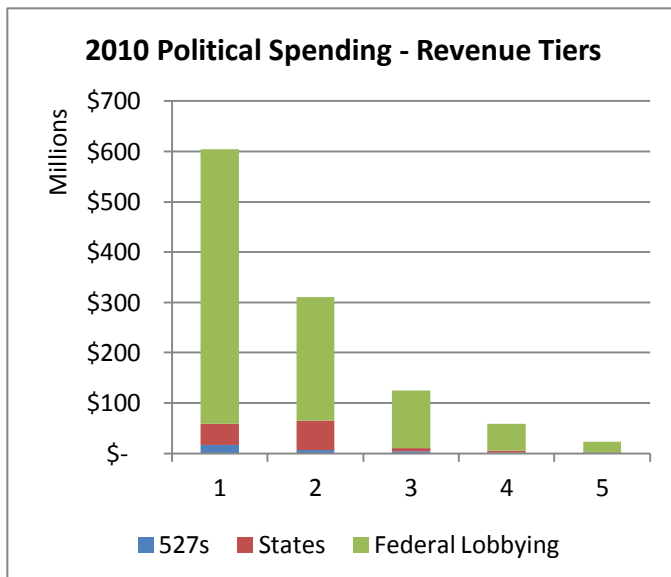


companies spent more than \$50 million per sector even when lobbying is included in the total. Setting lobbying aside and looking just at expenditures that support federally registered 527 committees, alongside contributions in the states to candidates, parties and ballot initiative committees again highlights the heavy spending from Utilities, which contributed about \$55 million, or 38 percent of



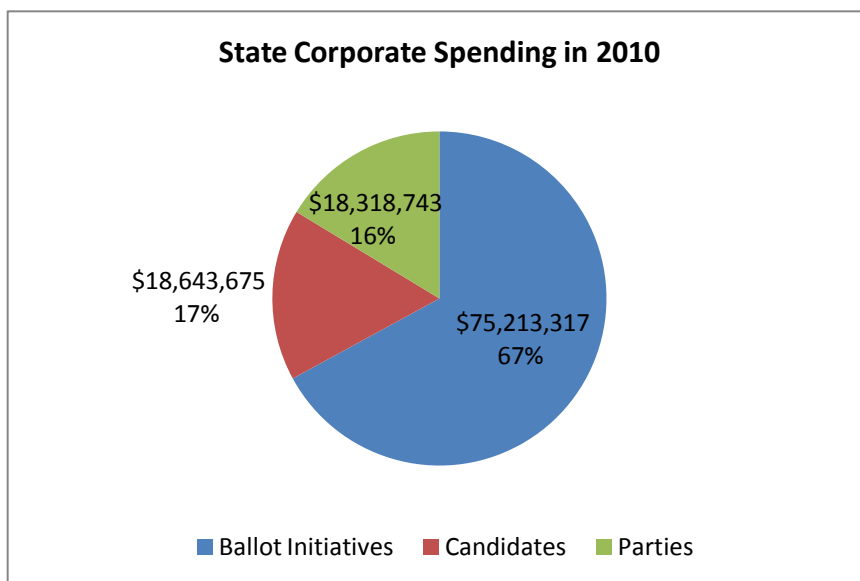
what the entire index gave during the year. (These figures are skewed by what just one company, **PG&E**, spent both on federal lobbying and on a ballot initiative in California, as explained below.) At the low end of the scale were Materials companies, which spent just \$1.4 million (1 percent of the total).

The largest companies were responsible for nearly all the spending of both lobbying dollars as well as national political committee support and state level expenditures. Writing checks for a total of about \$600 million, the largest 100 companies spent about twice what the second tier firms did; together the



\$915.1 million spent in these two tiers (93 percent of the total) eclipsed all the rest of what the smaller firms spent. The tendency for the biggest companies to spend most of the corporate political dollars is even more pronounced when lobbying is set aside. The bottom three revenue tiers each spent about \$10 million or less on national political committees and state politics, but the top two tiers between them spent more than \$124 million.

Ballot measures: Zooming in still further to see how companies spent shows that two-thirds of corporate dollars went to ballot initiatives (\$75.2 million), with the remainder split fairly evenly between candidates (\$18.6 million) and parties (\$18.3 million). The U.S. Supreme Court struck down any limits on what companies may spend on ballot initiatives in 1978, which goes a long way towards explaining

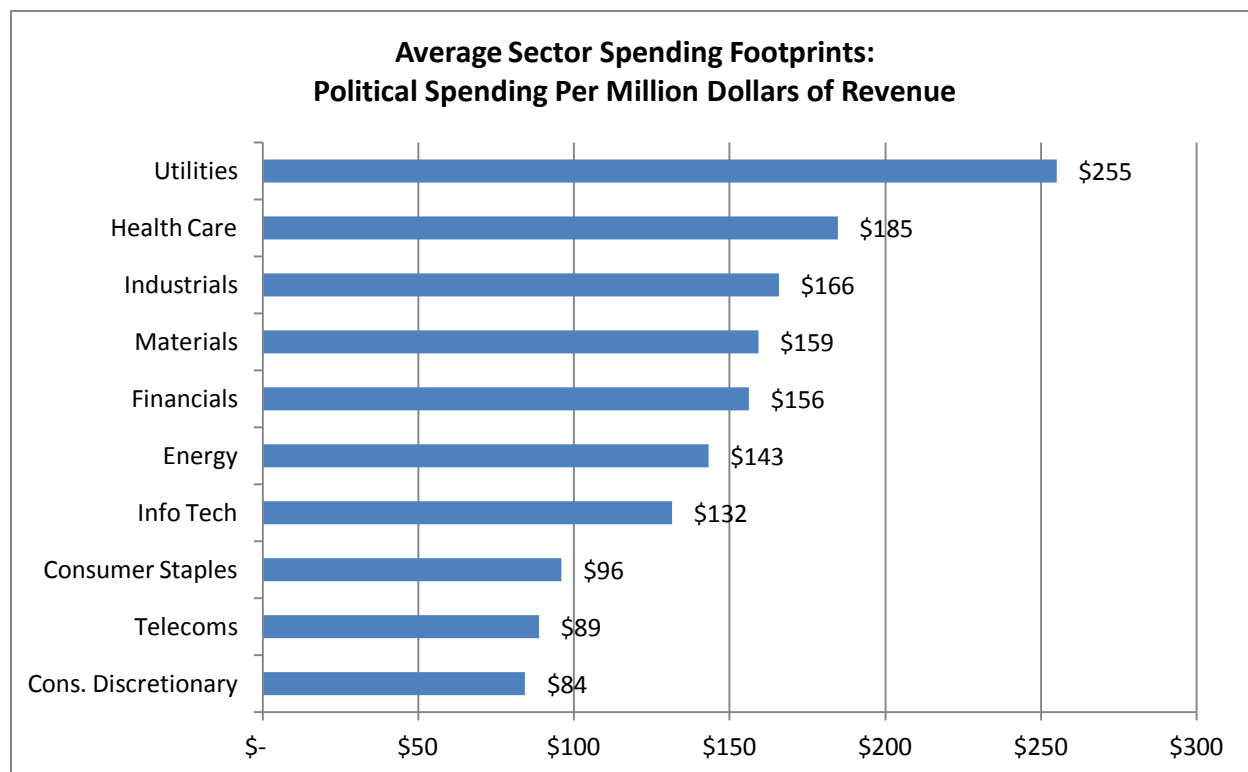


these results. Clearly, the absence of spending limits means the amounts contributed can climb precipitously, which could have implications for how much companies will give to support federal candidates through independent expenditures, now that they can. Investor attention to date has not focused intensively on ballot measure spending, company policies largely pass over it and voluntary corporate disclosures omit it.

Yet the sums are substantial. A dozen companies spent more than \$1 million each (see table). Of these, a few pop out for their lack of board oversight and disclosure about spending in general—including **CBS, Cisco Systems, Costco Wholesale, Viacom, Walt Disney and Qualcomm**. The largest spender by far is PG&E; more information about its unsuccessful effort to quash competition in the California electricity market appears in the case study on p. 53.

Spending intensity: It is easy enough to pick out the companies that spend the most, and as we have seen it is often the largest companies that do so given their resources. But

Largest Ballot Measure Spenders in 2010			
Company	Total Spent	Board Oversight?	Spending Disclosure?
PG&E	\$43,897,000	No	Yes
Costco Wholesale	\$4,835,679	No	No
Chevron	\$3,805,000	Yes	Yes
Tesoro	\$2,130,636	Yes	No
Altria	\$1,768,400	Yes	Yes
Cisco Systems	\$1,601,000	No	No
Viacom	\$1,600,000	No	No
General Electric	\$1,500,000	Yes	Yes
Time Warner	\$1,500,000	Yes	Yes
Walt Disney	\$1,400,000	No	No
CBS	\$1,250,000	No	No
Qualcomm	\$1,000,000	No	No



to make corporate spending data comparable in a meaningful fashion for investors, and to remove the large company bias from our assessment, we calculated a “spending intensity” figure for each company. This divides the total spending footprint for each company by the total revenue it earned in its most recent fiscal year, producing the amount each spent per million dollars of revenue earned. The most intensive spending comes from Utilities (even when the calculation excludes PG&E and its extraordinary spending, as the bar chart above does). Utility companies argue that they are a heavily regulated sector that is significantly affected by the laws and regulations imposed upon it by government, and that they must vigorously participate in the public policy process as a result to protect their interests. Health Care companies, the second most intensive spenders, make similar arguments and changes in national health care policy obviously have profound implications for this sector. While each of these sectors spends the most, they also are the most likely to have both board oversight and voluntary disclosure to investors about their spending, as the sections above about corporate governance show. On the bottom end of the spending intensity scale are Consumer Discretionary, Telecommunications and Consumer Staples companies—all of which spent \$100 or less per million dollars of earned revenue.

25 Most Intensive Political Spending Companies in 2010							
Company	Spending/ \$1 Million Revenue	National Commit- tees	States	Federal Lobbying	Total Footprint	Board Over- sight?	Spending Dis- closure?
PG&E	\$6,547	\$25,120	\$45,129,010	\$45,460,000	\$90,614,130	No	Yes
Peabody Energy	\$1,009	\$318,500	\$10,000	\$6,591,000	\$6,919,500	No	No
Plum Creek Timber	\$846		\$217,100	\$790,000	\$1,007,100	Yes	No
Mastercard	\$829			\$4,590,000	\$4,590,000	No	No
Monsanto	\$805	\$81,500	\$339,350	\$8,030,000	\$8,450,850	Yes	Yes
Southern	\$763	\$100,000		\$13,220,000	\$13,320,000	Yes	Yes
Federated Investors	\$755			\$718,500	\$718,500	No	No
Moody's	\$753			\$1,530,000	\$1,530,000	No	No
Amgen	\$748	\$223,435	\$775,950	\$10,260,000	\$11,259,385	Yes	Yes
American Electric Pwr	\$742	\$315,924	\$76,000	\$10,313,196	\$10,705,120	Yes	Yes
Visa	\$739	\$188,450	\$341,750	\$5,430,000	\$5,960,200	Yes	No
FedEx	\$739	\$66,512	\$12,950	\$25,582,074	\$25,661,536	Yes	No
Intuit	\$736	\$305,399	\$176,200	\$2,060,000	\$2,541,599	No	No
Edwards Lifesciences	\$732	\$6,100	\$63,500	\$990,000	\$1,059,600	No	No
Intercont. Exchange	\$726		\$5,000	\$830,000	\$835,000	No	No
Norfolk Southern	\$719	\$70,598	\$101,150	\$6,673,571	\$6,845,319	Yes	No
Reynolds American	\$717	\$1,470,619	\$336,247	\$4,323,293	\$6,130,159	No	No
Harris	\$714		\$61,900	\$3,656,824	\$3,718,724	No	No
NASDAQ OMX Group	\$707			\$2,259,995	\$2,259,995	No	No
Qualcomm	\$689		\$1,075,000	\$6,500,000	\$7,575,000	No	No
Altria	\$682	\$2,148,899	\$4,111,846	\$10,360,000	\$16,620,745	Yes	Yes
Consol Energy	\$671	\$408,221	\$45,000	\$3,060,000	\$3,513,221	Yes	No
Expedia	\$645		\$238,000	\$1,921,000	\$2,159,000	No	No
CME Group	\$643			\$1,930,000	\$1,930,000	No	No
TECO Energy	\$635	\$20,000	\$1,424,432	\$770,000	\$2,214,432	No	No

Patterns at Companies with Board Oversight

We noted in our 2010 report that one important presumption investor activists and other reformers carry with them is that board oversight will bring with it more accountability in political giving practices. Sometimes added to the mix is the implication that spending will be reduced with better oversight. Corporate supporters of robust oversight and disclosure also argue that good governance helps ensure company money is spent on improving the company's actual business, not on manipulation of the policy environment to unfairly tilt the playing field and advantage one company over its competitors, a practice referred to as "rent-seeking" in the academic literature.²¹ Companies also sometimes complain they are aggressively solicited by politicians and their intermediaries who take part in the relentless race for campaign cash, and they may look to established governance mechanisms as a way to put off giving in to these demands. Another key governance argument for good oversight is the need to ensure that executives disburse company funds to benefit the business, not their personal political interests or preferences—which may or may not be concurrent with shareowner interests.

Given these arguments for strong governance, we looked at what impact board oversight by itself may have on the key performance indicators relating to political spending that we have discussed in this study. Clear differences exist for all these factors between the companies that have put in place board

²¹ Rent-seeking derives from the medieval practice of "appropriating a portion of production by gaining ownership or control of land," as Wikipedia points out at <http://en.wikipedia.org/wiki/Rent-seeking>.

oversight and those that have not, as the table here summarizes. Companies with board oversight are much more likely to provide a justification for why they spend money in campaigns (or on lobbying), by a 20 point margin, while at the same time they also are more likely to spend money from their corporate treasuries, by the same margin (91 percent compared with 70 percent). Board oversight also has a dramatic impact on the likelihood a company will disclose spending, with a little more than half of oversight companies making some treasury spending report compared to just 4 percent of those with no oversight.

Key Indicators – Board Oversight Differences		
Board oversight?	Yes	No
No. of companies	151	340
Spending justification?	71%	21%
Any treasury spending?	91%	70%
Treasury spending disclosed?	56%	4%
Policy on 501 groups?	55%	11%
Disclosure of 501 groups?	27%	5%
Disclosure of 501 payments?	21%	2%

When it comes to key indicators dealing with trade associations and other non-profit groups, board oversight also makes a clear difference, although to a somewhat less dramatic extent. More than half (55 percent) of oversight companies also have policies on giving to these “501” groups, compared with only 11 percent of non-oversight companies. Having a policy on 501 groups does not necessarily translate into disclosure, although oversight prompts more transparency: 27 percent of the oversight group discloses memberships in these organizations and 21 percent of the group reports on payments to them—compared to 5 percent and 2 percent, respectively.

The available evidence does not suggest that greater oversight correlates with less political spending. Quite the opposite is the case. Companies that have board oversight are far more likely to spend more money, as

Board Oversight and Spending Intensity Rates						
Board Oversight?	Revenue Tiers – Average Spending Intensity*					
	1	2	3	4	5	Overall
No	\$68	\$137	\$142	\$139	\$134	\$132
Yes	\$135	\$194	\$253	\$204	\$149	\$173
Total	\$115	\$160	\$166	\$146	\$136	\$144

*Political spending per million dollars of revenue.

the table comparing revenue-normalized spending intensity in each of the five revenue tiers shows, although this becomes less significant for smaller companies. Overall, companies with board oversight spend on average \$173 per million dollar of revenue earned—20 percent more than the overall average for all companies and 31 percent more than the companies that have no board oversight in place. One possible conclusion from these results is that the boards of companies involved in spending more money in the political arena are paying attention to how it is spent—surely a heartening conclusion for investors. The results provide little solace for those who would like to see spending from companies reduced, and would like to pursue this goal by means of board involvement in the decision-making process.

Case Studies

PG&E and Ballot Initiative Spending

According to the company's Political Contributions and Employee Political Activity Policy, PG&E makes contributions in support of or opposed to ballot initiatives that could affect its "current or proposed business activities or the economic, social, or cultural well-being of the communities that the Company serves." Additionally, the company's Code of Conduct states that all contributions are coordinated by Corporate Affairs and the Law Department. PG&E does not disclose any board oversight of corporate political contributions either prior to or after disbursement, but it does provide investors with a detailed accounting of its spending.

During 2010, PG&E reports²² that it spent almost \$44 million on ballot initiatives alone, with \$42.93 million of that spending going to support Californians to Protect Our Right to Vote, a group that campaigned for California's Proposition 16, the Imposes New Two-Thirds Majority Voter Approval Requirement for Local Public Electricity Providers. Proposition 16 would have made it more difficult for local entities to form municipal utilities or Community Choice Aggregators (CCAs) because it would have required them to obtain approval from two-thirds of the voters living in the affected area, as the online state politics encyclopedia, Ballotpedia, notes.²³

Opponents of the proposition felt that it would stifle competition, limit consumers' access to alternative, cleaner energy and place an incredibly high hurdle in front of any community wishing to pursue options other than the current utility provider (PG&E). In addition, critics of Proposition 16 noted that the two-thirds requirement requested is the same percentage required before any tax increase can be implemented under California law. They further suggested that supporters of Proposition 16 tried to confuse the public by conflating changes in electric utility service with tax increases.

In the end, voters rejected Proposition 16, 52.8 percent to 47.2 percent, even though its opponents spent only \$143,976 (approximately 1/300th of the amount spent by PG&E), as the National Institute on Money in State Politics points out.²⁴

While both municipal utilities and CCAs are direct competitors to PG&E in the California energy market, CCAs do not typically own electrical generation or transmission infrastructure such as a municipally owned power plant. Instead they sell the energy commodity to customers after purchasing it from a variety of sources. Under a CCA system, the existing utility company continues to provide distribution, metering and billing services and may also provide electricity services to certain customers. Currently 12 California communities have either begun or are exploring the feasibility of a CCA in their area, including Berkeley, Beverly Hills, the City and County of San Francisco, Emeryville, Los Angeles County, Marin County, Oakland, Pleasanton, Richmond, San Diego County, San Marcos, Vallejo and West Hollywood.

In addition to the communities using or considering the CCA option, the South San Joaquin Irrigation District (SSJID) has also applied to the San Joaquin County Local Agency Formation Commission to provide electric distribution services to three cities. If approved, the SSJID would try to purchase distribution facilities from PG&E or, if that fails, force the company to sell via an eminent domain ruling. To try

²² See http://www.pgecorp.com/aboutus/corp_gov/political_engagement/corp_contribution.shtml.

²³ http://ballotpedia.org/wiki/index.php/California_Proposition_16,_Supermajority_Vote_Required_to_Create_a_Community_Choice_Aggregator_%28June_2010%29

²⁴ <http://www.followthemoney.org/database/StateGlance/ballot.phtml?m=678>

to defeat the SSJID proposal, PG&E made a \$908,623 contribution to Common Sense San Joaquin to pay for an analysis of the SSJID San Joaquin Local Agency Formation Commission (LAFCo) application. Common Sense San Joaquin is a project of the Coalition for Reliable and Affordable Electricity,²⁵ a group whose funders include PG&E.

According to its latest 10-K annual report filed with the Securities and Exchange Commission, PG&E's 2010 revenues from California electricity distribution were \$10.64 billion, generated from 5.16 million customers, with 37 percent coming from residential customers (see table). Faced with the threat of losing market share to newly created municipal utilities or CCAs, the company spent approximately \$42.93 million in support on Proposition 16 in 2010, as noted, and an additional \$3.5 million in 2009. This is equivalent to 0.3 percent of its total revenue of \$13.84 billion for the year. The addition of the contributions used to counter the SSJID proposal does not materially change this percentage.

If Proposition 16 had passed, PG&E would have gained back the amount spent in support of the proposition in terms of 2010 revenue merely by retaining 49,175 residential customers, 5,474 commercial customers, 30 industrial customers or 6,656 agricultural or other customers for one year. The

PG&E 2010 Revenue – California Electricity Distribution				
Type of Customer	2010 Revenues			Number of Customers
	Total (\$b)	Per Customer	% of Total	
Residential	\$3.94	\$873	37%	4,510,000
Commercial	\$4.15	\$7,842	39	529,318
Industrial	\$1.81	\$1,440,000	17	1,254
Agricultural	\$.75	\$6,449	7	83,787
Other *				31,743
Total	\$10.64			5,160,000
* public street and highway lighting and two other electric utilities				

Source: 2010 PG&E Form 10-K

creation of a CCA does not immediately reduce a utility company's revenue in that location to zero, and the formation of a municipal power plant would probably require the municipality to purchase the generation and transmission equipment from the existing utility. Therefore, depending on the real rate of revenue loss, it could have taken the retention of additional customers or a longer period of time before the costs spent on the campaign would have been recovered.

From a straightforward economic perspective, PG&E's spending on Proposition 16 made sense for shareholders. The company saw a threat—the potential loss of revenue from CCAs or new municipal utilities—and spent less than one-half of 1 percent of 2010 revenue to proactively combat that risk. Even though Proposition 16 failed, shareholders could conceivably look at the \$42.93 million in expenditures as a risk that, if it had paid off, could have easily paid for itself through retained revenues over the next several years. The limited competition in the utility market also would have helped to enhance PG&E revenues for the foreseeable future.

But economic return is only one of the risks associated with corporate political activity. Reputational risk, while harder to quantify, is certainly something that every company may take into account before engaging in the political arena. As a utility company that generates power through nuclear and fossil fuel powered plants, PG&E will never be the darling of environmental activists, although it has received praise from numerous environmental groups for its participation in the U.S. Climate Action Partnership²⁶ and its withdrawal from the U.S. Chamber of Commerce over that group's opposition to alternative

²⁵ See <http://www.commonensesj.com/content/about-common-sense-san-joaquin>.

²⁶ "Fighting Climate Change," PG&E website (<http://www.pge.com/about/environment/pge/climate/>).

energy and greenhouse gas reduction efforts.²⁷ In addition, PG&E has been lauded for a 500 Megawatt solar power initiative that was announced in 2009 and approved in 2010.

Much of the public goodwill the company earned from these other efforts was tarnished by the company's support for Proposition 16. Media coverage focused on the sheer amount of money that the company spent²⁸ and since one of the selling points for the creation of CCAs is the proposition that they will help create a market for renewable energy, PG&E was portrayed as attempting to hurt or even destroy the market for alternative energy. The Sierra Club of California concluded, "PG&E's ballot initiative makes a mockery of its self-proclaimed leadership in clean energy and climate protection, places corporate interest above the public good, and makes it more difficult to confront global climate change."²⁹ Given the large disparity in funding between supporters and opponents of Proposition 16, critics also claimed that PG&E—which was overwhelmingly the largest supporter—was trying to buy an amendment to the California constitution for its own benefit.

The PG&E case highlights both the potential economic rewards and reputational risks presented by political spending. Clearly the company saw an economic threat to its business, but in the process of trying to head this off, it may have eroded some of its social license to operation. The company's existing policies do not provide for any explicit board oversight of political spending, one of the central demands of governance reformers. While it is not immediately obvious that the board would have made any different choices, the lack of disclosure about who within the company makes political spending decisions makes it difficult for shareowners to understand how the decision was made and for shareowners to hold those decision-makers accountable, either positively or negatively.

Procter & Gamble, Indirect Judicial Race Spending and Independent Expenditures

Shareholders and watchdog groups trying to pin down the exact scope of corporate political activity in the post-*Citizens United* era are faced with a confusing and sometimes opaque landscape of money and the various channels through which it flows. Even at a company such as Procter & Gamble, which has adopted many of the best practices championed by shareholder activists, a confusing mix of policies, exceptions and contributions made to unaccountable groups arises and can limit the transparency of corporate contributions.

Unlike most S&P 500 companies, Procter & Gamble has a stand-alone policy on corporate political activity that includes information about lobbying, corporate contributions and political action committee activity.³⁰ The company also discloses its contributions to ballot initiatives and issue advocacy campaigns, trade association dues used for political expenditures and contributions from the company's political action committee. This makes it compliant with most of the best practices promoted by governance reformers and company executives who promote good oversight and transparency.

²⁷ "PG&E Leaves Chamber of Commerce," Press Release, Union of Concerned Scientists, Sept. 22, 2009 (http://www.ucsusa.org/news/press_release/pge-leaves-chamber-commerce-0287.html).

²⁸ See Lance Williams, "PG&E Outspending Opponents \$511 to \$1 on Prop. 16 Campaign," *Huffington Post*, June 2, 2010, at http://www.huffingtonpost.com/2010/06/02/pge-outspending-opponents_n_597638.html; David R. Baker, "PG&E to Spend Millions to Pass Prop. 6," *San Francisco Chronicle*, Feb. 20, 2010, at http://articles.sfgate.com/2010-02-20/business/17948310_1_pg-e-electricity-municipal-utilities; and "PG&E's Prop. 16 Ad Spending Riles Some," *KCRA.com*, April 5, 2010, at <http://www.kcra.com/r/23061373/detail.html>.

²⁹ See <http://www.sierraclubcalifornia.org/Elections/PGE%20initiative.html>.

³⁰ See http://www.pg.com/en_US/company/global_structure_operations/governance/governance_political.shtml.

In its policy, Procter & Gamble clearly states that it participates in the political process “by providing financial support to selected state ballot initiatives and issue advocacy campaigns that have a direct impact on the business.” The company goes on to state:

Procter & Gamble has no plans to use corporate funds to support independent political expenditures to influence federal elections, nor to make contributions to trade associations for that purpose. Further, our policy is to not use corporate funds to support 527 organizations or candidates in states where it is legally permissible to do so.

Both statements indicate Procter & Gamble does not support candidates at either the federal or state level and the company’s initial disclosures for political activity in 2010 appeared to back that up.³¹ On its first disclosure of initiatives and issue advocacy expenses, the company listed four corporate contributions: US Global Leadership Coalition (\$15,000), USA Engage (\$15,000), United for Jobs and Ohio’s Future (\$80,000) and Partnership for Ohio’s Future (\$40,000). For each contribution, Procter & Gamble provided a brief description of each group and its primary area of interest, which few companies that disclose contributions provide. None of the initial descriptions included any information on candidate contributions by any of the listed groups.

But following a 2011 shareholder proposal filed by Northstar Asset Management, which requested that the company establish an advisory vote on corporate political contribution policies and contributions, Procter & Gamble issued an addendum to its proxy statement.³² In the addendum, the company said that while its “general policy” was to not use corporate funds to support state or local candidates or to make contributions to other groups for that purpose, it did allow for “exceptions approved by our Public Policy Team.”

According to Procter & Gamble, one such exception was made in 2010. The Partnership for Ohio’s Future, part of a network of organizations created by the U.S. and Ohio Chambers of Commerce, “provided educational materials regarding Ohio’s judicial elections and expressed support for two judicial candidates.” According to documents filed with the Ohio Secretary of State in October 2010,³³ the Partnership for Ohio’s Future spent \$1.57 million on independent expenditures for two candidates on the ballot for the Ohio Supreme Court. Under Ohio law, the Partnership for Ohio’s Future was not required to disclose the contributions, but it did so voluntarily. In addition, the group is not required to disclose its donors, since independent expenditures are exempted from the donor reporting requirements to which most electioneering communications are subject.

While the Partnership for Ohio’s Future has only been in existence since 2006, in the 2010 report, *The New Politics of Judicial Elections 2000-2009*, the group was cited as one of the “top 10 Supreme Court spenders” during the 2007-2008 election cycle. During this period, the group spent \$684,623 on independent television advertisements.

Although this since has been updated, the company initially described the Partnership for Ohio’s Future as a 501(c)(4) group formed by the Ohio Chamber of Commerce whose purpose was “to push for public policies that lead to greater opportunities and a higher quality of life for Ohio citizens. The Partnership encourages the public to learn about the issues and elections that impact Ohio’s economy.” Procter & Gamble did not mention any candidate support or candidate advocacy provided by the group—although such lack of disclosure is not unusual and Procter & Gamble is one of the few companies that provides

³¹ See http://www.pg.com/en_US/downloads/company/political_involvement/2010_Ballot_Initiatives_9-1-11_v3.pdf.

³² See <http://www.sec.gov/Archives/edgar/data/80424/000008042411000018/proposalsupplement.htm>.

³³ See <http://www.ohiocitizen.org/money/2010/partnership.pdf>.

any descriptive details about the recipients of its contributions, as noted above. In the company's updated disclosures, Procter & Gamble includes information about the group's candidate support.

Without the Partnership for Ohio's Future's voluntary disclosure of its independent expenditure spending, it is possible that Procter & Gamble shareholders would never have had the information to adequately identify how company funds were spent. The group had publicly disclosed the contributions almost a year before Procter & Gamble's 2011 proxy statement, and well before the company's disclosures of 2010 corporate contributions were made, and yet Procter & Gamble made no mention of the candidate contributions until four days before the company's annual meeting on October 11, 2011. If the group had chosen not to make its independent expenditure spending public, the company's indirect support for candidates would have been concealed.

Additionally, without Procter & Gamble's decision to issue the supplement to its 2011 proxy statement, investors also would not have known that the Public Policy Team could make exceptions to the company's existing policies on corporate contributions. Procter & Gamble's policies as currently posted on its website make no mention of exceptions.

As was the case with contributions by **Target, Best Buy, Polaris Industries, Regis Corp., Securian Insurance** and **3M** to the independent expenditure committee Minnesota Forward in 2010, Procter & Gamble's contributions to the Partnership for Ohio's Future show how difficult it is to track this type of spending. Absent voluntary disclosure, investors have no way of knowing how their money may be used for electioneering by groups that receive company money—unless these groups make the information public either voluntarily or to comply with state law. As of this writing, only Alaska, Arizona, Colorado, Connecticut, Iowa, Minnesota, North Carolina and South Dakota have laws that require disclosure either of amounts, donors or other details relating to independent expenditures to a state supervisory board.

Research Approach

This section explains in detail the research approach we used, the indicators we researched for each company, and the sources of data we scoured to arrive at the conclusions presented in this report.

Governance: Si2 examined the practices of U.S. companies in the S&P 500 index as of July 1, 2011, looking first at the corporate governance of political spending. Si2's governance research is based on the best practices outlined in the Conference Board's November 2010 *Handbook on Corporate Political Activity*.³⁴ In brief, we examined:

- *How* companies decide whether to contribute to candidates and assess the strategic value of contributions and their overall political spending programs;
- *Who* makes spending decisions (at both the board and management level);
- *What process* companies follow to make these decisions;
- *What controls* exist to ensure these decisions reflect the best interests of companies and their shareholders; and
- Corporate *reporting* practices.

Spending: We also compiled for the entire index the publicly available spending records for these companies' contributions for federal lobbying, 527 political committees and state spending on candidates, parties and ballot initiatives, weeding out any identifiable political action committee spending to focus only on the amounts disbursed from corporate treasuries. The resulting figures provide a direct political spending footprint for each firm. We normalized these figures by revenue to determine a political spending intensity calculation for each company, showing how much each spent per dollar of revenue in the most recent fiscal year. This allows apples-to-apples comparisons across sectors and spending categories.

Sectors: The results of our findings are presented in this report, with a comparison of the data by industry sector and revenue tier. We used the following economic sectors established by the Global Industry Classification Standard (GICS):³⁵

- Energy
- Materials
- Industrials (including the industries of Capital Goods; Commercial & Professional Services; and Transportation)
- Consumer Discretionary (Automobiles & Components; Consumer Durables & Apparel; Consumer Services; and Media & Retailing)
- Consumer Staples (Food & Staples Retailing; Food, Beverage & Tobacco; and Household & Personal Products)
- Health Care (Health Care Equipment & Services and Pharmaceuticals, Biotechnology & Life Sciences)

³⁴ The report is available at <http://www.conference-board.org/press/pressdetail.cfm?pressid=4049>, free of charge.

³⁵ The GICS system was developed by Standard & Poor's and MSCI Barra. See <http://www.standardandpoors.com/indices/gics/en/us>.

- Financials (Banks; Diversified Financials; Insurance; and Real Estate)
- Information Technology (Software & Services; Technology Hardware & Equipment; and Semiconductors & Semiconductor Equipment)
- Telecommunication Services
- Utilities

Revenue tiers: Si2 used a very basic revenue analysis, dividing up the companies into quintiles grouped by the revenue reported in their most recent annual financial statements, which makes clear the huge size of these companies and their vast resources. There are 492 U.S. companies in the index and their revenue ranges for the tiers was as follows:

- Tier 1: \$418.95 billion to \$21.6 billion
- Tier 2: \$21.3 billion to \$10.0 billion
- Tier 3: \$9.9 billion to \$5.4 billion
- Tier 4: \$5.4 billion to \$3.1 billion
- Tier 5: \$3.0 billion to \$681 million

Profile Compilation

Si2 tried to discern the broad picture of corporate involvement in campaign spending, including any form of support for entities active in political campaigns, not just direct contributions to candidates or parties. This year we added an initial examination of lobbying, which is highly regulated. Lobbying can be seen as the other side of the electoral money coin: the money that is used to influence politicians who earlier received cash for their campaigns to get into office in the first place. Last year we started with the CPA's database, which at the time held information on 180 large publicly traded U.S. companies,³⁶ which it shared with us. We then expanded our attention to include the entire S&P 500 index—research that we completed again in 2011; this allows us to show how the corporate governance of political spending has changed.

Instead of sending a detailed survey to companies as our primary research approach this year, we focused on carefully parsing the information companies make publicly available on their websites about the policies and spending. We sought answers to the questions noted below, many of which we also examined in 2010. (Indicators used in the analysis are highlighted.)

1. Policy and decision-making

- Whether the company has a **policy** and its **URL(s)**. We considered companies to have a policy if they mentioned anything about spending money in the political arena: either through a **political action committee** (PAC) or from **corporate treasury funds** (“corporate contributions”).
 - The location of the policy: if it is a **stand-alone document** and/or if it is in the company's employee **code of conduct**.
 - If the policy mentions **lobbying**.

³⁶ The Center's database of companies and more than 50 “Political Transparency & Accountability Reports” can be accessed on its website at <http://www.politicalaccountability.net>.

- Whether the company discloses which of its officials are responsible for political spending decisions, including the **titles of the officials** and any details on their position within the corporation's chain of command.
- Which **officers** are involved in *recommending, approving and reviewing* political spending, at the following levels:
 - **Full board** or **board committee**
 - **CEO**
 - **Senior management** (and title)
 - **Line management**
 - **Internal** and/or **external counsel**
 - **Public affairs/government relations**
- The nature of disclosure about the **decision making and review process** for political spending; we captured the actual text from each company's stated policy for further analysis.
- If a company has a stated **policy not to spend** money in politics and what the specific prohibitions cover:
 - **Candidates**
 - **Parties**
 - **527 political committees**
 - **501(c)4 social welfare organizations**
- What **spending justification** a company provides, capturing the actual text of what companies say for additional textual analysis.

2. Oversight

- Whether there is explicit **board oversight** regarding political spending practices (either as stated in the spending policy or as indicated in a board committee charter)
- The **frequency of review**/oversight by the board and management—*semi-annual, annual or other*.
- The description of this **oversight process**.

3. Methods of Giving and Disclosure

We considered methods through which money from companies or their executives may make its way either directly or indirectly into the campaign coffers of political candidates and groups. We paid particular attention to any discussion of independent expenditures, since *Citizens United* removed all limits on the amounts that may be spent by companies or other groups to advocate for or against the election of specific candidates to political office at any level of government in the United States. These “independent expenditures” used in public communications leading up elections (“electioneering”) may not be directly coordinated with a candidate but can have a substantial impact on the course of a campaign. The decision therefore has opened up a potential flood of new cash in federal elections, where such spending previously was forbidden. (State election law varies, as the Context section makes clear on p.

69). The legal interpretation of what constitutes coordination of theoretically independent expenditures with campaigns is far from settled, further focusing attention on this means of spending.³⁷

We gathered information on the following methods of giving reported by companies:

- If the company has a **political action committee (PAC)**, its **name** and **when it was last active**.
- If the company contributes **corporate treasury funds** for any political activities.
- If the company spends money in campaigns through the use of independent expenditures:
 - What the company's **independent expenditures policy** says (capturing the full text).
- The disclosures a company makes on its website about political spending in the following areas:
 - **PACs** (we considered direct links to federal PAC reports available at the FEC to be website disclosure, but did not give credit for disclosure if the provided link was only to the FEC's main website).
 - **Any treasury spending** and specifically:
 - Whether **independent expenditures** are included;
 - Support for non-profit groups including **trade associations** and **501(4)s; and**
 - **Lobbying** (as with PACs, we considered direct links to the company's report on the website of the Senate Office of Public Records to be website disclosure, but did not give credit for disclosure if the provided link was only to the Senate website)

4. Indirect Giving

Two types of tax-exempt groups play important roles in campaign finance. Trade associations (with non-profit status under section 501(c)6 of the tax code) and social welfare organizations (with non-profit status under section 501(c)4 of the tax code³⁸) both receive money from companies, although giving to the latter appears to be far more limited. Investor activists want companies to disclose how much of their contributions to these groups is used for political expenditures, since there are no legal requirements for disclosure of this information; they argue the contributions pose risks to companies.³⁹ We therefore examined the following:

³⁷ Many of the new "super PAC" independent expenditure political committees springing up in the wake of *Citizens United* are staffed by people with close ties to campaigns, raising questions about what "non-coordination" really means.

³⁸ The IRS explains that 501(c)4 groups are "operated exclusively to promote social welfare." Such an organization "must operate primarily to further the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements)....Seeking legislation germane to the organization's programs is a permissible means of attaining social welfare purposes. Thus, a section 501(c)4 social welfare organization may further its exempt purposes through lobbying as its primary activity without jeopardizing its exempt status." But it "may be required to either provide notice to its members regarding the percentage of dues paid that are applicable to lobbying activities or pay a proxy tax." In addition, "The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. However, a section 501(c)4 social welfare organization may engage in some political activities, so long as that is not its primary activity." See <http://www.irs.gov/charities/nonprofits/article/0,,id=96178,00.html>. Additional information about IRS tax rules for political organizations appears on the Internal Revenue Service website at <http://www.irs.gov/charities/political/article/0,,id=155034,00.html>.

³⁹ Bruce F. Freed and Jamie Carroll, *Hidden Rivers: How Trade Associations Conceal Corporate Political Spending and Its Threat to Shareholders*, Center for Political Accountability, 2006. Available at <http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/i/932>.

- If the company has articulated a **policy** about its payments to:
 - **Trade associations**
 - **Other tax-exempt groups**
- If a company **discloses**:
 - **Memberships**
 - **Payments** of corporate dues used by these groups for political purposes, sums which the groups must track and disclose to their donors (unless they elect to pay tax on these sums) to comply with Section 162(e)1 of the Internal Revenue Code.

5. Spending Data

For each of the companies, Si2 reviewed two public databases that aggregate information on political spending. The Center for Responsive Politics (www.opensecrets.org) collects and reports on federal PAC spending reported to the Federal Election Commission (FEC) as well as a wealth of additional information, including contributions and disbursements from political committees organized under Section 527 of the Internal Revenue Code.⁴⁰ The National Institute on Money in State Politics (www.followthemoney.org) aggregates data reported to state disclosure agencies about campaign spending. Si2 also looked at the information provided by Congressional Quarterly's CQ Moneyline website (<http://moneyline.cq.com>), which reports on a broad range of political spending, as well. CQ Moneyline makes available its proprietary database of campaign spending information via subscription, but we relied only on what is available to the public free of charge.

In 2010, Si2 also examined these data sources, but only tallied the different *categories* of spending. This year we collected all the spending records for contributions connected to companies in the study. The Center for Responsive Politics makes available on its website the files about these spending records. The National Institute on Money in State Politics also participated in our research process and ran queries on its substantial database of state spending information to provide a listing of all contributions likely connected to the study universe companies. Si2 reviewed all these datasets and compiled spending data as follows:

- **Federal Level**
 - **Federal lobbying** (as reported to the Senate Office of Public Records and aggregated by the Center for Responsive Politics) for 2009 through the first quarter of 2011. Just over 4,200 quarterly reporting records out of about 135,500 relate to companies in the study.
 - **527 political committees** (as reported to the Federal Election Commission and aggregated by the Center for Responsive Politics), which includes the two most common party-connected entities that receive corporate money—the Democratic Governors Association and the Republican Governors Association, for 2009 and 2010, with a few early 2011 reports. About 4,300 records out of about 168,000 come from companies in the S&P 500.

⁴⁰ So-called "527 groups" are created primarily to influence the nomination, election, appointment or defeat of candidates for public office. See 26 U.S.C. § 527 at <http://www.law.cornell.edu/uscode/26/527.html>.

- **State Level** – via PACs and corporate contributions (reported by individual campaign organizations in all the U.S. states, as aggregated by the National Institute on Money in State Politics), including 239,000 records since 2005 on contributions from companies and their PACs to:
 - Candidates
 - Parties
 - Ballot measure committees

In conducting a gap analysis between what this information shows and the handful of comprehensive voluntary reports issued by companies, we found that the Institute's data generally understate state spending by companies, particularly when it comes to state and local level political committees (spending which also is not captured by the Center for Responsive Politics 527 database).

There is another significant blind spot in the spending record, which shareholder activists address in their disclosure campaigns. The lobbying data we examined only identifies the amounts companies contributed to their federally registered lobbyists and excludes lobbying and other political expenditures that may occur indirectly through contributions to trade associations and other politically active non-profit organizations. Still, the 527 and state level data include records for each contribution, including the recipient's name, party affiliation and election district where relevant—making an analysis of corporate political preferences possible at the national and state level, in considerable detail. Since this report is focused on the governance of spending, we only dip a toe in the water of the type of additional analysis that is possible using the data we have compiled. (Noted below are a number of avenues for further possible research.)

Profile Review

After gathering the data noted above for all 492 U.S. firms in the S&P 500, Si2 compiled governance and spending profiles and sent them to each of the companies, providing them with the opportunity to correct anything we got wrong. We also asked three sets of questions:

1. a. Do you support standardized corporate political spending disclosure in securities filings?
Why or why not?
- b. Do you support a shareholder advisory vote on political campaign spending?
Why or why not?
2. Does your company now make, or does it plan to make, any independent expenditures with corporate funds to support or oppose candidates for political office? At the federal or state level? Why or why not?
3. In the last year, has your company changed its oversight of indirect political spending – such as contributions to trade associations or other non-profit groups involved in political campaigns? Please explain.

Corporate feedback: Companies remain wary of discussing their policies and providing information beyond what they have already chosen to disclose on their websites, as we found last year. In each year, about three-dozen companies provided information in response to our request for information and not all respondents replied to all questions. The sample size is small, but comments provided by

respondents add useful detail to the overall findings we reached from our review of companies' published policies. Many of the companies asked that their responses to our questions not be attributed to them. Si2 thanks each of the respondents for their willingness to share their views on the current policy options being discussed in Washington to address political spending. Nearly all the statements attributed to individual companies in this report therefore come from information that has been posted on company websites.

Additional information on corporate perspectives comes from comments companies made at a seminar on the subject held by the Conference Board in mid-October 2011 in New York City. Working with the Center for Political Accountability, in 2011 the organization set up a political spending committee to define best practices in oversight and disclosure. Earlier, in fall 2010, the Conference Board released its *Handbook on Political Spending* that articulates the best practices standards that have shaped our research approach, as noted above. More information about the committee, whose members include representatives from **Campbell Soup, Exelon, Merck, Microsoft, Pfizer, Prudential Financial** and **Coca-Cola**—is on the Conference Board's website.⁴¹

⁴¹ See <http://www.conference-board.org/politicalspending/>

Appendix I: Context

Avenues for Political Spending

Federal Campaigns

At the federal level corporate political contributions are governed by the Tillman Act of 1907, the Federal Election Campaign Act (FECA) of 1971, including its subsequent amendments in 1974 and 1979, and the Bipartisan Campaign Reform Act (BCRA) of 2002. However, the *Citizens United* ruling has thrown out many established limits on campaign spending and allows corporations to fund any type of political advertisement, including express advocacy advertisements for or against a particular candidate for federal office. However, as direct corporate contributions to federal candidates or campaigns are still prohibited, any corporate spending at the federal level must be done independently, with no coordination between the corporation and candidates or their campaign committees, hence the term “independent expenditures.”

Hard/Soft Money: Direct contributions to federal candidates or their campaigns are known as “hard money.” Despite the *Citizens United* ruling, the Tillman Act of 1907 still bars corporations from contributing money directly to federal candidates.

Soft money donations are those that are made to national or state political parties for party building or other activities not directly related to the election of a specific candidate or to non-profit 527 groups. Corporate soft money donations to national political parties are banned by BCRA, but state parties are allowed to collect up to \$10,000 per donor for federal election activities.

527 committees: 527 groups are tax-exempt political groups. Any 527 group that advocates for or against a candidate must be registered as a “political committee” with the FEC (this includes all federal political action committees). All 527s that register as political committees are subject to FEC regulations.

Certain 527 groups may choose to not register as political committees because they do not advocate for or against a specific candidate and are therefore not regulated by the FEC. Despite the ban on advocating for or against a specific candidate, these groups typically design their advertisements to make their intentions clear to voters. Unregulated 527 groups have the right to raise and spend unlimited money to influence elections as long as they do not coordinate their actions with either a specific candidate or party. Corporate contributions to unregulated 527 groups are unlimited and need not be disclosed by a company. But the 527s must disclose to the Internal Revenue Service the names and addresses of contributors who give them more than \$200, unless the 527 decides to pay taxes on the donation.

Political Action Committees: Federal Political Action Committees (PACs) are political groups that are formed to elect political candidates or to advance a particular political agenda, issue or legislation. Federal PACs are required to register with the FEC.

Corporations and unions are not allowed to contribute to federal PACs. However, they may provide administrative support (in the form of employees and administrative costs) to a PAC sponsored by the company. Solicitations for contributions to a company’s PAC are limited to a restricted class of donors, which includes company executives and administrative personnel and their families, as well as stockholders and their families

501(c)4s: A 501(c)4 group is defined by the Internal Revenue Service as a social welfare organization. These groups are allowed to engage in political campaigns and elections that promote the election or defeat of a particular candidate and unlimited lobbying as long as that activity does not constitute their

primary activity. There are no restrictions on corporate contributions to these groups and the groups are not required to report a list of their donors on their annual financial reports (Form 990s) filed with the IRS.

Independent expenditure-only committees: The 2010 elections saw the rise of a new type of organization spending money on elections. A July 2010 FEC ruling approved the creation of independent expenditure-only groups (“super PACs”) not bound by the limitations placed on federal PACs. Super PACs may receive unlimited donations from corporations, unions, trade associations, other groups or individuals and spend those amounts expressly advocating for or against federal candidates.

As independent groups, super PACs are not allowed to coordinate their activity with individual candidates or parties. But the 2010 elections showed how easily those rules can be subverted. During the 2010 elections, national political parties merely had to state publicly where they would be focusing their spending or what races they considered to be priorities and then independent groups could follow the party’s lead with spending on advertising, electioneering or get-out-the-vote activities. Since there was no official coordination, these tactics were perfectly legal.

Unless registered as a 501(c)(4) group (which some of the largest independent expenditure-only groups have done), super PACs must provide a report to the FEC at least quarterly. The reports must provide the names of all donors as well as donation amounts and expenditures. However, quarterly-filing super PACs can raise and spend unlimited amounts of money in the final month before an election and not disclose these activities until well after the election.

State Campaigns

Hard/soft money: While recent legal developments have invalidated many state laws governing independent expenditures by corporations, state laws regarding hard money contributions to candidates and soft money contributions to parties have not been affected.

Laws on hard and soft money contributions by corporations vary from state to state. Corporations are prohibited from making hard money contributions to individual candidates in 22 states while another 22 states place limits on these contributions that range from \$500 per candidate per election all the way up to \$25,900. Four states do not place any limits on the amounts that corporations may donate to individual candidates.

As of October 2011, 13 states have no limits on the amount of corporate soft money that may be donated to state political parties, while 22 states prohibit it altogether. The remaining 15 states place some sort of limit on corporate contributions to state parties. Those limits range from \$500 per election up to \$30,200 per year.

PACs: Like contributions to candidates and other groups, PAC donation limitations in the states vary. State-level PAC contributions from corporations are prohibited in 21 states, while 12 states allow unlimited giving by corporations to PACs. All states that allow unlimited corporate contributions to PACs also allow unlimited PAC-to-PAC transfers of money. The remaining 17 states impose some limits that range from \$500 per election up to \$100,000 over a four-year period.

State judicial contests: Approximately 89 percent of all state judges are subject to elections and those justices preside over a large percentage of all cases heard in the United States. In 39 states, at least some of the judges are elected to the bench either through competitive elections or “retention” elections, which only feature the sitting judge.

Independent expenditures: As well as redefining the laws by which corporations may participate in federal elections, the *Citizens United* ruling essentially overturned laws in 24 states that limited or prohi-

bited corporate spending in state elections. As a result, 17 states have introduced or passed laws related to independent corporate spending. Most of these laws require independent groups to disclose amounts spent after reaching a certain threshold.

So far, Alaska, Arizona, Colorado, Connecticut, Iowa, Minnesota, North Carolina and South Dakota have passed laws that require disclosure either of amounts, donors or other details relating to independent expenditures to a state supervisory board. Iowa and Massachusetts also require that the CEOs of companies that fund political advertisements include an “approval message” in the advertisement. Tennessee has passed a law that defines all corporations making independent expenditures as political committees and therefore subject to existing regulations.

Other Political Activity

Trade associations: Most trade associations are considered non-profit groups by the IRS and are listed as 501(c)6 groups. Those groups must file an annual Form 990, disclosing their total dues received for the year and the amount of money spent on lobbying and political activity. Trade associations must also disclose to anyone paying dues the estimated amounts of those dues that will be used for lobbying and political activities unless the association chooses to pay the required tax on the spending, instead of passing that tax back to member companies.

Companies are not required to disclose their memberships in such associations and the associations in turn are not required to disclose their members. The recent judicial and FEC rulings have also opened the door for trade associations to make unlimited donations to independent expenditure groups or to expressly advocate for or against individual candidates or issues.

State ballot initiatives: Initiatives typically may be placed on the ballot after citizens collect a required number of signatures, allowing sponsors of the initiative to bypass the legislature and take lawmaking directly to the electorate. Corporate contributions to initiatives have no limits since there is very little regulation on the subject. According to the Ballot Initiative Strategy Center, 24 states and the District of Columbia allow for some type of ballot initiative.

In its 1978 decision *First National Bank of Boston v. Bellotti*, the U.S. Supreme Court upheld the right of corporations to spend money in state ballot initiatives or referendums, when it overturned a Massachusetts law that banned such spending unless the proposal materially affected “any of the property, business or assets of the corporation.” In the opinion that overturned the law on First Amendment grounds, Justice Lewis Powell ruled that such prohibitions infringed on corporations “protected speech in a manner unjustified by a compelling state interest.” A 1996 Montana law, passed by initiative, banning direct corporate contributions from the corporate treasury to initiative campaigns, also was struck down by the U.S. Court of Appeals for the Ninth Circuit in 2000. The justices in that case pointed to *Bellotti* as the precedent for their ruling. Later, the U.S. Supreme Court denied a subsequent petition by the State of Montana for review.

Lobbying: Lobbying is simply the act of trying to influence an elected official on a particular issue, usually through meetings or communications with an elected official or legislative staff. Lobbying of elected officials is protected by the First Amendment and anyone may do it. Professional lobbyists—who are frequently former elected officials, former members of their staffs or former government employees—are hired by all major industry associations (and some individual companies) to advance their particular interests, especially at the federal level. Many major U.S. corporations also have in-house lobbyists as part of company Government Relations or Government Affairs departments.

While anyone may lobby elected representatives, those who spend more than 50 hours lobbying or receive more than \$6,000 for lobbying services from a single client within a six month period are required

to register with both the U.S. House of Representatives and the U.S. Senate. Lobbyists are subject to a number of regulations, the most recent of which is the Honest Leadership and Open Government Act of 2007. According to the Center for Responsive Politics, there are 11,674 unique, registered lobbyists who have actively lobbied the U.S. government in 2011 so far.

Many professional lobbyists and their firms make contributions to candidates, their campaigns and various PACs. Given the existing restrictions on gifts, food and travel, these donations may be seen as a loophole in the system. Instead of providing travel to a lobbyist-sponsored event (which would be illegal), the lobbyist simply donates the money for travel to a PAC, which may in turn arrange and pay travel expenses for the particular legislator.

Given the clarification in SEC interpretations discussed below, lobbying issues have become more of focus for shareholders in 2011, a trend that will grow in 2012.

Shareholder Campaigns and Corporate Responses

Investors who want to pressure companies for change have the option of initiating a shareholder proposal campaign. To propose a resolution, an investor must meet the ownership and subject matter requirements of the Shareholder Proposal Rule, which is administered by the Securities and Exchange Commission (SEC). If these conditions are met, companies must print proposals in their “proxy statements,” which are made available to all investors in the company who then may vote; tallies are announced at or shortly following annual meetings. Resolutions focused on social policy issues rarely pass, but overall support levels have doubled in the last decade and the resolutions are an important barometer of investor sentiment on contentious public policy issues.

In 2011, investors had a wider array of political spending proposals to consider than in the past, as proponents marshaled discontent about the January 2010 U.S. Supreme Court *Citizens United* decision and filed many new proposals—increasing the total filed by half, to 97, not including another six proposals that did not appear in proxy statements that were presented from the floor of annual meetings. (Nearly all the 2010 proposals had been filed before the decision was issued.) The resolutions built on the work that has been coordinated since the 2004 proxy season by the Center for Political Accountability (CPA), a non-profit group that advocates for more political spending transparency. In addition to the standard CPA proposal, the 2011 proposals offered new twists about the various indirect ways corporate money makes its way into the political system (often via non-profit groups such as trade associations and “social welfare” organizations that are a growing source of campaign cash), suggesting in a few cases that shareholders be allowed to vote on company spending.

In a move that may signal an increase in political spending-related proposals, in 2010 and 2011 the SEC staff clarified its views about the admissibility of resolutions concerning lobbying. Previous resolutions had focused on lobbying on specific issues, such as tobacco advertising or climate change, and the staff had held that they were excludable from proxy statements on “ordinary business grounds.” But in response to a broad resolution to **PepsiCo** from the National Legal and Policy Center in 2010, and a 2011 trade union lobbying proposal at **International Business Machines**, the staff said the companies could not exclude the proposals because they focused primarily on general political activities and did “not seek to micromanage the company to such a degree that exclusion of the proposal would be appropriate.” The staff continued to allow companies to omit proposals that dealt with lobbying on particular issues.

In addition to proposals in proxy statements, the 2011 proxy season also saw a campaign containing half a dozen proposals spearheaded by Walden Asset Management that were offered for consideration from the floor of annual meetings. These proposals highlighted concerns Walden and others have about companies’ relationships with the U.S. Chamber of Commerce, which spent heavily in the fall 2010 elec-

tion campaign and does not disclose the sources of its funding. (Two similar resolutions proposed earlier by Walden were included in proxy statements and also came to votes.)

Mainstream investors tend to look kindly on political spending proposals and gave most of the proposals high levels of support, including one of the five majority votes of the season for social and environmental issues, at **Sprint Nextel** (53.3 percent). The resolutions also prompted a wave of agreements between proponents and companies about more disclosure of spending and oversight mechanisms, which will come under intensified scrutiny as the 2012 Presidential election nears.

The CPA Campaign

The majority of the proposals on political spending continued to be coordinated by the Center for Political Accountability (CPA). The CPA's investor partners who sponsor the proposals include an array of public pension funds, socially responsible investing firms, religious groups and foundations. The standard resolution asked for semi-annual reporting on how companies govern their political spending and disclosure of what they spend, both directly in campaign contributions to candidates and political groups and indirectly through trade associations and other non-profit groups. It was reformulated and streamlined slightly in 2011 so that it asked only for the title, not the name, of company officials involved in political spending decisions. It also removed a former specific legal reference.

The standard CPA proposal requested that the company publish the following information on the company website, in semi-annual reports:

1. Policies and procedures for political contributions and expenditures (both direct and indirect) made with corporate funds.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used to participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, and used in any attempt to influence the general public, or segments thereof, with respect to elections or referenda. The report shall include:
 - a. An accounting through an itemized report that includes the identity of the recipient as well as the amount paid to each recipient of the Company's funds that are used for political contributions or expenditures as described above; and
 - b. The title(s) of the person(s) in the Company who participated in making the decisions to make the political contribution or expenditure.

Two companies targeted by the CPA because of trade association memberships (**ConocoPhillips** and **Sara Lee**) received a slightly different proposal focused on indirect political spending.

Votes: Thirty-four of the expected 35 votes have been tallied (one more is pending, at **Archer Daniels Midland** on Nov. 3) and average support for these proposals climbed to 33 percent, up from 30.5 percent in 2010. Eight were withdrawn after companies agreed to adopt the CPA's model code for governance and spending disclosure. Just three were omitted—on technical grounds at **Amazon.com** and **Comcast** and at **Ford Motor** because longtime shareholder advocate Evelyn Davis preempted the CPA proposal with a similar one of her own.

Eighteen of the proposals were resubmissions from 2010, as noted on the table. Most got about what they earned in 2010 or a little more. Substantial drops in votes occurred at **Express Scripts** (down to 29.6 percent from 42 percent in 2010) and **Goldman Sachs** where the company had changed its policy after the proxy statement was printed (13.8 percent, down from 42 percent), but big jumps occurred at **Valero Energy** (35.7 percent, up from 26.5 percent) and **Wellcare Health Plans** (42.5 percent, up from 23.3 percent).

Withdrawals and SEC action: Proponents withdrew eight of the CPA proposals after discussions with companies about their disclosure policies.

None of the substantive challenges lodged at the SEC by companies succeeded. **Boeing** argued the proposal was moot since it had changed its policies; it also said it could not disclose indirect spending by trade groups it supports since it might not know how such money is spent. **JPMorgan Chase** and **Goldman Sachs** contended the proposal was too vague about intervening in political campaigns and trying to influence the public. Finally, **Southwestern Energy** also said the proposal was moot given its policies. The SEC staff rejected all these assertions.

Center for Political Accountability Proposals in 2011					
Company	Primary Proponent	Status/ Vote (%)	Company	Primary Proponent	Status/ Vote (%)
Allstate	K.C. Firefighters	37.0 ∪	R. R. Donnelley	NYSCRF	48.7
Anadarko Petroleum	NYSCRF	38.1	Regions Financial	NYC pension funds	27.9 ∪
A. Daniels Midland	Teamsters	11/3 mtg	Sara Lee	Teamsters	13.0
AT&T	Domini Soc. Inv.	31.0	Sears Holdings	NYSCRF	5.6
BB&T	LiUNA	32.3 ∪	SW Energy	K.C. Firefighters	27.6 × ∪
Boeing	Newground Soc. Inv.	22.1 × ∪	Sprint Nextel	NYC pension funds	53.4 ∪
Caterpillar	NYSCRF	34.7	State Street	Trillium Asset Mgt	44.1
CenturyLink	CWA	34.8	Valero Energy	N. Cummings Fndn	35.7 ∪
Charles Schwab	NYC pension funds	31.0 ∪	Wal-Mart Stores	K.C. Firefighters	13.3 ∪
Citigroup	K.C. Firefighters	30.0 ∪	WellCare Hlth Plans	Amalgamated Bank	42.5 ∪
ConocoPhillips	N. Cummings Fndn	27.0 ∪	Windstream	CWA	42.0
Coventry Hlth Care	NYC pension funds	44.3 ∪			
CVS Caremark	Green Century	39.1 ∪	Eastman Kodak	Green Century	withdrawn
DTE Energy	NYC pension funds	27.5 ∪	Limited Brands	NYSCRF	
EOG Resources	Mercy Investment	42.5	Marriott Int'l	NYSCRF	
Express Scripts	K.C. Firefighters	29.6 ∪	Massey Energy	LiUNA	
FedEx	NYC pension funds	27.7	Molson Coors	NYSCRF	
Goldman Sachs	Domini Social Inv.	13.8 × ∪	Wells Fargo	K.C. Firefighters	
Halliburton	Trillium Asset Mgt	46.5 ∪	Yum Brands	NYSCRF	
JPMorgan Chase	Domini Social Inv.	37.4 ×	Ameriprise Financial	LiUNA	
Lorillard	NYSCRF	45.8	Amazon.com	Newground Soc. Inv.	omitted (b)
Lowe's	K.C. Firefighters	36.1	Comcast	Joseph F. Granata	omitted (b)
Nat'l Oilwell Varco	N. Cummings Fndn	35.2	Ford Motor	Trillium Asset Mgt	omitted (i-11)
Northrop Grumman	Mercy Investment	38.1			

b – insufficient proof of stock ownership i-11 – duplicative × SEC challenge rejected ∪ resubmission
 NYSCRF – New York State Common Retirement Fund
 CWA – Communication Workers of America
 Liuna – Laborers International Union of North America

Indirect Spending

In 2011, shareholder proposals increasingly focused on the ways in which companies can spend money indirectly in political campaigns, an unsurprising emphasis given recent legal developments that allow companies to spend more and disclose less. Companies that have adopted political contribution policies that do not address indirect spending have found themselves targeted by these proposals.

Several proposals made concerns about indirect flows of money into politics, including specially tailored CPA proposals at **ConocoPhillips** and **Sara Lee**. Socially responsible investing firms joined by the Tides and Nathan Cummings Foundations worked on proposals at companies that sit on the board of the U.S. Chamber of Commerce, in addition to targeting companies that have been involved in the political arena

Other Political Spending Proposals			
Company	Proposal	Proponent	Status/Vote
Indirect Spending*			
IBM ✎	report on political spending & trade groups	Walden Asset Mgt.	31.4
3M	report on political spending and potential impact	Trillium	35.8
Occidental Petroleum		Green Century	30.6
PepsiCo		Walden Asset Mgt.	11.0
Valero Energy		Unitarian Universalists	34.8
AT&T		Walden Asset Mgt.	withdrawn
Best Buy		Trillium	
JPMorgan Chase		Tides Foundation	
Pentair		Trillium	
Pfizer		Walden Asset Mgt.	
Tesoro		Nathan Cummings Fndn	
Target ✎		Walden Asset Mgt.	
United Parcel Service ✎		Walden Asset Mgt.	
Votes on Spending			
Avery Dennison	require shareholder approval of political spending	James W. Mackie	omitted (b)
Becton Dickinson			omitted (e-2)
Dominion Resources ✎			withdrawn
Exxon Mobil ✎			
FedEx	allow advisory vote on political spending	Northstar Asset Mgt	omitted (i-11)
Home Depot			5.0
Procter & Gamble			6.7
United Health Group		CT Retirement Plans	withdrawn
Wellpoint			
Lobbying			
Exxon Mobil	report on political spending and lobbying	LiUNA	23.6
Bank of America	report on lobbying	AFSCME	32.7 ×
CIGNA		Srs. Humility of Mary	withdrawn ✎
Citigroup		AFSCME	omitted (i-11)
ConocoPhillips			26.4
IBM			28.5 ×
Lockheed Martin			withdrawn
Occidental Petroleum			omitted (i-11)
Prudential Financial			8.0
Raytheon			25.6 ×
Individuals			
Citigroup	affirm political non-partisanship		7.9 ∪
JPMorgan Chase			6.5 ∪
Ford Motor	disclose political contributions in newspapers	Evelyn Davis	4.2
Pfizer			4.6
Bank of America	disclose prior government service		4.6 ∪
Verizon			11.6
Archer Daniels Midland	stop political spending	Marie Bogda	Nov. 3 mtg
b –insufficient proof ownership e-2 – submitted late × SEC challenge rejected ✎SEC challenge lodged ∪ resubmission *In addition to the proposals listed in this table that appeared in proxy statements, Walden Asset Management proposed resolutions from the floor at 3M, ConocoPhillips, CVS Caremark, Eastman Kodak and JPMorgan Chase and withdrew a planned floor resolution at Pfizer. The floor resolutions did not appear in proxy statements but were included in the meeting agendas.			

in other ways. All these resolutions used the same resolved clause, asking for a “comprehensive review of all political contributions and spending processes.” The proponents wanted companies to scrutinize how their campaign spending might conflict with their stated public policy goals, in particular. **Votes:** Support was generally high, with all but **PepsiCo** getting more than 30 percent (it got just 11 percent there when the proxy advisory firm ISS recommended against it, in contrast to the others). Two votes were at companies—**Occidental Petroleum** and **Valero Energy**—that gave money to support a California ballot initiative (Proposition 23) that would have overturned the state’s landmark climate change law. 3M had given money in 2010 to a political committee that supported unsuccessful Minnesota gubernatorial candidate Tom Emmer (R), who voiced opposition to gay rights while supporting business friendly initiatives; unlike three other Minnesota-based companies (see below), **3M** did not reach an accord with the proponents.

Walden used a slightly different formulation at **IBM**, asking for a “comprehensive review” of the company’s direct and indirect political spending, but also zeroing in on the company’s relationship with the U.S. Chamber. The proposal ended up earning 31.4 percent.

Withdrawals: In a striking development for a first-year effort, more than half of the new indirect spending proposals were withdrawn after the proponents were satisfied with discussions they had with companies. **Best Buy**, **Pentair** and **Target** all agreed to change their policies regarding indirect spending; all are based in Minnesota and each had given money indirectly to the Tom Emmer campaign through Minnesota Forward, a political committee. As noted above, in Target’s case the contribution prompted a nationwide boycott from the Human Rights Campaign, the country’s largest LGBT organization, which highlighted the contrast between Emmer’s views and the company’s gay-friendly policies. Proponents also were satisfied with their discussions at **AT&T** and **JPMorgan Chase**, and withdrew at **United Parcel Service** after the company clarified it does not make campaign contributions. **Tesoro**, which had helped bankroll Proposition 23 in California alongside Occidental and **Valero Energy**, agreed to change its policy and include more reporting and oversight in exchange for the withdrawal. Finally, **Pfizer** said it would institute a policy not to give via independent expenditures in elections.

Floor resolutions: At half a dozen companies, despite withdrawal agreements, the proponents also raised concerns about support for the Chamber of Commerce from the floor of the annual meeting, as allowed under Rule 14a-4 of the Shareholder Proposal Rule. These proposals were not included in proxy statements but they were official agenda items at meetings and prompted boards to respond to the issue publicly; all were voted down by large margins and Si2 is not including these special proposals in its tally of vote results given the different way in which they were raised. Walden Asset Management again took the lead in this effort, at **3M**, **ConocoPhillips**, **CVS Caremark**, **Eastman Kodak** and **JPMorgan Chase**. Walden withdrew the floor proposal at **Pfizer** after discussions with the company.

Advisory Votes on Spending

A new set of proposals has been inspired by the successful “say-on-pay” campaign that has culminated in a new requirement that allows shareholders to cast advisory votes on executive pay, a provision of the Dodd-Frank financial reform law enacted in 2010. Following this model, investors filed nine resolutions that requested shareholder input on political spending in 2011. Only two proposals went to a vote. The **Home Depot** and **Procter & Gamble** proposals only earned 5 percent and 6.7 percent, respectively, but they prompted considerable press coverage and may be a bellwether for further resolutions of a similar ilk in 2012. The Home Depot resolution asked that shareholders be provided with a chance to prospectively approve policies and expenditures for electioneering and to receive a retrospective report on such spending from the previous year. The proposal submitted at Procter & Gamble was similar,

but, unlike at Home Depot, did not limit those expenditures to only electioneering communications and instead included all political contributions.

Home Depot challenged the resolution at the SEC, arguing it was moot, dealt with ordinary business, and was too vague, but the SEC disagreed and said it must be included in the proxy statement. The proposal was omitted at **FedEx**, on the grounds that it was too similar to another proposal received first using the CPA disclosure formulation.

The Connecticut Retirement Plans withdrew a different, detailed resolution that called for retrospective ratification of all company political spending, including lobbying, in the previous year at **United Health Group** and **Wellpoint** after discussions.

Individual proponent James Mackie wanted a ban on political contributions unless they are approved by 75 percent of the outstanding shares, a very high bar. Two of his proposals were omitted on technical grounds (at **Avery Dennison** and **Becton Dickinson**) and he withdrew the other two (at **Dominion Resources** and **ExxonMobil**).

Lobbying

The American Federal of State, County and Municipal Employees (AFSCME) and a union took up the other side of the electoral coin and asked for reports on lobbying. They hit on a formulation that was acceptable to the SEC, which had turned back earlier proposals that mentioned “grassroots lobbying”—also commonly referred to as “astro-turfing”—as too imprecise. The new SEC position sets the stage for other resolutions on lobbying for 2012. Proponents have indicated to Si2 that they plan to submit about two dozen such proposals in 2012, but the final numbers for this campaign will not be known until late 2011.

Votes: AFSCME’s proposal used language similar to the campaign spending resolution from the Center for Political Accountability, but substituted “direct lobbying and grassroots lobbying” for “political contributions and expenditures,” and defined grassroots lobbying communication as a local, state or national communication “directed to the general public that (a) refers to specific legislation, (b) reflects a view on the legislation and (c) encourages the recipient of the communication to take action with respect to the legislation.” It was voted on at five companies—**Bank of America**, **ConocoPhillips**, **IBM**, **Prudential Financial** and **Raytheon** and all but one, at Prudential, earned more than 25 percent support.

A hybrid proposal from the Laborers’ International Union (Liuna) to **ExxonMobil** combined the language of the CPA proposal with that of the other union lobbying resolutions. It earned just under 24 percent.

Individuals

Longtime shareholder proponent Evelyn Davis filed three of her standard resolutions to six companies, noted in the table, earning between 4 percent and 12 percent support. The proposals asked companies to affirm political non-partisanship, disclose their political contributions in newspapers and disclose the previous government service of company employees.

For the second year in a row, Marie Bogda filed a political contribution proposal at **Archer Daniels Midland**; results from the Nov. 3 meeting were not available when this report went to press. In 2010, Bogda requested that the company ban the use of corporate funds for any election or campaign purposes. In the 2011 proposal, Bogda narrowed the requested prohibition down to only funds used for federal elections and campaigns.

Other Public Policy Resolutions

One proposal also went to a vote in 2011 from a proponent that wanted **Pfizer** to change its public policy positions. The National Legal and Policy Center (NLPC), a non-profit advocacy group based in Northern Virginia, asked companies to justify their public policy positions, asking for reports on how they identify and prioritize “legislative and regulatory public policy advocacy activities.” The group believes government will be more ethical if it is smaller and said that “character, morality and common sense,” not more laws or guidelines, are the core problem. It wanted the requested report to:

1. Describe the process by which the Company identifies, evaluates and prioritizes public policy issues of interest to the Company;
2. Identify and describe public policy issues of interest to the Company;
3. Prioritize the issues by importance to creating shareholder value; and
4. Explain the business rationale for prioritization.

The supporting statement made clear the proponents were unhappy with Pfizer’s position and actions during the debate and passage of the Affordable Care Act during 2010. It received 3.8 percent support, just above the resubmission threshold. Four similar proposals by either the NLPC, a like-minded organization named the National Center for Public Policy Research (NCPFR) or David Ridenour (who is affiliated with the NCPFR) were omitted by the SEC as moot, duplicative of other proposals or dealing with ordinary business.

A proposal filed by individual investor Shelton Ehrlich, but presented by a representative of the NCPFR’s Free Enterprise project, questioned the benefits of lobbying activities related to global warming at **Duke Energy**. The proposal was clearly targeted to highlight and oppose Duke Energy’s support of proposed cap-and-trade legislation and received 6.5 percent support.

Other Campaigns to Change Corporate Behavior

In addition to the growing number of shareholder proposals on political contributions and lobbying, the *Citizens United* decision, combined with the massive amounts spent during the 2010 elections, has prompted increased interest across a broad spectrum of stakeholders and corporate watchdogs. These groups seek to enhance corporate governance policies and disclosure through direct engagement with corporations, media campaigns, increased public awareness and regulatory solutions.

The Conference Board: In 2010, the Conference Board, a non-profit business membership and research group, worked with the Center for Political Accountability to produce its Handbook on Corporate Political Activity: Emerging Corporate Governance Issues. In addition to research on corporate political activity, the Handbook provides companies with advice on managing and overseeing corporate political spending within a system of comprehensive enterprise risk management. The report argues that establishing an ethical corporate culture is an integral part of any company that wishes to effectively engage in the political arena since “A company grounded in an ethical culture will do more than comply with existing laws; it will also take steps that encourage directors senior managers, and other employees to hold their own and others’ actions to well-articulated company standards.”

Since the publication of the Handbook, the Conference Board has established a Committee on Corporate Political Spending to “explore the issue of using corporate treasury funds in election-related activity.” The committee includes executives from **Campbell’s Soup, Exelon, Merck, Microsoft, Pfizer, Prudential Financial** and **Coca-Cola** and is “dedicated to accountability, transparency, education, and engagement on issues of political activity.” In addition to engaging various stakeholders on the issue, the committee has also stated that it intends to “develop a set of prevailing practices around corporate political spending, disclosure and accountability.”

The CPA Model Code

The CPA has developed its Model Code of Conduct for companies, based on a 2007 survey of company codes it conducted. The Model Code of Conduct includes the policies articulated in the shareholder proposal and adds that:

- Political spending shall reflect the company's interests and not those of its individual officers or directors;
- The disclosures shall describe the political activities undertaken by 527 groups and trade associations which receive company funds. In the case of trade association payments, the disclosures will involve some element of pro-rating of the company's payments that are or will be used for political purposes;
- The board of directors or a committee of the board shall monitor the company's political spending, receive regular reports from corporate officers responsible for the spending, supervise policies and procedures regulating the spending, and review the purpose and benefits of the expenditures;
- All corporate political expenditures must receive prior written approval from the General Counsel or Legal Department;
- In general, the company will follow a preferred policy of making its political expenditures directly, rather than through third party groups. In the event that the company is unable to exercise direct control, the company will monitor the use of its dues or payments to other organizations for political purposes to assure consistency with the company's stated policies, practices, values and long-term interests;
- No contribution will be given in anticipation of, in recognition of, or in return for an official act;
- Employees will not be reimbursed directly or through compensation increases for personal political contributions or expenses;
- The company will not pressure or coerce employees to make personal political expenditures or take any retaliatory action against employees who do not; and
- The company shall report annually on its website about its adherence to its code for corporate political spending.

On October 20, 2011, The Conference Board hosted the 2011 Symposium on Corporate Political Spending. At the symposium, its political spending committee released its report, *Corporate Political Spending: Policies and Practices, Accountability and Disclosure*, which provides a review of issues confronting companies that are developing a comprehensive program for political spending. Additional topics addressed at the symposium included overviews of the current federal and state regulatory framework for corporate political spending as well as shareholder concerns and plans for 2012.

Baruch Index of Corporate Political Disclosure: The Robert Zicklin Center for Corporate Integrity, a part of Baruch College's Zicklin School of Business, has developed an index that rates S&P 100 companies using a weighted system of 57 indicators that measure corporate political activity at all levels and branches of government. The Index scores companies on a scale of zero to 100, with zero being the most opaque and 100 being the most transparent. Scoring for the Baruch Index takes into account many of the policies and procedures put forth in the Handbook on Corporate Political Activity and is based on:

1. Ease of access to relevant materials on the corporate website;
2. Existing policies, procedures and corporate governance structures are in place and disclosed; and
3. Disclosure of political contributions (including recipient information).

The Center for Political Accountability and the C-Z Political Disclosure Index: In addition to coordinating the shareholder proposal campaign, the CPA tries to persuade companies to voluntarily adopt a model disclosure and accountability policy for political contributions.

The CPA identifies as "Corporate Leaders," as of October 2011, a total of 90 S&P 500 companies that disclose and monitor their political spending. It also identifies **Aetna, Hewlett-Packard, Merck** and **Mi-**

Microsoft as “Best in Disclosure” because they have “exceeded the common standard” and provided additional data beyond what the CPA requests. In an effort to highlight the need for increased disclosure of political contributions, in September 2011 the CPA and its partners sent an open letter to 423 companies “that have not embraced oversight and transparency.”

In October 2011, the CPA and the Zicklin Center for Business Ethics of the University of Pennsylvania’s Wharton School introduced their C-Z Index. It classifies companies according to their disclosure and governance policies and practices. Like the Baruch Index, the C-Z Index is based on the Handbook on Corporate Political Activity, co-authored by the CPA. C-Z Index rankings will be based on whether companies engage in independent political expenditures, the existence of well-defined policies governing political spending, decision-making and oversight and disclosure of political expenditures. The C-Z Index includes payments to candidates, 527 organizations, political committees, trade associations and 501(c)(4) advocacy groups under its definition of political spending. The CPA expects to add the entire S&P 500 to the index sometime in 2012.

Coalition for Accountability in Political Spending: Comprised of a group of state-level politicians and pension fund trustees, members of the Coalition for Accountability in Political Spending (CAPS) apply pressure on corporations to disclose their political spending, to rein it in, or stop it altogether. According to its website, www.saveourelections.com, CAPS uses a combination of engagement, pension fund activism, contracting reform and legislative action to accomplish its goals, which include:

- Work with institutional investors to promote policies supporting shareholder resolutions on corporate political spending;
- Expand the Coalition to include members from all regions of the country;
- Establish a bi-partisan leadership committee;
- Provide new model policies and resources to facilitate reforms through rule changes, new legislation and executive orders;
- Help introduce policy reforms in at least a dozen political jurisdictions;
- Serve as the national convener and leader for the groups working to curb the negative impacts of *Citizens United*.

California pension funds initiative: In June 2011, California Treasurer Bill Lockyear directed the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS) to develop policies that support full disclosure of corporate political spending. According to the letters sent to CalPERS and CalSTRS, the policies are to “require publicly-traded companies to disclose all their campaign contributions, including contributions to trade associations and nonprofit organizations, and to require boards of directors to oversee all political contributions made by a company.” The CalSTRS policy has been sent to the fund’s Corporate Governance Committee for approval, while CalPERS placed the changes to its Global Principles of Accountable Corporate Governance on the agenda for its Investment Policy Subcommittee’s meeting, which was about to occur at the time this report went to press.

A group of businesses, headed by the California Chamber of Commerce, has urged CalPERS not to approve the policy. According to those opposed to the proposed changes, the suggested policy “is an unfair and discriminatory mandate on corporate boards of directors, designed to chill the ability of businesses to defend themselves from political attacks by competitors, overzealous regulators, labor unions or no-growth advocates.”

CalSTRS and CalPERS have more than \$365 billion in combined assets. Their considerable holdings may cause companies without a disclosure policy in line with the fund's objectives to engage with them or face shareholder proposals at 2012 annual meetings.

Executives against political spending: On September 26, 2011, the Committee for Economic Development (CED), a non-profit, non-partisan business-led public policy organization comprised of more than 200 business executives and university presidents, released three reports (*Hidden Money: The Need for Transparency in Political Finance*; *After Citizens United: Improving Accountability in Public Finance*; and *Partial Justice: The Peril of Judicial Elections*) that “warn that the rollback of campaign spending and transparency reforms... presents a serious threat to jobs and the economy, public faith in the corporate sector, and the vitality of our democratic institutions.”

In *After Citizens United: Improving Accountability in Public Finance*, the CED states its belief that corporate political activity is “an important matter of corporate governance” and that corporate political spending should be subject to board oversight and approval. The CED recommends the adoption of policies that include the disclosure of any political expenditures—not only by corporations, but also by trade associations. The report also warns of corporate contributions to third-party groups, since a corporation does not have control over how contributions may be spent. Such spending could open up a corporation to reputational risk and criticism - as was the case at Target with the Minnesota Forward controversy during the 2010 elections.

In August 2011, **Starbucks** Chairman and CEO Howard Schultz started a campaign that appealed to CEOs to quit making campaign donations until “a fair, bipartisan deal is reached that sets our nation on stronger long-term fiscal footing. “ Subsequent public appeals by Schultz asked that campaign donations be withheld until “a transparent, comprehensive, bipartisan debt-and-deficit package is reached that honestly, and fairly, sets America on a path to long-term financial health and security.” In the weeks that followed, more than 140 CEOs signed the pledge, including those from **Intuit, AOL, NASDAQ, Whole Foods, J.C. Penney, and Frontier Communications**. While the pledge did not specifically address the issue of corporate campaign contributions, the publicity surrounding Schultz's pledge has helped to move the issue of campaign contributions, especially those from high ranking executives, further into the spotlight.

Corporate Reform Coalition: In 2010 national public interest groups started getting together to articulate a response to *Citizens United*. By fall 2011, this activity had coalesced into what is now known as the Corporate Reform Coalition (CRC). Comprised of 72 members ranging from constitutional and corporate governance advocates to academics, investors and environmental activists, the coalition believes that the use of unlimited corporate funds in political races will give corporate lobbyists a new tool to further their agendas with lawmakers and that the fear of running against such well-funded opposition will make it hard for politicians to oppose corporate wishes. Therefore, the CRC is working “to limit the impact of the *Citizens United* decision by exposing corporate influence in our elections and bringing new accountability to corporate behavior via shareholder protection solutions.” To that end, the group is pushing four corporate governance solutions:

- Corporate disclosure and shareholder approval of election spending in the states, with targeted advocacy around legislation in certain states.
- Campaigns around shareholder resolutions at S&P 500 corporations with direct consumer marketing to require disclosure of political spending.
- Corporate disclosure and shareholder approval of election spending in Congress, through advocacy for passage of the Shareholder Protection Act.
- Pushing the Securities and Exchange Commission to promulgate rules on corporate political spending.

Constitutional Amendment and other approaches: Public Citizen, the national non-profit group that bills itself as “the people’s voice in the nation’s capital,” is urging the public to call for an amendment to the U.S. Constitution (the Free Speech for People Amendment) that would reverse the *Citizens United* decision completely and establish that First Amendment rights do not apply to for-profit corporations. MoveToAmend.org and FreeSpeechforPeople.org also are supporting an amendment. Public Citizen told Si2 this approach “is the ultimate solution to build off of the corporate governance solutions the CRC is advocating and other campaign finance initiatives like public financing.”

On September 20, 2011, Representatives John Conyers (D- Mich.) and Donna Edwards (D-Md.) introduced legislation that would amend the Constitution to clarify the authority of Congress and the states to regulate the use of corporate funds for political activity. The proposed amendment says:

‘Section 1. Nothing in this Constitution shall prohibit Congress and the States from imposing content-neutral regulations and restrictions on the expenditure of funds for political activity by any corporation, limited liability company, or other corporate entity, including but not limited to contributions in support of, or in opposition to, a candidate for public office.

‘Section 2. Nothing contained in this Article shall be construed to abridge the freedom of the press.’

As with the Shareholder Protection Act, which is discussed in more detail below, prospects for passage are dim in the current Congress, especially given the two-thirds majority requirement for approval. But concerned citizens still may appeal to their state governments to call for a Constitutional Convention without having to go through the U.S. Congress, although that method has never been used to amend the Constitution.

Recent Policy Developments

Proposed SEC disclosure mandate: Comprised of a group of ten leading law school professors, the Committee on Disclosure of Corporate Political Spending submitted a rulemaking petition to the SEC on August 3, 2011. Citing the evolution of disclosure requirements at the SEC, increased interest by shareholders in corporate political spending, increased voluntary disclosure, the need for corporate accountability and similar disclosure rules for other corporate information adopted by the SEC, the petition requests that the SEC “initiate a rulemaking project” that would increase the transparency of corporate political spending.

As evidence for increased interest in corporate political spending, the Committee cites a 2006 Mason-Dixon poll that found that 85 percent of shareholders felt that there was a lack of transparency in corporate political activity and that 57 percent of shareholders “strongly” believed that there was “too little transparency with respect to corporate spending on politics.” Additionally, the Committee points to the increase in the number of shareholder proposals related to political spending during the 2011 proxy season. The Committee noted that political spending proposals outnumbered numerous governance proposals that have long received significant support from shareholders, including those relating to board declassification, majority voting, golden parachutes, and separation of the Chairman and CEO positions. According to the Committee’s figures, half of all S&P 100 companies that had not already agreed to voluntary disclosure of corporate political spending had a political spending disclosure proposal appear on the proxy ballot.

To show the growth of voluntary disclosure among the largest U.S. companies, the Committee uses figures provided by the Center for Political Accountability to show how voluntary disclosure of corporate

political expenditures by S&P 100 companies has grown from nearly nothing in 2004 to almost 60 percent by 2011.

The Committee also believes that increased disclosure of corporate political contributions is “necessary for corporate accountability and oversight mechanisms to work.” In particular, it cites the *Citizens United v FEC* decision and the U.S. Supreme Court’s opinion that shareholders with adequate information about corporate political activity could adequately decide if the corporation was acting in the interest of making profits. Since companies are not required to disclose all corporate political contributions, the Committee believes that shareholders are not given the essential information required to make an informed decision and serve as the safeguard envisioned by the Supreme Court.

As of October 2011, ten comment letters in connection with the petition had been posted on the SEC website. Seven of those letters were in support of the petition, including letters from the International Corporate Governance Network, VoterMedia.org, CorpGov.net, shareholder activist John Chevedden, Dr. Andrew Weiss, Dr. Neil Wollman, Dr. Michael Hadani, the Maryland State Retirement and Pension System and the Council of Institutional Investors. One letter from Keith Bishop, Attorney and Adjunct Professor of Law at Chapman University Law School, opposed the proposal. Additional letters in support of the petition were submitted by the Treasurer of the State of Oregon on October 6, 2011 and by 40 members of the social investment community on November 1, 2011, but neither is yet available on the SEC website.

In addition to the comment letters, 43 members of Congress (at the time of this publication) have also sent a Dear Colleague letter to SEC Chairman Shapiro urging the agency to act on the petition for political contribution disclosure.

Shareholder advisory vote: Increased interest in an advisory vote by shareholders on corporate political contributions is not limited to shareholder proposals. The idea is also an integral part of the Shareholder Protection Act of 2011 (H.R. 2517), which is sponsored by Rep. Michael Capuano (D-Mass.) and was introduced on July 13, 2011.

If enacted, H.R. 2517 would require companies to disclose their political expenditures and the recipients of those funds on a quarterly basis. Other requirements would include board oversight of political spending (including board approval of any expenditures in excess of \$50,000) and shareholders’ approval on estimated budgets for political spending in the next fiscal year. Companies that do not provide for the director vote listed above would be subject to delisting from U.S. exchanges. In addition, companies would also have to disclose the individual votes by board members authorizing political expenditures.

This bill was first submitted in 2010 as H.R. 4790. Despite strong opposition from the U.S. Chamber of Commerce, H.R. 4790 was approved by the House Financial Services Committee on July 29, 2010, but never went on to a vote in the full House of Representatives.

H.R. 2517 was immediately referred to the Subcommittee on Capital Markets and Government Sponsored Enterprises. Most observers believe it is unlikely that the Shareholder Protection Act 2011 will make it out of committee during the 112th Congress. Shareholder votes to approve corporate political expenditures have some similarities to amendments made to the United Kingdom’s Companies Act in 2000. However, unlike the advisory votes requested in the United States, the Companies Act requires shareholders approval for political expenditures over £8,000 (approximately \$12,440) as well as requiring companies to report all political expenditures over £2,000 (approximately \$3,110) in the company annual report.

According to a study published in the University of San Francisco Law Review, U.K. company investors almost universally gave shareholder approval to political budgets. However, 49 companies stopped political spending completely and the budget requests were typically between £50,000 and £100,000

(\$78,500 and \$153,000). Political spending by most U.S. companies, especially S&P 100 companies, is typically several times that amount annually. Whether the generally larger amounts spent by U.S. companies would be modified by an advisory vote remains to be seen.

As they did with the advisory vote on executive compensation, companies may initially argue that the results of votes against the proposed disclosures and budgets could be impossible to decipher. Since it would be a straight up or down vote, shareholders could conceivably decide to vote against such a proposal for several different reasons, some of which could be diametrically opposed. For instance, some might vote against because they do not believe in any corporate money should be spent in the political arena, while others might feel that the company is not adequately advocating for its positions and would like to see an increased budget.

Key legal decisions since *Citizens United*: While *Citizens United* continues to be the focal point for most discussions of corporate political activity, subsequent judicial rulings and a Federal Election Committee opinion have also had a dramatic effect on the flow of corporate money into the political process.

SpeechNow.org v. FEC—In March 2010, a federal appeals court ruled in *SpeechNow.org v. Federal Election Commission* that campaign contribution limits for independent organizations that use funds for independent expenditures are unconstitutional. The court struck down the \$5,000 limitation on the amount individuals could donate to SpeechNow.org, an independent expenditure-only committee (or “super PAC”) made possible by the *Citizens United* ruling. In another part of this ruling, the appeals court said the group also must register as a political committee with the FEC and disclose its donors, donation amounts and expenditures.

July 2010 FEC opinion—In a decision that broadened SpeechNow.org’s impact, the FEC issued Advisory Opinion 2100-11 on July 22, 2010. The FEC said corporations, unions and other political committees also could make unlimited contributions to these new independent expenditure-only committees. The FEC opinion paved the way for the significant role super PACs played in the 2010 elections.

As a result of the recent rulings, super PACs, 501(c)4 social welfare and 501(c)6 trade associations, business leagues or chambers of commerce now may raise unlimited amounts from corporations, unions, other groups and individuals. They also may run advertisements expressly for or against federal candidates as long as their activities are not coordinated with any candidates, candidate committees or parties. Super PACs must file reports with the FEC at least quarterly that disclose a list of donors. However, groups that have non-profit tax status as 501(c)4 or 501(c)6 organizations are not required to disclose a list of members or donors.

***Minnesota Citizens Concerned for Life, Inc. v. Swanson*:** On May 16, 2011, the Eighth Circuit Court of Appeals upheld a Minnesota law that requires groups that make independent expenditures to disclose all donors who have given them more than \$100, explaining how the money is being spent. Also, during election years, businesses and independent groups must submit five separate disclosure reports; they also must report large donations within 24 hours in the three weeks leading up to the primary election and in the last two weeks before the general election. Those disclosure requirements led to the disclosure of donations to Minnesota Forward by **Target, 3M, Best Buy, Polaris Industries, Regis and Securian Insurance** during the 2010 election. The same attorney who filed the *Citizens United* case had filed the challenge for Minnesota Citizens Concerned for Life (MCCL) on the grounds that it violated the First Amendment.

But on July 12, 2011, the Eighth Circuit Court granted an en banc review, which vacated the prior ruling. Oral arguments for the en banc review were made on September 21, 2011. No opinion has been issued, but the Eighth Circuit may choose to strike down the law as unconstitutional. Such a decision could have a chilling effect on disclosure laws across the country.

Appendix II: Company Policy Excerpts on Independent Expenditures

Consumer Discretionary	
Best Buy (allows)	“Direct corporate contributions to candidates and committees are prohibited at the federal level and in some states. However, corporations may make independent expenditures on behalf of candidates and committees. Thus, Best Buy may provide corporate funding to candidates and/or issue campaigns that align with the company's business objectives and public policy goals.”
Ford Motor (bans)	“Ford Motor Company does not make contributions to political candidates or political organizations nor otherwise employ Company resources for the purpose of helping elect candidates to public office, even when permitted by law. Nor do we take positions for partisan political purposes—that is, specifically for the purpose of advancing the interest of a political party or candidate for public office. These policies remain unchanged, notwithstanding the U.S. Supreme Court's January 2010 decision that loosened restrictions on corporate independent expenditures.”
Home Depot (Board approval)	“The Nominating & Corporate Governance Committee of the Company's Board of Directors must approve in advance any public advertisement directly or indirectly paid for by the Company that expressly advocates the election or defeat of a candidate in which Home Depot is identified specifically as an advocate of such election or defeat.”
McDonald's (bans)	“In 2010, the United States Supreme Court ruled in Citizens United v. Federal Election Commission that U.S. corporations may not be prohibited generally from using their funds to pay for certain independently made partisan political advertisements and other political communications referred to as ‘independent expenditures’ and ‘electioneering communications.’ ² Notwithstanding the Supreme Court's decision, the Company has determined that it will not make any independent expenditure or pay for any electioneering communication, as those terms are defined by applicable law.”
Target (allows)	“The Policy Committee reviews and approves any use of general corporate funds for electioneering activities or for ballot initiatives. This approval process applies whether the contribution is made directly to a candidate or party, or indirectly through an organization operating under Section 527 or 501(c)(4) of the U.S. Internal Revenue Code.”
Consumer Staples	
Altria (may allow)	“Altria discloses all PAC and corporate political contributions made to candidates, political parties, PACs, caucus committees, and ballot measure committees; it also will disclose if any of the Altria companies make independent expenditures supporting or opposing political candidates.”
Campbell Soup (bans)	“Notwithstanding the decision that the U.S. Supreme Court issued in 2009 in Citizens United v. Federal Election Commission, the Company has no intention of engaging in electioneering communications, i.e., expending corporate funds specifically to advocate the election or defeat of political candidates.”
Colgate-Palmolive (bans)	“The company's policy is not to directly or indirectly support any candidates or parties.”
General Mills (Board approval)	“Additionally, all direct contributions to independent political expenditure campaigns must be approved by the Company's Public Responsibility Committee.”

Kimberly-Clark (apparent ban)	In response to the July 2010 CPA letter, the company said, "Given the modest level of political spending (by the company), we do not believe a written policy or regular report on these activities is warranted." It also said, "we do not contribute to trade associations or Section 527 organizations or the purpose of contributing to candidates, nor have we done any political advertising in our own name."
Kroger (bans)	"Despite the recent ruling by the Supreme Court, The Kroger Co. does not permit spending corporate funds to air advertisements or finance specific activities in favor or opposition to a particular candidate."
Procter & Gamble (bans)	"P&G has no plans to use corporate funds to support independent political expenditures to influence federal elections, nor to make contributions to trade associations for that purpose."
Energy	
ConocoPhillips (may allow)	"ConocoPhillips' policy is to not make independent expenditures itself. However, if a compelling business purpose exists, an exception to this policy may be granted with the consent of Government Affairs, business unit personnel and Legal. Approval of the Public Policy Committee is also required."
Exxon Mobil (bans)	ExxonMobil told Si2 it does not spend corporate money via independent expenditures in political campaigns
Financials	
American Express (bans)	"American Express does not spend corporate funds directly on electioneering communications, and it publicly discloses as detailed below any contributions to another organization that are used in connection with a political campaign."
American In'l Group (bans)	The company told Si2 its current temporary moratorium on political expenditures includes independent expenditures.
Citigroup (bans)	"Citigroup does not use corporate funds for independent expenditures."
Comerica (bans)	In response to the July 2010 Center for Political Accountability letter, the company said it "will not use corporate money to make independent political expenditures."
Goldman Sachs (bans)	"Goldman Sachs also does not spend corporate funds directly on independent expenditures, including electioneering communications."
JPMorgan Chase (bans)	"In the Citizens United Case, the United States Supreme Court extended the ability of corporations to make independent campaign expenditures at the federal level. The Firm has no plans to change our political contributions policies as a result of this decision."
Marsh & McLennan (bans)	"In the wake of the recent Supreme Court ruling in the Citizens United case involving corporate political speech, Marsh & McLennan Companies wants to take this opportunity to affirmatively set forth its plans moving forward. Specifically, Marsh & McLennan Companies has no plans to engage in the following kinds of political conduct: (1) directly paying for independent advertising or public communications that expressly support or oppose a federal political candidate; (2) communicating its view on specific candidates on its website, company e-mail, or in newsletters or other communications; (3) communicating a view on whether a candidate's voting record is in line with the company's view on issues; or (4) establishing a new federal political action committee in order to engage in so-called 'independent expenditures.'"
Morgan Stanley (bans)	"However, Morgan Stanley does not use corporate funds directly for independent political expenditures or electioneering communications as defined under federal law."

T. Rowe Price Group (apparent ban)	In response to the July 2010 CPA letter, the company said, "our firm has very limited formal involvement in the political process. The company does not have any present intentions to establish a PAC or to make any independent political expenditures. We understand the Center's concerns about the potential for undisclosed independent political expenditures, but considering our very limited level of corporate political involvement, the issue is not significant to our firm. We do not believe it would be appropriate at this time to implement a formal program to monitor the independent political expenditures of our trade associations."
UNUM Group (bans)	"Unum does not make, directly or indirectly, any independent expenditures or electioneering communications to advocate the election or defeat of federal candidates."
Wells Fargo (bans)	"Wells Fargo does not use company funds for any candidate campaign funds including candidate campaign committees, political parties, caucuses, or independent expenditure committees."
Health Care	
Aetna (apparent ban)	"In 2009, Aetna did not make or engage in any independent political expenditure activity as defined under federal election law."
Gilead Sciences (apparent ban)	"Recently, the U.S. Supreme Court ruled that independent corporate expenditures on behalf of federal candidates are permissible. We do not expect to make significant amounts of such expenditures in the near future."
Johnson & Johnson (bans)	"Johnson & Johnson does not make direct independent political expenditures."
Medco Health Solutions (bans)	"Notwithstanding the Supreme Court decision in Citizens United v. Federal Election Commission, Medco shall continue its practice of not using corporate funds to endorse or oppose a federal political candidate, and as such, Medco will not pay for any independent expenditure or electioneering communication as those terms are defined by applicable federal law."
Merck (current ban)	"Merck has not used corporate funds to make any direct independent expenditures on behalf of candidates running for public office and does not currently have plans to use independent expenditures as part of Merck's corporate political contributions program. Should a situation warrant Merck's participation in independent expenditures, we would be fully transparent as we are with all other political contributions. This includes making all legally required filings, including with the Federal Election Commission, as well as disclosing our contributions on our external website. Independent expenditures would receive the same scrutiny as all of our other corporate contributions. Merck provides an annual report on its corporate contributions to the Board of Directors and reviews its program with the Board Committee on Public Policy and Social Responsibility. Additionally, independent expenditures would require approval by Merck's Corporate Political Contributions Committee which is comprised of senior leaders representing Merck's major divisions."
Pfizer (bans)	"It is Pfizer's policy that 'Corporate Funds' may not be used for Independent Expenditures, in connection with any federal or state elections, even if Pfizer is otherwise permitted to make contributions. Independent Expenditures are defined under Federal law as expenditures for a communication 'expressly advocating the election or defeat of a clearly identified candidate that is not made in cooperation, consultation, or concert with, or at the request or suggestion of, a candidate, a candidate's authorized committee, or their agents, or a political party or its agents.'" ²

Industrials	
3M (allows)	"The U.S. Supreme Court ruled in 2010 that companies and labor unions may make expenditures that are not coordinated with candidates or political parties to express First Amendment protected views relating to federal or state elections. In September 2010, 3M contributed \$100,000 to MN Forward, a Minnesota-based independent expenditure political committee that expressed its views regarding private sector job creation and economic growth in the 2010 Minnesota state elections. That contribution was properly reported by 3M and the recipient."
Cummins (bans)	"Cummins' current policies ban political contributions using corporate funds to candidates, political parties or independent expenditure campaigns."
General Electric (bans)	"GE has a longstanding practice against using corporate resources for the direct funding of independent expenditures expressly advocating for or against candidates in elections for public office. In 2010, the Public Responsibilities Committee adopted this practice as a formal policy."
Northrop Grumman (bans)	In response to the July 2010 CPA letter, the company said, "Northrop Grumman does not make direct independent expenditures for or against any federal candidate and we have no plans to do so in the future. Furthermore, any future decision to consider making federal independent political expenditures would require approval by our board of directors."□
United Technologies (current ban)	"The U.S. Supreme Court determined in early 2010 that corporations may make unlimited expenditures for independent communications to the general public that expressly advocate the election or defeat of a clearly identified federal candidate. UTC has not made any such expenditure in the past, and has no present plans to spend corporate funds directly on such communications. The Federal Election Commission, which regulates such activity, is considering regulatory changes following this Supreme Court decision, and the U.S. Congress is considering changes in law. UTC may review its position depending on the outcome of these initiatives."
Information Technology	
Microsoft (bans)	"Beginning July 1, 2010, Microsoft will not pay for any independent expenditure or electioneering communication as those terms are defined by applicable law. Since July 1, 2010, Microsoft informed trade associations to which it pays dues or makes other payments that no Microsoft funds may be used to pay for any independent expenditures or electioneering communications as those terms are defined by applicable law."
Oracle (may allow)	The company includes in its political spending report "Oracle expenditures for express advocacy or for electioneering communications reportable under applicable campaign finance or ballot measure laws."
Xerox (bans)	Xerox told Si2 it "has a longstanding policy that corporate independent political expenditures are not permissible."
Materials	
Dow Chemical (may allow)	"Other than stated above, federal election law does not prohibit a corporation from making independent expenditures on behalf of candidates or from making contributions to political organizations and other tax-exempt organizations that engage in voter registration, get-out-the-vote and other non-federal political activities. Such contributions may not be solicited, however, by any national party committee, federal elective officeholder or federal candidate, or any affiliate or agent thereof."

Du Pont (may allow)	The company's definition of political spending which it discloses "includes all payments made to (i) individual candidates, (ii) party committees; (iii) Political Action Committees ("PACs"); (iii) Leadership PACs; (iv) ballot issue groups (state or federal); or (v) any 527 organizations. It also refers to independent expenditures that expressly advocate a candidate's election or defeat, or payments that have to be reported as electioneering communications under federal or state campaign finance law. This term does not apply to money spent on lobbying or to charitable donations."
Weyerhaeuser (may allow)	"In 2010, Weyerhaeuser did not utilize corporate funds to support any independent expenditures. Under circumstances when corporate funds are used for independent expenditures, all transactions will be disclosed and transparent, on our annual report of all political donations."
Telecommunication Services	
Sprint Nextel (bans)	In response to the July 2010 CPA letter, the company said, "we do not have any plans to make independent political expenditures in the upcoming federal elections. Not only would these divert corporate resources from other priorities, they could potentially alienate our customers....We also do not intend to make independent political expenditures through a trade association as we rarely share common priorities with those groups."☐
Utilities	
Edison International (may allow)	"In addition to Edison International PAC's federal campaign contributions and other permitted company contributions made to state candidates, the EIX companies may make expenditures to support or oppose candidates, so long as the expenditures are not made in cooperation or consultation with, or at the request of, any candidate."
Exelon (may allow)	"...the Citizens United decision handed down by the United States Supreme Court in January 2010 has eliminated limits on independent expenditures by Exelon and its subsidiaries for advertisements to support or oppose the election of a candidate for public office in federal and state elections. During the Reporting Period, Exelon and its subsidiaries did not make any independent political expenditures in support of or in opposition to a candidate or political party."
Southern (allows)	"Additionally, Southern Company, but not its subsidiaries, is permitted under this policy to use corporate funds to make independent expenditures, and to contribute to organizations making independent expenditures, at the federal, state or local level as permitted by law."

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About Si2

The Sustainable Investments Institute (Si2) is a non-profit membership organization founded in 2010 to conduct impartial research and publish reports on organized efforts to influence corporate behavior. Si2 provides research that enable investors to make informed, independent decisions on contentious public policy issues at their portfolio companies. Si2's main funding comes from a consortium of the largest endowed colleges and universities and other leading institutional investors.

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About the IRRC Institute

The IRRC Institute is a not-for-profit organization established in 2006 to provide thought leadership at the intersection of corporate responsibility and the informational needs of investors. The IRRC Institute ensures its research is widely available at no charge to investors, corporate officials, academics, policymakers, the news media, and all interested stakeholders.

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