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Corporate Political Responsibility Taskforce

Expert Dialogue with Washington

Washington - Module #1

Elizabeth Doty: [00:00:00] Hello and welcome. This is the Erb Institute's monthly expert dialogue on the Corporate Political Responsibility Task Force. My name is Elizabeth Doty. I'm the director of the task force, and I'm delighted to be here today facilitating the conversation with Paul Washington of the ESG Center at the Conference Board.

The Corporate Political Responsibility Task Force, or CPRT. Is an initiative of the URB Institute, a 25 year long partnership between the Ross School of Business and the School for Environment and Sustainability at the University of Michigan, led by Managing Director Terry Nelodov and Faculty Director Tom Lyon, the URB Institute is known for its leadership in three areas, teaching and learning.

Business engagement with groups like the CPRT and scholarly and applied research. The CPRT's [00:01:00] mission is to help companies better align their approach to political influence with their commitments to purpose and values, sustainability, and stakeholders. As we're seeing, corporate political responsibility is an increasingly pivotal element in managing stakeholder trust, addressing systemic issues, and rebuilding public trust in institutions.

I'm so delighted to get to talk with Paul today. Just a brief introduction to Paul and then we'll dive into the conversation. Paul Washington has led the conference board's ESG center since 2019. And that is the premier U. S. Based nonprofit think tank addressing corporate governance, sustainability and citizenship.

Before joining the center, he served for nearly 20 years as an executive at Time Warner, including a senior vice president, deputy general counsel, corporate secretary and chief of staff to the company's chairman and CEO. His career also includes, I can't think of anyone who's had seen more sides of [00:02:00] this puzzle.

It includes extensive work in public service at federal, state, and local levels, all three branches of government, including as a law clerk for former Supreme Court Associate Justice William Brennan and Associate Justice David Souter, and he is the former chairman of the Society for Corporate Governance.

The lead staff are on tax matters for former Congressman Stanley Ledeen and served as adjunct faculty at the Fordham School of Law. So other than that, not much to share today. And I know we're going to focus on this recent report. But Paul, I just want to say thank you for all of your work and thank you for joining us today.

I'm really looking forward to diving in.

Paul Washington: Thanks so much for having me and thrilled to be part of this conversation.

Elizabeth Doty: The conference. board has been doing research on corporate political influence and activity. Our friends at the Center for Political Accountability and Zicklin you have done much work on educating [00:03:00] boards of directors and officers on what are the avenues of influence? What are the trends? What are the risks to watch out for?

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And then last year, you Started this study that led to a new report more future oriented and you called it avoiding the tragedy of the commons. So can you tell us about the report, what you found and and then I'll dive into asking about some of the key

Paul Washington: themes in that. Almost a decade ago, the conference board put out a landmark report on corporate political activity and provided some guidance on how to handle it.

But then sort of like you you know, we, in the Summer of 2020 we decided to schedule a roundtable on corporate political activity for the day after the 2020 presidential election. Well, who knew that that election would not be over in some senses, even today perhaps, right? So we had one and that led to a report that was Called under a microscope, which talked about the increased level of scrutiny that companies were facing on their corporate political activity.

Then we did another report after January 6th about [00:04:00] the midterm election year kind of environment. And then most recently we said, okay, we've, we've looked at how we're, you know, what the current environment is. Let's look ahead, as you said, and that's the report on avoiding the tragedy of commons. And Just in terms of our methodology you know, the way we approach our work here at the conference board is a combination of empirical research.

So that can be surveys that can be working off public disclosures. You know, we have access to database on the full Russell 3000 and all of their disclosures on corporate political activity and so forth. So we've got a robust set of data. But the sort of secret sauce is we do convenings. Like this one, which are often under the Chatham House rule, where we bring together really smart people across functions across industries across, you know, issuers, investors, government officials.

We recently had a former state AG on one of our panels you know, to then talk about those empirical. Findings and then talk about recommendations. And it's that intersection of [00:05:00] the of the empirical and the experienced that produces unique insights. So that's what you'll find in our, in our work.

And that's why, you know, we were very happy to have you at our session, which led to the report on avoiding the tragedy of the commons. And I'll go through some of the Key themes in a moment, but I wanted to give you everyone a sense of how we go about doing our work. So we're not a bunch of pointy headed.

Nothing against pointy headed research. Some of my best friends are pointy headed, right? So, but we're not a bunch of pointy headed researchers off on our own, just crunching numbers. We really do engage with practitioners as well, because it's like. The, the alchemy that creates I think work that's practical and valuable to to, to companies, to investors, to NGOs, to policy makers,

Elizabeth Doty: and that it makes sense.

And, and one thing that I would show as evidence of that is that the titles really reflect an insight, right? Like they capture a moment. Yeah. We were really proud that the our faculty director. coined the term, you know, CSR needs CPR[00:06:00] as the initial article behind Corporate Political Responsibility.

And then we use under a microscope all the time. Yeah, great. Captures, right, the essence of what needs to be paid attention to. And now you've got this tragedy of the commons. And I think People are rediscovering this idea of systems patterns and things that happen in aggregate that there's no one person causing it but we're all caught in it and we need to think differently to shift it.

So I love the idea that you tapped into these to these practitioners and then you took it a step further.

Paul Washington: We did a survey in conjunction with the roundtable and this this was a survey of about 100 companies. Both before and After the election last year. So it's been time. And by the way, the results didn't change before after the election.

So, but we, we looked at a few months of time and we asked them what they thought about the political environment. And you'll see that 70 percent found it either very challenging or extremely challenging. And then another 20 percent were just, Oh, Hey, it's just challenging, but that's, that's pretty extraordinary.

Right. [00:07:00] And then we asked them, what does it look like ahead? And you can see here. That as bad as it is, was people think it's going to be worse even through and beyond the next presidential election. We asked people, you know, why that, why that is. And, you know, we, we gave them a menu to choose from. I think there's, there are a number of strands here and, you know, apart from what's on the slide here, and you can see all the things that.

are contributing to this situation. I think two things really came out of our round table that you attended, Elizabeth, which are that it's a combination of polarization, right? So each party has moved to the polls and it's the closely divided election results. Even if the people actually show up in the way our system of government works, you know, these, these elections are really close.

So the result is that you can go from The Green New Deal to Marjorie Taylor Greene in terms of [00:08:00] policy in a single election, right? So it's the volatility. So that polarization coupled with the equalization in some ways leads to incredible volatility. And so that, that sort of uncertain environment is just terrible as you know, for any business planning.

And on top of that is, you know, a degree of alienation where basically the U. S. Corporate America doesn't have friends much in either party these days, right? Everyone is sort of enjoying running against big business. And so that's that's another challenge here. So it's it is a little bit of a hostile work environment for for companies.

But then again, you know, not to overstate it. We asked people what the impact has been thus far. There's a cohort for whom it is both significant and negative. But for many, it's just Moderate and negative. And this is why there's this tragedy of the commons, which is there is a part of why there. So there's an [00:09:00] issue that everyone sees as a big systemic issue for business, right?

But you may have only been hurt a little bit or moderate amount yourself. And then of course, there are all the risks of sticking your neck out and speaking up whether it's on voting rights or on any number of other issues, you could just get shot down. There's a collective problem, but individual action is very hard to take in this area.

It really needs a variety of forms of collective action to address. So that's why we see this, this really terrible dynamic in some ways of a potential tragedy of the commons. Thank you.

Elizabeth Doty: I'm with you because that moderate negative can be massive in aggregate, right? Yes.

Paul Washington: Yes.

Elizabeth Doty: Yeah. Say more about the effect.

I think it's in theory, people say, yeah, it's bad for business planning. But say more about this equalization and volatility, you know, extreme. Sure.

Paul Washington: So yeah. And [00:10:00] it's, it's, it's real, right? If you're an investor, for example, and you're wondering whether you can take ESG factors into consideration or let's say you're managing a you know, the, the retirement plan and a company, well, you got one rule under Obama, another rule that came in the last administration, another rule that was implemented by the Biden administration, but then Congress over, I mean, it's, it's, it's, that's just a small way that people are dealing with this sort of the whim whims whiplash here, right?

And then, but it's even more in bigger areas. So, for example, we recently did a survey of CEOs around the world, 700 CEOs around the world. This comes out, came out in our C suite Outlook report, and 49 percent of CEOs around the world said the transition to renewable energy will be good for their Thank Business, but it involves a lot of significant capital investments to get [00:11:00] there, depending on what administration you're working under, and then increasingly which state you're under, because we are dividing into red and blue states, not just in terms of politics, but in regulation.

And for, in fact, we may be heading toward red and blue state economies, right, which is really an additional problem. So you are a company that is. You know, it's, it's hard to know what the regulatory environment is for making investments, what you'll be encouraged to do, what you'll be prohibited from doing, what will be tolerated you know, government procurement, which is so important in driving a lot of this, will government procurement executive officers care about Any of environmental and social matters, or will they not right?

Will they penalize you for it? So there's a lot of capital investment that that hinges on this. A lot of business decisions that hinge on the regulatory environment, even if you're not directly regulated, your people in your supply chain and value chain will be that this makes you know that this is a heightened level of uncertainty.

[00:12:00] And because of the conflicting red and blue state regimes Conflict. So it's, you know, uncertainty and conflict. You know that people are companies are having to unravel. And then I'd say the other thing is, frankly it may seem sort of small, but with the increased regulatory, Challenges here.

Companies are diverting resources. So we talked to chief legal officers, like they are diverting their resources from actually figuring out how to incorporate sustainability more deeply into their business model, to dealing with all these conflicting regulations and the backlash and all this sort of stuff.

So there's, there are real world consequences when you're like smart staff is suddenly redirected. To dealing with this sort of mess, as opposed to helping to navigate what you want to do to create value for your company, for its investors and for stakeholders more broadly.

Elizabeth Doty: So this is one of those cases where indecisiveness ambiguity conflict, as you said, some of this are mutually exclusive for some of [00:13:00] the companies we've talked to makes you tend to want to stall to pause and wait for the dust to settle.

And it adds the complexity that you talk about, which is both. It's hard to make decisions and uses executive bandwidth. I'm reminded one of my former consultant clients was into it that did tax software in every state. Right. So the more complexity you have. The harder your business is, the less agile you can be.

It is striking that we should feel sorry for business for being hurt by the political environment, because they haven't been, you know, completely out of the political environment leading up to this. Right. So, and, and. not being beloved now of either party, not having a assumed alliance. Do you have a reaction to that?

Paul Washington: Yeah, look, it's a very fair point. Companies face both higher expectations than ever before because they're more trusted than government or media or nonprofits actually than any other part of our Of our society but they also face a lot of [00:14:00] skepticism, which, you know, I, I understand, I, you know, I've, I've, I've, I've been a corporate barnacle trying not to be scraped off in the, of the ship estate, right.

For a while. So, but, but I, I'm not just a former corporate guy, right? Like, so I certainly understand, you know, sometimes companies are painted with a broad brush because of a few. Outlying actors or bad actors, if you will. But generally companies tend to be a moderating influence. Generally companies, you know, they're interested in results and not in rhetoric.

So, and then the other thing is. A lot of the situation we're in right now is not due to corporate money, right? And it's certainly not PAC money, which is coming from, obviously, employees which is well disclosed. A lot of it is just dark money, right? And so, and which now vastly dwarfs Corporate money.

And so one of the challenges for companies here is that they are sort of bit players when it comes to political contributions these days. So to the extent that they may have [00:15:00] brought on some of the problems themselves. They certainly aren't the only ones and they certainly their voice is smaller in so many, certainly in the political contribution side than it has been.

So it's, it's much harder for them sometimes to be heard and be taken seriously. I think you just

Elizabeth Doty: pointed to something very important because I think when people do point to businesses having a role, I and they don't feel like they are driving the game. I don't think that the people that I speak to I know you've speak to many more don't feel like they have, you know, this enormous advantage.

And as you say there's a, there are a lot going on. And maybe that means that they will think about more options. Right, because. If you're not that big of the problem, maybe you want to shift. Yeah, why don't we go, do you want to share more about the findings? I know you, you mentioned something about companies being on the defensive.

Paul Washington: Yeah. So let me, yeah, let me just, just sort of also share a touch. If I could about a subset of the challenge [00:16:00] companies are facing today, which is ESG backlash on the earlier slide, I showed that 30 percent of. Folks companies ranked ESG backlash as one of their top five concerns. Well, it's becoming a bigger concern.

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Now, backlash is an umbrella term. Sometime it embraces, and I think it's. Sort of an extremist kind of word in some ways, because some of this is very healthy skepticism. Some of it is just philosophical or ideological opposition. You know, people who are in the Milton Friedman School of Thinking just don't like this stuff.

But that's not so much backlash. And then there's political opportunism. Which is clearly what you're facing. And it it's different in degree. It's different on whether you're talking about ESG. So take, take backlash a little bit with a grain of salt, but it embraces all of all of that. Again, this is interesting.

We found that 49 percent of companies we've surveyed have experienced backlash. Look, this is another tragedy of comments sort of thing, right? For most it's at this point, relatively [00:17:00] modest and it's, it's impact, but most people think Just like political activity the, the challenge is it's going to get worse.

The backlash is both from state level and then from employees. Look ahead at what people see. Even more from the federal level, the state level media employees become somewhat less important. So this is a situation where things will be getting worse for companies. I mean, we can talk a little bit about what you do about it.

In some ways, this is a clarifying moment for companies, because, you know, if you've been living in a pro ESG bubble, whoa, not everyone agrees with us. And that actually can cause you to sharpen your thinking. But anyway, I just wanted to sort of share a little bit of, of, of that as well, because this is a phenomenon that gets a lot of press.

Right now it's not having a huge impact on companies, but look for it to have more. And the real risk for companies, and this gets exactly into political activity, is that the opposition to whether it's stakeholder capitalism or the opposition to [00:18:00] caring about environmental social responsibility could well take root at the federal level and in particular states.

And then it becomes codified. So that's. going to make business even harder to run when you have California and New York saying you must do this and Texas and West Virginia and Florida saying you can't do this. And by the way, everyone's going to have extraterritorial reach.

Elizabeth Doty: Yeah. Understood. And if you put this in the, in a larger context, understood.

And I think this is where one challenge I understand with tragedy, the commons is when to take action, right? And, and this is one where surveys like this and forecasts can help. I know we had a pre question about international. Yeah, so we have

Paul Washington: a pre question from George, and it is, What does your report say about companies responding to the political environment in China, India, or Hungary?

Right, so we were focusing on U. S. companies and the U. S. political environment, so we didn't [00:19:00] actually address international, but many of the same lessons apply, whether you're talking to addressing political or social issues. So some of our other work has addressed this topic. So I guess the first thing I would say is.

A lot of companies have made statements from a very U. S. Centric standpoint. After the George Floyd's murder, right? And they said, Okay, we're gonna pose racism around the world. All right. Well, black, white racism, it doesn't exist in the same way in other countries. It's often religious, it's cultural, it's language, it's nationality, it's class or caste.

So a lot of the rhetoric doesn't quite make sense. Translate as well outside of the U. S. The other thing that companies would be wise to do is to so the companies have to sort of tailor their message appropriately. And if you're talking about diversity, maybe you lead with inclusion, right? Because everyone can buy into that.

And that's the way [00:20:00] to start the dialogue within your company. And with policymakers, the, the other thing is whether it's the Uyghurs or whether it's, you know, the invasion of Ukraine, so forth. What companies need to do is to make sure that they're running those international human rights issues, those, those issues through the same screens and the same criteria and process that they would use for domestic US issues, right, to figure out whether they're going to take a stand.

How they'll take it, where they'll take it and what they'll do. So they need that same sort of process to address those issues. Cause you just, you can't turn a blind eye to it. The other thing that we've learned that's really important practical is companies, when they're trying to think about.

Responding to international issues, don't just rely on your senior management to get a feel for what's happening on the ground because you may just have expats who are running your international business who live in their nice expat [00:21:00] bubble, or you may have local. Executives, you know, but who come from the dominant ethnic group.

It's really helpful if you're addressing some of these social and political issues to make sure you have the equivalent of employee resource groups or something like that, right? Internationally. To get the sense of, you know, your employees of your local communities and so forth in knowing what issues matter, to know what is realistic to do in response to them and how to phrase the action you're taking.

So I think there's a lot of infrastructure that companies that have a global footprint can do to build to enable themselves to respond to those issues that pop up internationally and it really thoughtful manner instead of just, Oh, it's not us. It's not where our main business is. Let's just ignore it.

Hope it goes

Elizabeth Doty: away. Just to add on that one. One thing we've noticed is that the in the U S we think very you know, through the [00:22:00] exceptionalism you know, that we're different and there are actually many international trusted frameworks that we could apply to the U S. That, for example, if you look at SDG 16, Sustainable Development Goal 16, there are very particular things about effective participatory decision making that don't say constitutional democracy, but they still talk about inclusion, participation in rule of law, civic freedoms and UN guiding principles on human rights, business and human rights.

So we There are

Paul Washington: things we could use, frankly, a lot of us are going to be living under European corporate sustainability reporting director for corporate sustainably due diligence director, because the EU has no sense of territorial restriction so if you're a major US company that has any meaningful revenue in Europe, you'll be dancing to Europe's tune on a lot of these issues.

Elizabeth Doty: And it's increasing right like it's going to be increasing grace, can you can you elevate one other question that you see I see. Thank you. Pat McLagan. Hello, everybody.

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Paul Washington: Very nice. Nice background backdrop. I really appreciate it. I'm [00:23:00] wondering if you're seeing any different. Some companies, big ones are very serious about ESG and they see the they see it as a fit with their business model.

They see it as a strategic Competition, and they are really building it in. And I'm wondering if those companies are are experiencing as much backlash because I think you know, I see many companies that are doing there's a there's a surface commitment. And many of them are doing whatever they do it for compliance reasons and that's never a good reason it always raises resistance.

So, so are you saying that there are a few companies that are really built it into there. Yeah. It's great question Pat and in fact. I think it sits underneath one of the most striking findings that came out of our survey of 700 CEOs globally, because we asked them specifically what impact ESG backlash, whether from employees, policymakers or others, is having on their investments in sustainability in 2023.

71 [00:24:00] percent of CEOs in the United States said It's not having an impact 71 percent that's higher than the percentage in Europe, which was in the 60s. It's much higher than Latin America. It's higher than in Japan or China where, you know, if there's backlash, it's going to have a big impact. So I think that speaks to the fact that sustainability is being built more into companies business.

And by being built into their business, I mean three things. It's being built into their activities in the marketplace. Which is the products and services they sell, and they buy it's being built into the workplace, which is their operations and their, their workforce, and it's being built into their public space, their government relations, their communications, their corporate citizenship.

Now, what, what I think will happen though, is companies are taking, you know, because of the backlash, it would be wise for companies to say, okay, wait, this is. Do are [00:25:00] we serious about this? This is a moment of clarification for companies. Are we truly serious about this? You know, you got to make sure your board is on board.

You got to make sure senior management is on board because there are, you know, sometimes your CFO is still being dragged into this, right? Because they don't yet see it. The other thing besides having that, you know, clarifying moment in the, in the boardroom is let's not be scared of facts. Let's let's actually welcome like if they're legitimate criticisms of what we've been doing.

Let's listen to them. Let's engage with them like let's you know, let's let's not be scared of whatever we might we might learn. And then I think you will see companies who are already changing some of the way they talk about ESG. I lead the ESG center and it can be a problematic term. It is essentially three food groups.

And what we're really talking about is a Sustainable and healthy company and a sustainable and healthy environment and society, right? And that's not just environmental, social and governance. That's also financial and [00:26:00] operating performance. And that's also serving your multiple stakeholders. So ESG is just one component.

So I think you may see people using somewhat different language. What I caution anyone against, though, in this is

just wholesale changing your language. That you use and like backing away from the terminology that you've used, because if you do that people will wonder, well, were you

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even serious about it to begin with? You definitely have to explain why you're doing it. Cause if you don't give a good explanation.

thEn people are just going to assume, oh, you were cowards, or you didn't mean it. Well, just one, one sort of thought about this. I think that ESG is a very

Elizabeth Doty: sophisticated direction

Paul Washington: for a company, and many companies don't have the capabilities in place to be able to carry it off. They don't have the infrastructure, they don't have the cultures, they don't, that, you know, they haven't really built.

It's a very sophisticated thing, and I think you'll find it more. I'm finding that more sophisticated [00:27:00] companies that have done their homework over the last couple of decades to build the human and the technological side and the strategic side are doing a lot better on this. I wholeheartedly agree.

We've got a great report out for folks who want to read it called organizing for success and sustainability. Another one on the role of the board in the area of ESG and stakeholder capitalism, because if you think about it, every company has like seven challenges they got to face in this space right now.

One is figuring out what matters. Second is integrating into your business. Third is setting and rewarding goals. Fourth is organizing for success in this area. Fifth is telling your story effectively. Six is dealing with the ESG industry of ratings reporting frameworks and regulation. And at the core of all of that is building a sustainability culture.

So you got to work on all seven parts of that, of that picture. And if you haven't, it's a fragile system and backlash may wash away what you're trying to do.

Elizabeth Doty: A few things you can do [00:28:00] from here. Visit our new website. There are principles for corporate political responsibility, 42 testimonials, initial companies, and an invitation to get 6 to 10 more companies to go public that they will get their own house in order and want to make this a norm. You can find that on the website and also future dialogues like this one.

Next month, the limits to growth systems dynamics model with Gaia Harrington of Schneider Electric. And if you are in a company in a decision making role, please contact me or one of my colleagues about attending one of our task force meetings as a guest. We are currently working on projects together around key issues like trade association alignment or follow us at the URB Institute.

So Paul, as we sign off, what is one call to action you would give to a government affairs officer, a general counsel, a sustainability officer, an ESG officer? What's one call to action?

Paul Washington: Check out the resources that, that not only you have, but the conference board has at tcb. org. There's a wealth of information.

Again, we don't tell companies what to do. We provide them with frameworks for [00:29:00] considering what they might choose to do. So whether you're looking at these G Center or the C. E. D. Committee for Economic Development. There's a whole lot of great work. And if you want to join the conference board, that's also another path, but there's a lot that's available just for free out there.

And so take advantage of it. And then I have another point. I'm going to be talking to executive search consultants next week about a whole new world for talent out there. And, and here's two, two things that I think are just to keep in mind. In this era of ESG and stakeholder capitalism, the number one quality required of executives is trust.

So make trust the North Star in everything you do trust with your colleagues, between your colleagues and employees, between the company and all of its stakeholders, more than ability to execute more than agility more than any of these other things. It's, it's trust. And then the second thing I would suggest, and this is a little more macro is like [00:30:00] approach.

Every day with a culture of learning and cultivate that in your team, because none of us has all the answers right now. This is all a new frontier for everyone from board members on down. Like everyone's got to be learning. Don't hire people who think they've got the answers, hire people who are interested in learning the answers and approach your work that way.

So with trust and curiosity. I think we can make some real progress on what we talked about today.

Elizabeth Doty: Yeah. Thank you so much, Paul. And I think one way to tell the story of the period we're in is the systems are calling for attention and that we all have a piece of the puzzle, but we don't see the whole system.

So that culture of learning, I love that as a way to get at that.

Paul Washington: Great. Thank you so much. Okay. My absolute pleasure to be with you all today. And Elizabeth, just keep up the phenomenal work. It really is phenomenal. And I have great respect for what you're doing. Thank you for inviting me. It was our pleasure.

Elizabeth Doty: Look forward to the next time.[00:31:00]