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Corporate Political Responsibility Taskforce

Expert Dialogue with Washington

Washington - Module #3

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: One of my favorite economists has a menu of things you can do in a tragedy of the commons. Kind of situation and she, Eleanor Ostrom, I think 2009 got the Nobel Prize for economics. And one of [00:03:00] them is influencing your peers, right? To work with your peers on what would raise the bar for a healthier ecosystem overall with all the outcomes you talked about.

But you said that ESG, if we use that as the touchstone for this is getting a lot of pushback and some of it is actually foundationally different thinking. What are the objections you've heard that have landed with you? How is your own thinking? Changed. And how do you respond to say a Friedmanite on ESG?

Paul Washington: Here's some of the legitimate criticisms that you can hear, right? So one is that ESG funds have underperformed the market at different times, right? Early 2020, they, at the outset of the pandemic, they overperformed early 2022. They underperformed ESG funds. You know, sometimes charge higher fees than non ESG funds.

There's good questions as to how much good they're actually doing because we all know there are different flavors of ESG funds. There's ESG light. There's ESG name only and so forth, right [00:04:00] within companies. I think, you know, there's There's legitimate criticism or questions about, all right, this is great, but how does this fit in with all the existing stuff we're trying to do?

Right. Like when you suddenly put ESG in somebody's compensation scheme. Right. You know, one of the best things I've heard is you don't actually tie compensation to any metrics relating to diversity, equity, inclusion or greenhouse gas emissions or any of these areas until you've run with it for a while.

And you've seen whether non like non compensation linked. KPIs actually drive performance. So there's, those are really legitimate things that, you know, you, you can, that you can listen to and that you can address, you know, squarely. So that's, that's sort of the very practical kind of side. When it comes to the Friedmanist, this sort of ideological I think that you have to truly believe that the company and society will be better [00:05:00] off when you operate with a multi stakeholder lens.

And when you operate in a way that's socially and environmentally responsible, you just have to make that call. Even sometimes in the absence of immediate empirical. Yeah. And one thing that will help you, obviously, is you do have the tectonic forces in favor of environmental and social responsibility continue to move in the positive direction, right?

So investors still care about it. Employees, younger employees, generationally, they care about it. Your business partners, they care about it. The regulators. Well, there will be states in the U S that don't internationally, they care about it. So the forces in favor are generally going to predominate here.

So for those folks, it's almost a practical response as much as it is any philosophical or ideological one, which is you may not like it, but this is how the world is going. And in this [00:06:00] world, this is how we have to act in a way that will in fact. You know, insure shareholder, shareholder value. So I think it's, you know, grappling with the legitimate criticisms, listening on your board, don't, don't marginalize the people on the board who say, ah, I don't buy it.

Or that didn't work here. Like listen to them, engage with them, engage with the investors, engage with the employees. There's a lot of listening to be done here, not lecturing. Right. So that's a lot on the skepticism side. On the ideological side, I think you respond with practicalities instead of. You know, I'm a great believer in this, you know, if it's red team versus blue team or something like that.

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You're not going to get anywhere. I

Elizabeth Doty: gotcha. Yeah, very, very interesting. And I think that may be the reason behind the 71 percent that are not mitigating, I would add to the idea that. Political activity could make the tragedy of the commons worse by externalizing costs to society or to other investors or to other parts of your portfolio, and that there's a [00:07:00] really critical assumption behind Friedman's thinking that the rules of the game push, you know, market returns to reflect real value created, and that you're not using political influence or other avenues to externalize risks and take the benefits.

There was a great article just in ProMarket by Ed Dolan and Claudine Schneider that tried to say This is one of the key areas for business with the economic lens you talked about to make sure we align financial incentives with real value created and not use anti competitive behavior or other things.

Do you have a response to that?

Paul Washington: Other than to say, I agree with that. That's awfully important. By the way, let me just toss one other thing that companies can do in this whole area. They should be cultivating connections at the local level. That's, I think, a really important point that came out of our report.

I think, generally, there has to be a shift of government resources, political resources, from the federal level to the state and the local level, because that's where so much of the activity is going to be happening, both pro and anti ESG both [00:08:00] pro and anti corporate and largely anti corporate.

So you want to find your friends. And you want to support them and they will be the future leaders. They tend to be less ideological than the folks higher up the food chain. So that's just a very practical thing. I just wanted to toss in there. Cause I think that was one of the sort of epiphanies of the work that we, we did together.

Well,

Elizabeth Doty: well, understood. And I've heard that climate or environmental sustainability often gets much more collaborative when you're looking at your own.

Paul Washington: Well, that's exactly right. You're talking about your community. And it's like, you know, there isn't a Republican way of cleaning the streets and a Democratic way of cleaning the streets, right?

It's like, you know, there isn't, we don't believe, breathe Republican or Democratic air. We don't breathe or drink, you know, Republican water or Democratic. Well, we may drink the Kool Aid, but you know

Elizabeth Doty: what I mean. And then on the point of shifting the focus to align incentives, I want to put a plug in. It's mentioned in the, the avoiding the tragedy of the commons is a fantastic report.

And you referenced the committee for economic development. articulates in substance, not [00:09:00] just rhetoric, pro market, pro society versus pro my business.

Paul Washington: I could not, yeah, it is the public policy arm of the conference board. It is not a lobbying organization, but what it does is it comes up with non partisan, Fact based solutions that you can embrace regardless of party and regardless of industry, and it is, they have been dealing with this for decades, and so they have a whole set of recommendations of what you can do to support democracy.

Read CED's work, right, that's also part of the conference work. They do fabulous work about what to do, what you could do during the midterm election year, what you can do now, right? Yeah, exactly, right? 1971, they've been doing it for a long time. Yeah, exactly. And so anyway, and they also did the social responsibilities business corporations also in 1971.

So great work coming out of there for decades. It's a great blueprint. Please read it and it's available to it's, it's all available to the public.

Elizabeth Doty: Fantastic. That's great. And the solution briefs page [00:10:00] is really good. Oh, yeah, it's a distinction in the type of policy companies could support to your economic focus.

Okay. So you mentioned in the tragedy, the commons report frameworks that could be a focal point for multi industry cross industry collaboration, and you were kind enough to include the principle of corporate political responsibility. Can you say why

Paul Washington: there's so much that's good about it, but about the but one of the key contributions That I think companies, we've actually called it out.

It's a blind spot for CEOs. Which is they've got to make sure their own house is in order before they go out correcting everyone else. Before you take a stand on democracy, before you go out and criticize public officials for not doing the right thing, make sure your own political activity house is in order that it, and you, you make that point and you make it very powerfully and because that's the soft underbelly.

Right. Whatever you're out there advocating for, you can be vulnerable if, if you [00:11:00] don't actually have transparency, accountability, consistency in what you're doing, whether it's in your contributions, your lobbying, or your statements that you're making either directly or through third parties. So, you know, make sure that's That's all in order because otherwise you, you, you know, you will be a legitimate target of criticism and you'll be far less effective in accomplishing what you want.

So among many things that I loved about what you all did, you drew clear attention to that vitally important point. Because when we ask CEOs what they're focusing on, focusing on their own internal corporate political activity is something to get in order. Did not make the list in 2023, right? And so that needs to for them to do all the things they want to do when they're up on stage saying, you know, make the world a better place.

Elizabeth Doty: A few things you can do from here. Visit our new website. There are principles for corporate political [00:12:00] 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 urban Institute.

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

Paul Washington: Check out the resources 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 [00:13:00] the CED committee for economic development. There's a whole lot of, of, 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 approach every day.

With a culture of [00:14:00] 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

Elizabeth Doty: talked about today. 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.

Paul Washington: 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.

Elizabeth Doty: It was our pleasure.

Paul Washington: Look forward to the next time.[00:15:00]