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CSR Needs CPR: Corporate Sustainability and Politics

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CSR Needs CPR:

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SUMMARY
Corporate sustainability has gone mainstream, and many companies have taken meaningful steps to improve their own environmental performance. But while corporate political actions such as lobbying can have a greater impact on environmental quality, they are ignored in most current sustainability metrics. It is time for these metrics to be expanded to critically assess firms based on the sustainability impacts of their public policy positions. To enable such assessments, firms must become as transparent about their corporate political responsibility (CPR) as their corporate social responsibility (CSR). For their part, rating systems must demand such information from firms and include evaluations of corporate political activity in their assessments of corporate environmental responsibility.

KEYWORDS: sustainability, lobbying, corporate social responsibility, business & society, business-government relations, policy making, non-market strategy

Corporate sustainability—once viewed as utopian, irrelevant, or even subversive—has gone mainstream. Of the Fortune 500 global companies, four-fifths now issue sustainability reports, describing a wide variety of environment-friendly activities.[1] Most leading business schools have courses in corporate sustainability, if not full-fledged dual-degree programs aiming to create a sustainable world "through the power of business." Support for corporate sustainability comes from both ends

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of the political spectrum. Think tanks such as the Property and Environment Research Center advocate "free-market environmentalism," frustrated that government intervention to protect the environment has gone too far. At the same time, non-governmental organizations (NGOs) such as the Rainforest Action Network have embraced "private politics," engaging directly with corporations to produce change because they are frustrated that government intervention has not gone far enough. Both perspectives reflect a belief that market forces can help lead the business world toward a more virtuous relationship with the social and natural world.

This expansion of business concern for its social and natural environment represents real progress, and is to be applauded. Global challenges such as ocean acidification, global terrorism, fisheries depletion, poverty, deforestation, toxic chemical emissions, and climate change are considered "wicked" problems because of their complexity and intractability, and help from all quarters is needed. Business leaders who take a long view want to ensure that the resources on which they depend will be healthy and robust in the future. But in a world of global economic competition, it is essential to have "rules of the game" that create a level playing field, including financial incentives for firms to internalize the costs of their actions on the natural environment and the societies of which they are a part. Indeed, recent research suggests that the most important drivers of corporate environmental, social, and governance (ESG) performance are actually country-level political institutions.[2]

How are the right "rules of the game" to be put in place? Traditionally this has been the responsibility of the state, not of the private sector. Yet these rules will emerge more readily with support from influential segments of the business community. Of course, the interests of business are diverse and no one expects firms to take public policy positions that damage the interests of their shareholders. It is natural that some firms will support policies that enhance sustainability, and others will oppose them. But with the rules of the game so important, it is also natural that companies are beginning to be evaluated by stakeholders based on the political positions they take.

In this article, we argue that the time has come for corporate political action to be taken into account by activists, scholars, consumers, and investors who care about sustainability. Those who assess firms on their social and environmental performance should add another critical dimension to their assessment of civic virtue and responsibility, namely, the extent to which firms support (or oppose) public policies that contribute to sustainability. To make this possible, firms must become as transparent about their political activity as many have become about their sustainability activity. Although this is clearly a nascent issue in corporate responsibility, there are signs that leading parts of civil society are already beginning to advocate for greater transparency around corporate political action. Managing this emerging set of stakeholder pressures will pose fascinating new challenges for corporate strategy beyond markets.

The Promise and the Limits of the "Market for Virtue"

A decade ago, in an influential book, David Vogel assessed the potential for business leadership—driven by the "market for virtue" rather than by legal requirements—to fill the "governance gap" left by an increasingly gridlocked state.[3] He found numerous success stories for this sort of "civil regulation" as distinct from "government regulation," ranging from working conditions in developing countries to the natural environment to human rights and global corporate citizenship. Nike has adopted labor and environmental standards for the over 700 factories abroad that make its products, has created a credible monitoring process, and has canceled contracts with suppliers who perform poorly; supplier codes-of-conduct and supplier auditing are now common practice among leading brands. Home Depot, Lowe's, and other retailers have adopted voluntary codes of conduct that have helped to preserve old-growth forests and improve forestry practices in North America and beyond. Thousands of companies around the world have signed onto the United Nations (UN) Global Compact (which bills itself as the world's largest corporate sustainability initiative) and have agreed to its principles for the improvement of human rights, the treatment of labor and the environment, and the reduction of corruption.

Moreover, a body of data is emerging that demonstrates quantitatively the impact of some corporate sustainability initiatives. Energy-efficient commercial buildings that are Leadership in Energy and Environmental Design (LEED) or Energy Star certified have an occupancy rate 11% higher than other buildings and sell for 16% to 17% more.[4] These initiatives have the ancillary benefit of reducing greenhouse gas (GHG) emissions. In addition, products that are perceived to offer health benefits have found a growing niche in the marketplace: organic food accounts for over 5% of total food sales in the United States, and it grew 8% in 2016 to top $40 billion for the first time.[5] Furthermore, over 20% of all wild-caught fish[6] and 15% of wood harvested from temperate forests around the world[7] comes from fisheries and forests certified as sustainable.

For all its success, however, the market for virtue is often "narrow and limited" in its ability to solve social and environmental problems.[8] Voluntary codes of conduct in the apparel sector did not prevent the 2013 collapse of the Rana Plaza textile factory in Bangladesh that killed 1,134 workers.[9] New certifications for sustainable forestry have emerged that offer weaker standards for firms that do not want to meet the most stringent demands.[10] The UN Global Compact has been widely criticized, and even derided as a form of "bluewash" by Ralph Nader.[11] BP, once lauded as a leader in the fight against climate change, has had its reputation ruined by the massive Deepwater Horizon explosion that killed 11 workers and created the largest oil spill in U.S. history.[12] Globally, 90% of fisheries are fully or overfished,[13] the agricultural production system is under stress from a burgeoning world population,[14] and water supplies are threatened around the world.[15] There is mounting evidence that climate change poses severe threats to global well-being, and by some estimates we have until just 2020 to bend the "climate curve" and rein in climate change before damaging warming becomes inevitable.[16] The

2015 State of Green Business report—authored by the normally upbeat Joel Makower, executive editor of GreenBiz.com—struck a somber note. "Companies continued to tinker with incremental changes in their products and operations to reduce their carbon emissions, energy use, waste, chemicals of concern and other aspects of their 'environmental footprint.'" But despite these efforts, he continued, "All told, they were necessary but wholly insufficient to address their fair share of environmental impacts."[17]

All of this reinforces Vogel's argument. Civil regulation can partially fill the governance gap but cannot fully replace public policy. The "carrot" of market incentives can reward sustainability leaders, but it cannot force all of the laggards to follow suit. For that, the "stick" of penalties for poor performance is required, and that remains largely the domain of government.[18] Vogel concluded,

> If companies are serious about acting more responsibly, then they need to reexamine their relationship to government as well as improve their own practices. And those who want corporations to be more virtuous should expect firms to act more responsibly on both dimensions. Civil and government regulation both have a legitimate role to play in improving public welfare. The former reflects the potential of the market for virtue; the latter recognizes its limits.[19]

Corporate Political Responsibility (CPR)

Although Vogel did not use the term, he was effectively calling for CPR—which we define as a firm's disclosure of its political activities and advocacy of socially and environmentally beneficial public policies—not just corporate social responsibility (CSR). In fact, one can argue that

> Compared with companies' efforts to green their operations, corporate political actions such as lobbying or campaign funding can have more influence on environmental protection, and arguably represent the greatest impact a company can have on protecting—or harming—the environment.[20]

From this perspective, CPR may be the most important element of a company's sustainability strategy.

CPR is not entirely unheard of. Consider the domain of climate change mitigation.[21] In 1997, then-CEO John Browne of BP became the first oil industry executive to acknowledge the role of human activity in creating climate change. In 1999, Ford Motor Company pulled out of the Global Climate Coalition, an industry lobbying group that rejected climate science and opposed climate legislation.[22] In 2007, the U.S. Climate Action Partnership—a coalition of environmental activists and business corporations—was established to lobby for a mandatory cap-and-trade system for carbon emissions in the United States. Its "Call for Action" created the blueprint for the Waxman-Markey bill that successfully passed the U.S. House of Representatives in 2009. In 2011, a group of European firms including Aviva and Danone likewise issued a public call for the European Union to adopt deeper GHG emissions cuts.[23] The Prince of Wales Corporate Leaders Group brings together a group of large multinational firms including Unilever, Tesco, and Acciona to press for stronger public action on climate change.[24] When President Trump announced his plan to withdraw from the Paris Climate Agreement, Jeff Immelt, then-CEO of General Electric, tweeted: "Climate change is real. Industry must now lead and not depend on the government."[25] The *We Are Still In* movement, a coalition of U.S. business, education, and local government leaders committed to upholding the U.S. commitments to the Paris Agreement on Climate Change, provides a vivid example of what CPR looks like. Hundreds of companies have come together with local governments, universities, and non-profit groups to offer their vocal support for national and international commitments to mitigate climate change.[26]

Examples of CPR also come from the social world, as when Emmanuel Faber, CEO of Danone, pushed for a reform of French civil law to revise the articles defining the company and to open a new status for public benefit corporations in France.[27] Another example came when Apple CEO Tim Cook spoke out publicly opposing a pending religious freedom law that critics warned would allow discrimination against same-sex couples.[28] After President Trump was unable to articulate a consistent criticism of the neo-Nazis whose march through Charlottesville, Virginia, resulted in the death of an innocent young woman, numerous CEOs resigned from the President's Manufacturing Council, including Merck CEO Ken Frazier, Under Armour CEO Kevin Plank, and Intel CEO Brian Krzanich.[29] Bill George, former CEO of Medtronic, argues that it is increasingly important for CEOs to speak out on key public issues. George recognizes that CEOs face difficult tradeoffs when deciding to speak out, but he argues that "business leaders should base their stands on the company's mission and its values. If these are violated, then they have an obligation to speak publicly."[30]

Unfortunately, there is evidence that some companies use their corporate sustainability initiatives as cover for their political efforts to block meaningful change. Writing in *Harvard Business Review*, Senator Sheldon Whitehouse of Rhode Island laments that

> Despite the statements emitted from oil companies' executive suites about taking climate change seriously and supporting a price on carbon, their lobbying presence in Congress is 100% opposed to any action. In particular, the American Petroleum Institute, the oil industry trade association, is an implacable foe. Given the industry's massive conflict of interest, there is every reason to believe they are playing a double game: trying to buy a little credibility with these public comments while using all their quiet lobbying muscle to crush any threat of bipartisan action on the carbon pricing they claim to espouse.[31]

Similar concerns arose when CEOs of large firms like Dow Chemical and Corning Inc. signed an open letter to the *Wall Street Journal* urging the United States to remain in the Paris Agreement, while simultaneously supporting the Industrial Energy Consumers of America (IECA), a lobbying group that was pushing the Administration to withdraw from the Agreement.[32] These examples show how some firms take symbolic action that sounds good in an annual report or in the newspaper while hiding the fact that they are blocking substantive progress on the political front. This sort of two-faced strategy makes a mockery of "corporate social responsibility" and turns it into a public relations gimmick. It illustrates the dark side of business participation in politics, and it raises the question of whether business should be involved in politics at all.

The Case against CPR

In fact, there is a long tradition of arguing against business engagement in politics. Milton Friedman famously argued in 1970 that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game."[33] Business leaders had no special expertise in social welfare, Friedman argued, and should leave it to the realm of politicians. Aneel Karnani presented an updated version of this argument in *California Management Review* in 2010.[34] However, both Friedman and Karnani naively ignore the role business leaders play in creating those very rules of the game. Business does not simply keep its nose out of politics—it is actively involved, to the tune of roughly $2.6 billion a year in lobbying expenditures.[35] Indeed, Friedman's close colleague George Stigler argued that "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit."[36] Coming from the opposite end of the ideological spectrum, Robert Reich made a related point in 1998 in *California Management Review*. Echoing Friedman, Reich argued that in a system where business firms view their primary responsibility as a fiduciary one toward investors, they have a secondary responsibility to the rest of society to "respect the political process by staying out of it."[37]

Unfortunately, although this nostrum is appealing, it is also unrealistic at present. Recent Supreme Court decisions clearly affirm that corporations have the right to participate in politics, and further establish that there are no absolute limits on how much companies can spend for political purposes, and no requirements to disclose the spending if they structure it in particular ways.[38] In *Citizens United v. Federal Election Commission* 558 U.S. 310 (2010), the Supreme Court held 5-4 that it is unconstitutional to restrict "independent" political expenditures by business, nonprofit organizations, labor unions, and other associations. Nor do donors even need to disclose their contributions, if they give to a 501(c)(4) "social welfare" organization that engages in "issue advocacy" rather than "express advocacy" for a particular candidate. What this means in practice is that the organization must not use the "eight magic words" that appeared in a footnote in *Buckley v. Valeo* (1976): "vote for," "elect," "support," "cast your ballot for," "Smith for Congress," "vote against," "defeat," "reject," or any variations thereof. An ad saying, "Crime is bad. Smith is soft on crime. Jones is tough on crime." would not count as "express advocacy" even though it strongly implies that one should support Jones. The bottom line is that corporations can now legally and covertly give unlimited amounts of "dark money" to fund issue ads to influence elections.

It is understandable that companies prefer to keep their political activities secret, and that they are wary of backlash when their involvement in the public arena is exposed. New research shows that firms that have faced a social movement boycott shift their political action away from campaign contributions and toward more covert forms such as lobbying or CEO donations.[39] The backlash can come from both ends of the political spectrum. From the right, the *Wall Street Journal* has attacked firms that support cap-and-trade policy as "Kyoto capitalists" that seek to profit from a "cynical approach to regulation" whose costs are "foisted on the backs of others."[40] Even efficient policies will be derided by those who believe "the free market" is always best left alone. From the left, activists often level charges of greenwashing at firms that highlight their environmental good deeds while downplaying their less savory activities. Firms that are small, pure-play environmental startups have a good chance of escaping such criticism, but this is much more difficult for large incumbent firms with diversified portfolios. Fears of backlash may be overstated, however: when a list of 91 companies contributing to a 501(c)(4) dark money group were exposed by the *New York Times* in 2014, their share prices actually rose.[41]

The Need for Transparency

Even if it is unrealistic to exclude business from politics that does not mean that unlimited covert business spending in politics is a good thing. In fact, there are reasons to believe quite the opposite is true. Secrecy breeds a host of problems. One is the corporate hypocrisy described by Senator Whitehouse, whereby firms are able to curry favor with the public through CSR activities while blocking laws that would require them to stop imposing environmental costs on their neighbors.[42] Another is the corruption that can set in when wealthy individuals or organizations are able to buy political favors. A third is the policy bias that emerges when the true sources of lobbying are hidden. One example is "astroturf lobbying," in which companies covertly fund artificial grassroots action to block the passage of laws that would increase their costs.[43] (Unfortunately, the Lobbying Disclosure Act of 1995 was stripped of any mention of such tactics, allowing them to persist.[44]) Another example, ushered in by *Citizens United*, is the use of tax-exempt "social welfare" advocacy groups to make unlimited political expenditures without revealing the identities of the funders.[45]

The importance of transparency is hard to overstate: it is the crucial safeguard to protect society from capture by private interests. Moreover, without transparency, shareholders themselves are cheated because they are kept in the dark about how the funds they put at risk are being used. It is encouraging that firms are becoming more transparent about their environmental impacts. Indeed, a large and growing number of firms are reporting in a manner consistent with the Global Reporting Initiative (GRI, currently considered the gold standard for environmental disclosure), with participation growing from 12 firms in 1999 to over 5,000 today. A few organizations, like Puma, have even begun issuing environmental profit and loss statements that estimate environmental impacts in dollars and cents. Although the practice of monetizing environmental impacts remains imperfect, it does help to simplify and focus sustainability reporting, and consulting organizations like Trucost are constantly refining the analytical methods for doing so.

Unfortunately, it is rare to find firms that are equally transparent about their political activity. Sustainability LLC, in conjunction with the World Wildlife Fund, conducted a study of 100 of the world's largest corporations and rated their disclosure of political activities. Nearly half the firms provided no information at all about their political involvement. Of those that did disclose, none achieved the highest rating and only a handful (BASF, BP, Chevron, Dow, Ford, General Motors, GlaxoSmithKline, and HP) achieved even the second-highest level.[46]

Climate change provides an interesting example of the limitations of current disclosure requirements. Recent research has found that there are two types of firms that tend to lobby politicians on the issue: those with high levels of greenhouse gas (GHG) emissions per dollar of output and those with low levels of emissions per dollar.[47] Current disclosure rules do not require firms to be transparent about what types of policies they support, merely how much money they spent lobbying on a particular issue. But an educated guess would be that high-emission firms are lobbying for weaker regulations than low-emissions firms would prefer. After all, it has been shown that states were more likely to adopt a renewable portfolio standard if they had a staffed office of the American Solar Energy Society in their state.[48] Investors, consumers, and activists who view climate change as an important issue increasingly want to know in greater detail just what policies firms have been advocating when they visit their Representatives and Senators, or the White House.

The demand for political transparency will likely become stronger as the Millennial generation grows in influence, because these "digital natives" have grown up with an expectation of radical transparency from the products they buy and the companies for which they work.[49] Furthermore, although disclosure regarding money in political campaigns is crucial, CPR must also include various other possible activities that are adapted to the variety of political systems and regimes across the globe. One of the most important of these is avoiding corruption, which remains a powerful force in many parts of the world. The UN Global Compact has made fighting corruption one of its key action items, and it may serve as a vehicle for broader calls for political transparency. In order to see where the future of political disclosure lies, however, it is important to understand the current state of ESG ratings.

CPR and Social Responsibility Metrics

To what extent do existing social responsibility metrics capture corporate political action? For decades, socially responsible investing (SRI) has used a variety of "screens" to help investors channel their financial support away from activities they deem socially undesirable, such as tobacco or apartheid.

Ratings organizations such as KLD Research, Innovest, RiskMetrics, Asset4, Sustainalytics, and Vigeo Eiris have sprung up to offer screening services to investors that include a variety of ways to evaluate firms' ESG performance.[50] In broad outlines, these services help investors to fund businesses they believe are making the world a better place, and to reduce funding for businesses undermining our social and environmental future. More narrowly focused organizations like CDP (formerly Carbon Disclosure Project) have also emerged to press publicly traded firms emitting GHGs to disclose detailed information about their exposure to the physical and economic risks related to their carbon emissions; CDP has recently added questions related to corporate activity that could directly or indirectly influence public policy on climate change.[51]

Given the important role of public policy in pointing the way toward a sustainable future, it is rather surprising that most SRI advisors do not currently recognize the role of business in the public policy process. Consider what is currently being measured in corporate ESG metrics. One of the oldest and best known ESG rating systems originated from KLD Research, which was acquired by RiskMetrics in 2009, itself then acquired by MSCI in 2010. The stated purpose of the MSCI ESG ratings is to "to help investors to understand ESG risks and opportunities and integrate these factors into their portfolio construction and management process."[52] Its key issues for each of the three categories are presented in Table 1. Reading through the issues and their explanations (which are not reproduced here for reasons of brevity), it is clear they focus on how the company manages its own direct impacts. None of the existing measures explicitly mentions corporate political action. One of the Governance issues is "Business Ethics," and because corporate political action to block climate change legislation or toxic chemical reform could be seen as unethical, it could theoretically be partially subsumed under the existing categories, but this is a very indirect path at best, and it is does not appear this is currently done under the MSCI rating system.[53]

The Asset4 criteria also pay scant attention to political action. The ratings system's broad environmental criteria are resource use, emissions, and innovation; its broad social criteria are workforce, human rights, community, and product responsibility; and its governance criteria are management, shareholders, and CSR strategy. All focus on direct corporate operations, not on corporate political action. However, in addition Asset4 does track "Controversies," which includes "business ethics controversies" such as "political contributions or bribery and corruption." It includes two specific measures "Community Reputation Policy Elements/Political contribution" and "Lobbying Political Contributions."[54]

Likewise, Sustainalytics does not devote much attention to political action, though it does include "Policy on Political Involvement and Contributions" and "Total Value of Political Contributions."[55] These measures are quite blunt and make no attempt to capture the firm's positions on the issues on which it lobbies, opting instead for a simple aggregate dollar value of contributions. Moreover, even this fails to capture spending on issue advertising and other activities that are allowed in the United States under the Supreme Court's *Citizens United* decision.

TABLE 1. MSCI Environmental, Social, and Governance Indicators.

Pillars	Themes	Key Issues
Environment	Climate change	Carbon emissions
		Product carbon footprint
		Financing environmental impact
		Climate change vulnerability
	Natural resources	Water stress
		Biodiversity and land use
		Raw material sourcing
	Pollution and waste	Toxic emissions and waste
		Packaging material and waste
		Electronic waste
	Environmental opportunities	Opportunities in clean tech
		Opportunities in green building
		Opportunities in renewable energy
Social	Human capital	Labor management
		Health and safety
		Human capital development
		Supply chain labor standards
	Product liability	Product safety and quality
		Chemical safety
		Financial product safety
		Privacy and data security
		Responsible investment
		Health and demographic risk
	Stakeholder opposition	Controversial sourcing
	Social opportunities	Access to communications
		Access to finance
		Access to health care
		Opportunities in nutrition and health
Governance	Corporate governance	Board
		Pay
		Ownership
		Accounting
	Corporate behavior	Business ethics
		Anti-competitive practices
		Tax transparency
		Corruption and instability
		Financial system instability

In short, the metrics used to evaluate CSR and corporate sustainability today by most ratings systems almost completely ignore the role of business in shaping public policy.

Emerging Signs of Change

The situation is beginning to change, however. The GRI Sustainability Reporting Standards, created in 1997, "are the first and most widely adopted global standards for sustainability reporting."[56] One of the newest additions to the GRI reporting framework is standard 415, which addresses the topic of public policy:

> The purpose of this disclosure is to identify an organization's support for political causes. This disclosure can provide an indication of the extent to which an organization's political contributions are in line with its stated policies, goals, or other public positions. Direct or indirect contributions to political causes can also present corruption risks, because they can be used to exert undue influence on the political process. Many countries have legislation that limits the amount an organization can spend on political parties and candidates for campaigning purposes. If an organization channels contributions indirectly through intermediaries, such as lobbyists or organizations linked to political causes, it can improperly circumvent such legislation.[57]

Standard 415 has an effective date of July 1, 2018, although "Earlier adoption is encouraged." Reporting "includes an organization's participation in the development of public policy, through activities such as lobbying and making financial or in-kind contributions to political parties, politicians, or causes." More specifically, GRI recommends,

> The reporting organization should report: (1) the significant issues that are the focus of its participation in public policy development and lobbying; (2) its stance on these issues, and any differences between its lobbying positions and any stated policies, goals, or other public positions.[58]

Note that these requirements go well beyond simply reporting aggregate expenditures on lobbying, and would expose firms engaging in the hypocritical mix of pro-environmental public rhetoric and anti-environmental political action condemned by Senator Whitehouse.

In a related step, the Organization for Economic Cooperation and Development (OECD) has issued guidelines for Transparency and Integrity in Lobbying. These also go beyond simply reporting aggregate amounts of money spent on particular issues, and note that disclosure should

> elicit information on in-house and consultant lobbyists, capture the objective of lobbying activity, identify its beneficiaries, in particular the ordering party, and

> point to those public offices that are its targets. Any supplementary disclosure requirements should take into consideration the legitimate information needs of key players in the public decision-making process. Supplementary disclosure requirements might shed light on where lobbying pressures and funding come from. Voluntary disclosure may involve social responsibility considerations about a business entity's participation in public policy development and lobbying. To adequately serve the public interest, disclosure on lobbying activities and lobbyists should be stored in a publicly available register and should be updated in a timely manner in order to provide accurate information that allows effective analysis by public officials, citizens and businesses.[59]

Another interesting new development is the CPA/Zicklin Index of Corporate Political Disclosure and Accountability, produced by the nonprofit Center for Political Accountability and the Zicklin Center for Business Ethics Research at Wharton. It rates the entire S&P 500 on the transparency of their political spending, and it finds substantial improvement over time.[60] It does not, however, cover the critical area of lobbying expenditures. Another encouraging development is a joint effort by Transparency France and nine partner companies to craft a guide to reporting lobbying expenditures.[61] This will help create norms of good practice in transparency around lobbying. But CPR goes far beyond lobbying. There are at least nine distinct channels through which firms exercise political influence, including lobbying, but also supporting think tanks, creating front groups, funding Political Action Committees (PACs) and super PACs, financing foundations, working through trade associations, participating in peak organizations, serving on advisory committees to government, and placing executives in administration roles.[62] All of these must become a part of how we understand and evaluate CPR.

A more narrowly focused effort comes from a large group of institutional investors—including HSBC Global Asset Management, Trillium Asset Management, the University of California system, and the Harvard Management Company—concerned about climate lobbying in particular. In collaboration with Principles for Responsible Investment (PRI), these investors announced that

> Our expectation is that, when companies engage with public policy makers, they will support cost-effective policy measures to mitigate climate change risks and support an orderly transition to a low carbon economy. While an increasing number of companies have robust climate change policies and position statements and play a constructive role in policy discussions, we are concerned that many are also members or supporters of trade associations, think tanks and other third party organisations who lobby against policies to mitigate climate risks in a way that is inconsistent with our goal of maximising long-term portfolio value.[63]

The investors call for companies to support cost-effective policies to combat climate change, and to provide robust and detailed reporting on their direct and indirect lobbying on climate, including that done through trade associations or other membership groups.

Arguably, the most advanced ratings system for corporate political action is that conducted by Vigeo Eiris, the leading source of CSR metrics in the European market.[64] Starting in July, 2010, Vigeo, in partnership with Transparency France, announced that it would include "the transparency and integrity of influence strategies and practices" in its system for rating companies' social responsibility.[65] In particular, its rating framework builds on the OECD guidelines—and includes both in-house lobbying and working with external specialists such as think tanks, lobbyists, and trade associations—to influence legislative and regulatory processes. In 2013, Vigeo issued its first report on disclosure of corporate lobbying practices. It characterized the overall level of disclosure as "predictably weak," but noted that North American companies appear to be somewhat ahead of European companies, and that the electric and gas industry and the chemical sector are the most advanced in their reporting on political activity.[66]

Vigeo Eiris rates corporate lobbying practices on three levels. At the *leadership* level, it looks for the visibility of the company's commitment to ensure transparency and integrity of lobbying practices, its exhaustiveness, and the extent to which the company is clear about where oversight responsibility lies, and it involves the board in assuring compliance. At the *implementation* level, it looks for employee training programs, "publication of detailed information on lobbying activities (the list of fields of interest, information on the company's networks and on the budget allocated to lobbying activities)," and "disclosure of the positions communicated to public authorities." Finally, at the *results* level, it examines the quality of disclosure of direct and indirect lobbying expenditures, public scandals in which the company might be involved, and stakeholder criticisms of the firm's lobbying practices.[67]

The actions of the OECD and the GRI, the creation of the CPA/Zicklin Index of Corporate Political Disclosure and Accountability, the PRI investor expectations on climate lobbying, and the expansion of the Vigeo Eiris ESG system to include lobbying activities all suggest we are at the cusp of a new wave of demands for political accountability. This should not be terribly surprising. Supreme Court decisions like *Citizens United vs. FEC* have made it easier for companies to hide their political activities and have provoked widespread outrage. Indeed, 45% of the U.S. population lives in a state or locality that has supported amending the Constitution to overturn *Citizens United*.[68] As has happened so often throughout history, a social movement is emerging to make demands that go beyond what is currently required by law. Political transparency and accountability will help to offset the widespread perception that government has been captured by the business sector, and they will empower investors, consumers, employees, and everyday citizens who wish to promote a transition to a sustainable and equitable economy.

Implications for Practice

For NGOs and activist investors, the implications of CPR are straightforward: because corporate political activity has as much (if not more) impact on sustainability as CSR, it should be monitored and evaluated just as carefully and as extensively as we assess CSR. This also means that civil society actors who want to encourage virtuous corporate behavior should demand as much disclosure for corporate political activity as they do for CSR and should judge firms accordingly. This does not mean that all civil society actors will agree on what constitutes politically responsible behavior, any more than they agree on what constitutes socially responsible behavior. For example, some would argue that labor standards that restrict children from assisting their mothers in making textiles are counter-productive, while others might disagree. Similarly, reasonable people might disagree as to whether public policies that favor rooftop solar installations are in the public interest, since they may increase the challenges of managing the electric grid. The point is not to encourage a uniformity of thinking about whether particular environmental policies are or are not in the public interest. Rather, it is to encourage civil society actors to take corporate political action just as seriously as CSR, to monitor it, and to debate what “counts” as CPR and what does not.

For business managers the implications are more nuanced. It is unrealistic to expect firms to support public policies that financially disadvantage them in any significant way. We would not expect a coal company to support policies that would stop coal mining or an oil company to support policies that would stop drilling for oil.

What then might we realistically expect? We would make three suggestions.

- *First, fully disclose your corporate political activity*. This may seem utopian in view of *Citizens United* and other Supreme Court decisions that currently allow unlimited covert political spending. Yet in the longer run, we do not expect current conditions to last. Social expectations change over time, and in the information age transparency is being increasingly insisted upon. Dark money and lobbying are unpopular with the public and with civil society actors, and the pressure for political disclosure is unlikely to abate. As with many other areas of corporate social performance, some firms will choose to enhance their legitimacy with the public by taking an early leadership position, while others will wait to see exactly how much will be expected of them. Firms that already have taken leadership positions on sustainability are likely to be the first movers in this new domain as well.
- *Second, align your political activity with your public pronouncements and CSR efforts*. For example, if a firm is seeking to voluntarily reduce its carbon footprint, then we would expect it also to support public policies that require all firms to reduce their GHG emissions. To do otherwise is to expose the firm to the risk of being attacked for hypocrisy. For example, Target Corporation, long known for progressive stands and support of gay rights, came under attack for its donations to MN Forward, a political group that supported a gubernatorial candidate who opposed same-sex marriage.[69] Of course, these elements

of corporate non-market strategy should also be aligned with a firm's market strategy to achieve maximum competitive advantage.[70]

- *Third, support public policies that will enable the private sector to better pursue sustainability efforts and commitments*. This does not mean supporting public policies that are financially disadvantageous to the firm, but on the contrary supporting policies that enable the firm to act more responsibly without suffering a competitive disadvantage. For example, it would not be reasonable to expect an oil company to support restrictions on fracking, but it might be reasonable to ask it to support regulations restricting GHG emissions from fracking, since that would be environmentally beneficial and the additional operating costs marginal. Put another way, we expect firms (especially those that wish to be seen as leaders) to support public policies that are in their enlightened, long-run self-interest—just as we have come to do in the CSR realm, where it is now widely expected that firms will treat workers in developing countries decently in order to avoid public backlash. In other words, we expect companies to recognize the business case for government regulation, just as many have recognized the business case for CSR.

For business scholars, CPR offers a wealth of new research opportunities. An enormous literature exists on the connection between CSR and profitability,[71] and more recently a literature has emerged on whether or, more accurately, *when* it "pays to be green."[72] Less attention has been devoted to understanding when it pays to support green public policies. Some research suggests that the payoffs to political action are so high as to raise the question of why there is "so little" money in politics.[73] Yet other work suggests that much corporate political spending—unless it is in regulated industries—may be simply indulging the whims of corporate managers without providing much benefit for shareholders.[74] More research is needed to home in on where and when it pays to advocate for more sustainable policies.

Conclusion

The concepts of CSR and corporate sustainability have become household words in recent decades, but they have their limits and are sometimes derided as mere window-dressing.[75] To become more meaningful, they need to be reinvented and expanded to include a more holistic understanding of the firm's full impact on the social and natural world. Particularly important is a more responsible engagement with government. Business support can make the difference between either passing policies that support progress toward a more sustainable world or blocking them. Corporate leaders can play an enormously important role by demonstrating their own willingness to be transparent about their political activities and by speaking out to demand new norms and rules of transparency for all firms. Failure to do so robs shareholders of their right to know how the funds they invest are being used and robs citizens of their right to a government not captured by special interests.

Civil society leaders and researchers also face corresponding new challenges. Once they have access to reliable and complete information about corporate political action, they can propose, evaluate, and stimulate the creation of new norms and public policies for CPR. A major challenge in this regard will be developing evaluative frameworks for assessing the extent to which corporate political action supports policies that will truly lead to more sustainable outcomes. Researchers will continue to play an important role in testing existing sustainability metrics and developing new and improved reporting frameworks.

Many citizens of western democracies despair over the inability of their governments to solve the pressing problems of our times. They suspect that a big part of the problem is the influence of money and corporate power in politics. Although not a panacea, creating new norms of CPR—coupled with radical transparency around corporate political action—is a promising step. Moreover, important organizations such as the Global Reporting Initiative, the OECD, and Vigeo Eiris are already moving in this direction. The demand for political transparency is unlikely to fade away. The challenge for managers will be whether to embrace this movement and take a leadership position in support of greater transparency around corporate political action, or to resist it for as long as possible. Either way, as demands for political transparency grow, it will become increasingly difficult for companies to execute a strategy that involves contradictions between virtuous public statements and self-serving lobbying and other political activities.

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Notes

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12. See https://www.theguardian.com/environment/blog/2011/apr/14/bp-pr-campaign-gulf-oil-spill.
13. See https://www.theguardian.com/environment/2016/jul/07/global-fish-production-approaching-sustainable-limit-un-warns.
14. See http://www.fao.org/docrep/017/i1688e/i1688e.pdf.
15. See https://www.economist.com/news/briefing/21709530-water-becomes-ever-more-scant-world-needs-conserve-it-use-it-more-efficiently-and.
16. See https://www.nature.com/news/three-years-to-safeguard-our-climate-1.22201.
17. See https://www.greenbiz.com/report/state-green-business-report-2015.
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24. See https://www.corporateleadersgroup.com/about.
25. See https://www.cnbc.com/2017/08/15/expect-more-ceos-to-speak-out-on-vital-issues-risking-the-wrath-of-the-trump-commentary.html.
26. The group's initial membership included 902 businesses and investors (20 of them part of the *Fortune 500*), 183 colleges and universities, 125 cities and 9 states. Participating firms include such familiar names as Apple, Google, Tesla, Target, eBay, Lyft, Adidas, Facebook, and Nike, and represent over $6.2 trillion of the U.S. economy. The group's declaration concludes with these words: "It is imperative that the world know that in the United States, the actors that will provide the leadership necessary to meet our Paris commitment are found in city halls, state capitals, colleges and universities, investors and businesses. Together, we will remain actively engaged with the international community as part of the global effort to hold warming to well below 2°C and to accelerate the transition to a clean energy economy that will benefit our security, prosperity, and health." https://www.wearestillin.com/we-are-still-declaration.
27. In addition, the merger of Danone's North American dairy business with WhiteWave has created DanoneWave, the largest benefit corporation in the United States. http://www.csrwire.com/press_releases/39933-Danone-CEO-Announces-Intention-to-Deepen-Work-with-B-Lab.
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41. Timothy Werner, "Investor Reaction to Covert Corporate Political Activity," *Strategic Management Journal*, 38/12 (December 2017): 2424-2443.
42. See https://www.somo.nl/wp-content/uploads/2008/05/The-Lack-of-Consistency-between-Corporate-Lobbying-and-CSR-policies.pdf.
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45. In *Citizens United vs. Federal Election Commission* the Supreme Court held 5-4 that tax-exempt 501(c)(4) "social welfare" groups such as the National Rifle Association or the Sierra Club were allowed to make political expenditures, as long as the group's "primary" purpose is not electoral advocacy. Moreover, these groups are required to disclose only their total political expenditures, but not the identities of their donors. In *Speechnow.org vs. Federal Election Commission*, the DC Circuit of Appeals ruled that nonprofit organizations created to make "independent" political expenditures (those not formally associated with a particular campaign) did not have to be organized as Political Action Committees (PACs), and hence could take unlimited amounts of money from corporations as well as from individuals.
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50. Innovest and KLD Research were subsequently acquired by RiskMetrics, which in turn was acquired by MSCI.
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53. A related offering is the MSCI KLD 400 Social Index, which "comprises companies with high Environmental, Social and Governance (ESG) ratings and excludes companies involved in Alcohol, Gambling, Tobacco, Military Weapons, Civilian Firearms, Nuclear Power, Adult Entertainment, and Genetically Modified Organisms (GMO). The Index aims to serve as a benchmark for investors whose objectives include owning companies with very high ESG ratings and excluding companies involved in the production of products and services with high negative social and/or environmental impact."
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55. Ibid.
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