

Corporate Political Responsibility Taskforce

Expert Dialogue with Washington

Washington - Module #2

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 Erb 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. 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: Let me double click now a little bit on this idea of the tragedy of the commons. I went through an era where all of my consulting work was based on systems thinking and systems dynamics. So this is a pattern and archetype and systems business people don't [00:03:00] often. See the systems that they're in, right?

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We feel them when there are politics pitting functions against each other. We know the tragedy of the commons. Can you remind us why you chose this name and why you think what we're in is a tragedy of the commons? The

Paul Washington: dynamic is right because you've, you've got big issues that threaten our economic and political system.

But it's hard for anyone individually to speak up. So here's what we've suggested for companies in our report. And, you know, and we can talk about all sorts of things companies can do. But it is actually looking at reinforcing our political system which is, you know, representative constitutional democracy in this, this country and and supporting that.

And it's also reinforcing our economic system in the sense that, you know, just focusing on a combination of economic opportunity and economic [00:04:00] security, the lack of security is. Is alienating the population that further that that's and we've we've seen that movie before, right? And so that undermines support for our system of government.

It undermines support for companies for for economic system. So you actually have to address economic security and fairness. And those are things that actually cut across the red blue divide in our country. You know, we've done survey work of 2000 consumers and found that when they ask. What sort of sustainability issues environmental or social consumers care about what they want companies to address.

What's what issues they want companies to take a stand on, right? No matter how you what drives their spending decisions, no matter how you phrase it. They care about fair wages, fair labor conditions regardless of background, they care about health access next. So those broad systemic [00:05:00] issues are ones that I think companies kind of need to address for.

The wellbeing of society. They're also ones that frankly will resonate, depending on how you talk about it. Right. They, they will actually resonate with both parties and with, you know, people more broadly. So that's a place where companies really ought to come together to, to address. It's very hard to do that though, if you're just one.

Companies standing up and speaking up. It's even hard if you're just the financial services or the airline industry speaking up or something like that. This is this is the work of broad coalitions. It is also very importantly, not just the work of big companies. We recently had a round table on ESG backlash, which we had about 193 participants in one of the most striking.

Points that was made to me by, by a big company that's been around for almost 200 years said, you know, when we go in and talk to regulators, we talk about small business, we [00:06:00] go in with our small business allies, because a lot of this sort of criticism of woke corporations is about big business, right? Oh, it's big businesses all woke and they're trying to impose their alien elitist values on me, right?

Well, people don't look at small business that way. And so there's a real opportunity here for an alliance. Between larger companies and smaller companies, not just across industries, but also across company size to address these issues. Cause I think that's, that's actually going to be very important for telling the story for persuading policymakers.

So I hope that's helpful. Very interesting.

Elizabeth Doty: Yeah. And I think what you're pointing to is investing in the system that is leading to the fracturing and the oscillation. Yeah. Solving the world issues for many people,

right? Yeah. And on the small business, if you look at data from Gallup, it's small business that is got the norm as you know, up with the military in terms of levels of trust.

It's a systemic reaction though. It's not just do [00:07:00] your business best.

Paul Washington: Correct. So the system's development. Yeah, definitely. And so that's why, you know, we're doing some more work on how to you know what we're having another set of convenings at the conference board ESG center on what we're really trying to accomplish here and how you know your your ESG or you call it environmental and social goals.

Responsibility not only needs to connect to your business, but it's got to connect to the bigger picture. And frankly, I think that bigger picture If you're just dealing at the level of SDGs, which are often sometimes in conflict with each other or GRI or some of the other frameworks, that's a little too general.

I actually think that you, we, we need to have the conversation of, okay, what, what do we at least, and I mean, you can do it country by country, region by region, but what are we in America? Need to do in terms of environment and, and, and social issues and political issues. So we're going to be having a convening on, on democracy, right?

So what do we need to do as a society to address those issues? [00:08:00] And then you link that to what you need to do as an individual kind can do at the individual company to further it so that you're making, you're setting goals that are both respectful of the particular company circumstances and the broader picture.

If you're just tying it to your own business, that's actually too narrow of a lens, right? By contrast, if you're only going off and doing something that ties to this bigger goal, but you haven't figured out how it connects with your business, you're not going to make much progress because that's lovely.

But if it doesn't tie to your workplace, your marketplace or your public space, you're not going to have an impact, right? So it's, it's a connective tissue. That's so important or dropping the plumb line from the broader needs to what you can do at the company. And yeah, a lot of this is. You know, if you if companies phrase these things like we're trying to support democracy, we're trying to support a vibrant economy.

We're trying to support economic opportunity and fairness. It's also a way that it's I think much more acceptable.

Elizabeth Doty: Understood. And you're, you're echoing what I've heard in people that are located in districts where there is a [00:09:00] huge allergic reaction to esg. Yeah. Technology. I know our friends at Pelli Tire say We don't talk about ESG, we talk about scrap tires.

That's an industry level. That's a Right. A complete the automotive sector level. Yeah. It's not. My company and it's not solving ESG ESG

Paul Washington: coined in 2004, it's, you know, come came out of the notion that you should make sure progress in these areas or performance in these areas, because it'll help to improve society, the economy competitiveness overall.

Okay, that's, that's great. It's, but it was always sort of a limited sort of term now it's come to mean sort of. Almost everything and therefore almost nothing. So what we found, for example, if you're, if you're talking to the South Carolina legislature on these issues, you talk

about clean air, talk about clean water, talk about quality of life, good hunting and good fishing, right?

Like all that stuff, you can just phrase the same things in an authentic and, and, and [00:10:00] different way. For folks. And, you know, there are terms ESG is something that has been largely sort of investor embraced as investors. Aren't the only ones driving the bus now, and you're trying to reach employees who certainly became much more important in 2020 and their, their voice being heard on a lot of social issues and increasingly it's regulators.

Both in Europe and the U S the sec and so forth who are speaking up and in Congress, you know, and, and then it's your business partners, right? So now that the, the sort of. Center of gravity behind the SG push is is widening from investors and employees to include regulators and business partners. Your language probably needs to evolve to make sure you're talking about in terms that these other constituencies actually understand and

Elizabeth Doty: appreciate.

You mentioned working on economic, the health of the economy and the economic system. And then in passing you said supporting democracy and our civic institutions and trust in those. And I think in some ways the companies I'm talking to are [00:11:00] facing tension between these what they want to do in a state and the need to realign their political spending or to to conform to the new criteria that they've adopted, etc.

Places they can't go with some elected officials or that they want to go. Yeah. What do you think companies need to do we have people on the call that have been really courageous and saying there need to be some red lines. Yeah, places you won't go. What do you think companies should do most, you know, Most actively around supporting democratic institutions.

Paul Washington: So the first is actually building rule of law. Into the criteria used when making business decisions, whether it's international or domestic, right? So that will help guide where you're going to invest. When I was at Time Warner, you know, one of the things we were looking at spending multi, several billion dollars to buy a media company in Turkey, and we passed because of concerns about rule of law.

And press freedom, and it was a darn good thing because that that that would have wasted billions of dollars so companies can [00:12:00] build that into their capital allocation decisions, whether it's M and a or whether it's where you place your operations and so forth, so you can make it a core part of your business thing.

It won't necessarily be dispositive, right? But it should be factored in. There are certain things you can do to support democracy. That you can do with your own workforce, and that's very safe. So support voter registration support time off to, to participate in elections. You can do that. A third thing that companies can do, but I think again, it needs to be done sort of across industries and with big and small companies alike is to address issues such as gerrymandering.

Right? And, and, and things like that. Those are the things that skew our system and that imperil confidence in government is another area. I think another thing, fourth thing that you companies can do is when it comes to PAC contributions or the direct [00:13:00] corporate contributions at the state and, and, and local level is to, if you don't need some, a minority of companies have built in bright lines, like we won't, you know, support folks who.

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Took a particular stand on, you know, with regard to the 2020 election, even if you don't go that far. And a really bad thing is a lot of companies took clear hard line stance and then back off a few months later. Right. And then that, that made them look bad. And it kind of would really, you know, make sure you can actually follow through before you make the statement, the lesson there, but here's what you can do.

You can say that when the PAC is making contributions, we are going to consider whether you are open to bipartisanship, we will consider whether whether you have a proven track record of bipartisanship, we will consider whether you have a track record of supporting the Democratic institutions and constitutional democracy.

So it becomes a factor. And there will be some people who fall over on the other side of that fence, right? So there are there are some very practical things that companies can do [00:14:00] to reinforce the rule of law. The other thing is to talk about it. You know, when we're when we're going to be doing these convenings on what we're all trying to achieve in ESG, the threshold threshold.

The question is, okay, what do you even need to do to make environment and social progress? Well, you need international security, you need domestic safety. And you need rule of law. So those without those things, nothing you're trying to do to address any other social or environmental issues will have any traction.

It can all be undone if you lack security, safety and rule of law. So there are relatively few companies that have made rule of law a high priority in their sort of ESG or even their corporate citizenship. So Chubb is one where they actually have a foundation addressing rule of law, right? But it's something that I think more companies could talk about because it's in their business interest and it's in society's interest.

Elizabeth Doty: One thing that you've that you've [00:15:00] pointed to is that these companies have taken steps or at least gone on record as saying they will do their political influence strategies in alignment with their values or purpose, but they don't have explicit values or purpose related to societal interests or even to an economy that works for all.

So these are things that aren't generally in their guidelines or reference points. That's one reason we created the ERB principles for political responsibility. The other one is, I would say, if you're going to put something

So it's not a personal attack when you have to adhere to it, it's kind of like in the worst possible comparison, the Foreign Corrupt Practices Act, if you have a policy in place, you are not defying a particular person, you're adhering to a policy that's already been

Paul Washington: there. Absolutely. So that's, that's, that's so important.

So, you know, we, we can get into it, but companies should have a clear criteria and clear processes for whether they're going to take stands on and lobbying or take a, you know, issue a press release, take a stand [00:16:00] on a social issue. Right. So you, you should do that. And frankly, you should have a general statement of what you stand for.

Yeah. Overall, because that, so let's say some incident happens that you weren't expecting, you could say, look, we've taken a stand on this, this, this set of issues in this way, and we'll be formulating our specific response. In, you know, in due time or something like that, it's a great way of putting policy makers that you're on record already and putting employees on notice that this is what we stand for right and doing that affirmatively in advance.

So no one's surprised so the legislators aren't surprised your employees aren't surprised your board isn't surprised. Right. And, and that's a very good thing. The other thing you can do if your company is. Be transparent about your criterion process for making, taking stance on social and political issues so that you set expectations because, you know, some employees are thinking, well, why didn't you take a stand on this?

Well, it doesn't fit our criteria. And then the final thing, and you [00:17:00] mentioned purpose that I think is so important here for companies when they're trying to explain why it is that they're dealing with people who sometimes vote in really unpleasant ways. You know, it's hard enough to live up to your own values.

You can't expect everyone you give money to or you work with to live up to your values. I mean, that's just unrealistic. What won't work is if you say to employees, well, we've got to work with this X, such and such person, because it's important to our bottom line, lose company loses right there. If you put your profits up against values.

And you have lost. But if you say our company exists to serve this societal or environmental need, this is our very reason for being. And in the course of pursuing that purpose, we will have to work with people that we don't always agree with. Then you've got your higher calling up against these other issues and then you have a chance of winning over people.

It's got to be about purpose [00:18:00] and not profits. If you're explaining why you're dealing with people who may be disagreeable.

Elizabeth Doty: Thank you. And it links to a conversation I had with a shareholder activist who said we should be debating these things. But companies should be debating on the basis of serving a purpose.

Because as you said earlier, if we don't have rule of law, we can't serve any purpose. So these should be in debate. Right. So let's go for one comment or additional contribution that you're seeing.

Paul Washington: Yeah, Chris says, would love to hear Paul and Elizabeth's takes on how companies should think about their engagement with trade associations on economic and democracy issues.

That is excellent. Look, if you're thinking about how you can address these issues and not do it by yourself, I think, you know, making sure that your trade associations are acting with call it an ESG lens with a broader lens of environmental social responsibility, and that they are also thinking as you are of serving multiple stakeholders, investors, employees, [00:19:00] customers, business partners, communities.

Sort of importing that stakeholder focus and ESG consciousness to your trade associations and who's the executive director, what, how they set their own priorities, where they spend their money, how they phrase what they're doing is really an area for great opportunity because you will get, as we all know, you know, you can be the, if you're a CEO, you can be the hypocrite in chief.

If you've said X and your trade association is doing Y, so making sure that there's alignment there and it can be really hard because you got people all over the spectrum, right?

Belonging to trade associations, but to the extent you can influence them, that alignment is important. And by the way, if you can't influence them, you may want to reconsider in some cases, whether you belong.

Elizabeth Doty: Thank you. And the only thing I would add is I have been watching since 2003 reports on trying to achieve alignment and trade associations have been mentioned as the [00:20:00] primary barrier since then. So I think it might be time for companies to propose more active Processes for weighing what they see that maybe they think the trade association is not seeing, for example, small businesses may not be on board with sustainability.

I'm not sure about that. They're going to be affected.

Paul Washington: So raising their great business opportunities, frankly, that come, I mean, we're on the threshold of a sustainability transformation of the economy that will match the digital transformation, right? And so there's a lot of money to be made here as well as doing a lot of good and Like, small businesses could really benefit from this.

Elizabeth Doty: That's right. And so we need to amp up, I would say companies can, can elevate their attention to a thought process that's really rigorous.

A few things you can do from here, visit our new website, the ERB Principles for Corporate Political Responsibility. 42 testimonials, initial companies, and an invitation to get six to 10 more [00:21:00] 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.

And we're also working on a new 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 Urban 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 considering what they might choose to do, so whether you're looking at the ESG center or the CED committee for economic development. There's a whole lot of, of, of great work. And if you [00:22:00] 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 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 [00:23:00] all a new frontier for everyone from board members on

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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. It's a way to get at that. Great. Thank you so much.

Paul Washington: 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.

Elizabeth Doty: It was our pleasure.

Paul Washington: Look forward to the next time.[00:24:00]