

Corporate Political Donations - Issues For Ethical Investment

Donations by companies to various causes are a long established practice. Such donations will often be to charity, ranging from large institutional charities to smaller, local charities. Giving along these lines is not usually questioned. However, donations to political organisations do raise ethical questions. In this report, I conclude that the ethical debate should concentrate not so much on the donation itself but on the manner in which it is decided upon and the motives behind it.

1. *Political Donations Defined*

In most cases a political donation will be to a particular political party. In practice this will often be to the Conservative Party, but donations are also made to the Labour and Liberal Democrat parties. However, donations to political think-tanks would also fall under this definition.

The Companies Act 1985 defines political donations as those which go, directly or indirectly, to support a political party of the United Kingdom or any part of it. This includes “a donation or subscription to a person who, to the company’s knowledge, is carrying on, or proposing to carry on, any activities which can, at the time at which the donation or subscription was given, reasonably be regarded as likely to affect public support for...a political party.” Companies are required to disclose such donations in the directors’ report in the annual report and accounts.

2. *Alternative Perspectives*

Attitudes to political donations can be broadly placed into two categories.

- a) Companies have a duty to maximise profits for shareholders and a political donation may assist this aim by sponsoring those policies that provide an environment that will enable the company to operate most effectively. This seems to be the view taken by Lord Hanson. The Financial Times reported that at Hanson’s recent AGM, Lord Hanson was questioned about the £100,000 the company gives to the Conservative Party. He dismissed concerns with the comment “Whoever wins the next election, Conservative principles must be kept alive”. One assumes of course, that Lord Hanson has his shareholders best interests at heart.

If a company wishes to sponsor a framework of policies it may sponsor a political party. Traditional demarcation lines in British politics have meant that the Conservative Party has been the main beneficiary of corporate giving, especially given that party’s free market rhetoric in the past. As we approach the next General Election, we are seeing a new trend towards “equidistance”. The distinct possibility that Labour may win the election has prompted some companies to give money to the largest two or three parties. In doing so they may be seen as either demonstrating their commitment to civic society or as hedging their bets. However, others have abandoned political giving altogether.

- b) Corporate political donations amount to a form of bribery. This might be seen as the “Private Eye” perspective. Certainly a corporate donation opens a company to this accusation. The use of donations to gain unfair advantage is clearly unethical. For example, if two companies were in competition in a government regulated industry and one donated to the governing party, this might be seen as an attempt to influence the regulatory process. Such influence would be unfair and unethical.

A different example might be that a chairperson of a company that donates to the governing party and subsequently receives a knighthood or peerage will not be judged well by society, and possibly with good reason since we expect our company executives to be above reproach.

3. Corporate Political Activity And The Democratic Process

Corporate Political activity does not stop at simple donations. We are seeing in UK political life an increasing trend towards lobbying by special interest groups. This has been documented since the 1960s and seems to have arisen particularly with the growth of government since the war. Increasingly, people see change in our society as being more effectively promoted via lobbying activity rather than through support for a political party. The corporate sector is, of course, heavily involved in the lobbying process.

In the same way that an environmental lobby group can be seen as a coalition united behind some common aims, so the company can be seen as a coalition of shareholders represented by the company directors. The central aim of most companies is to maximise profit, subject to legal and any ethical constraints. When lobbying government, it can be seen as representing the best interests of its shareholders. In so far as the company acts in accordance with its legitimate aims and those interests are fairly expressed, there should be no ethical objection to such activity in the political arena.

It could also be argued that if company directors wish to arrange political donations in the best interests of shareholders, that should not be condemned. A requirement for shareholders to explicitly express such a preference would avoid the accusation that directors are channelling company money to their political friends.

Of course, some would argue that even corporate political donations which are not designed to give unfair advantage should be avoided. A company is a legal entity in itself and should have no part in funding elected representatives. In addition, shareholders usually have no real input into the decision to donate.

There are a number of issues that must not be confused. There is much debate over the proposal that party political funding should be disclosed and this would seem an ethically desirable aim. This would not conflict with the freedom of companies to give to political parties.

Some have taken the debate farther and argued that parties should be funded centrally and that outside corporate donations should be prohibited. The rationale for this position is that anything that may appear to unfairly influence a party or its members, must be avoided. Although the amounts involved may be individually relatively small, they will amount to a sizeable source of funding for political parties in any given year. Thus corporate funding may significantly affect the UK democratic system and should be abolished or strictly controlled. There is much merit in this argument and perhaps the church should voice public concern. However, it is more a public policy matter than a practical concern for ethical investors.

Those companies that donate on a more or less equal basis may not generate such concern. Such a policy can be seen as the acquisition of a "stake" in the body politic. This could also be seen as the ultimate of hedged bets!

Whatever position one holds on the debate surrounding corporate political donations, clearly the money involved is relatively small for the individual companies. The £100,000 donated by Hanson might be considered large. Yet this compares with sales of £11,404m, pre-tax profits of £1,275m and overall donations (ie including charities etc) of £3.2m (at September 1995).

4. CFB Exposure

An EIRIS survey in May 1995 found that 50 companies contained within the CFB Investment Fund have made political donations recently. It should be noted that the survey does not take account of recent trends since a company that has made a political donation of any size in the last five years will be included. A list of the companies is contained at the end of the report.

5. Suggested Guidelines For Ethical Investment

From the CFB point of view, if we were looking at exposure to unethical activities as a proportion of overall operations, or even of absolute value, we would have to regard political donations as insignificant. Political donations are usually measured in the ten thousands of pounds. Compared to turnover and profits of millions of pounds, it could be argued that the matter really is not worth considering. Our time could be used more effectively.

However, this is not the only means by which we assess a company: we look at their overall stance.

We should encourage companies to play a full and public role in our communities and society as a whole. We should accept that companies need to argue their case in the public arena and may lobby politicians and political parties as part of that activity. However, we should not be happy with the partisan nature of political donations, and should express our concern that such donations may tarnish company reputations.

Therefore, we should uphold the principle of shareholder democracy. Through our contacts with companies we should encourage the provision of annual opportunities for shareholders to vote on such donations.

When such votes take place, we should consider voting against political donations where these excessively favour a particular political party: equal donations to all mainstream parties may not be opposed since it may simply represent a general commitment to the political system.

We must be realistic and recognise that there are other ethical issues that may be of more pressing concern. There is a danger that the issue of political donations can generate ethical concern out of proportion to other valid considerations.

Before any attempt is made to engage in the public arena, we should consider whether we should save any goodwill we have for other issues. However, there is a good case to be made for the church to speak on this issue: it would be an opportunity to show moral concern for our political system. This is not a task for the Central Finance Board.

We should certainly take the existence of political donations into account when assessing a company. We should remember that the attitude of the directors towards shareholder participation in the decision to donate can be an indication of the manner with which they regard other issues of corporate governance and accountability. A negative attitude could have corresponding financial and ethical implications.

6. Summary

- There should be full disclosure of information on all donations;
- We should encourage a vote on donations to be placed before shareholders;
- The CFB should vote on the issue when raised (the question of the principle of how the CFB should vote needs to be considered);
- This is not a major cause of concern ie it is not a divestment matter;
- The church has a role in calling for high standards in corporate affairs. The morality of corporate political donations is one such example.

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