DuPont Shareholder Resolution

Executive Summary

As You Sow has asked DuPont to refrain from spending corporate funds to influence elections. Corporate money in politics is a highly contentious issue, and may expose companies to significant financial risk. DuPont's total political spending has rapidly accelerated over the last 15 years, topping $10 million in 2013. Shareholders are concerned that DuPont's rapidly increasing political contributions exposure shareholders to risk without generating value.

Resolution

Resolved: The shareholders request that the board of directors adopt a policy to refrain from using corporate funds to influence any political election.

Supporting Statement: "Using corporate funds to influence any political election" for purposes of this proposal, includes any direct or indirect contribution using corporate funds that is intended to influence the outcome of an election or referendum. This includes independent expenditures, electioneering communications, and issue advocacy that can reasonably be interpreted as in support or opposition of a specific candidate or ballot measure. The policy should include measures, to the greatest extent practical, to prevent trade associations or non-profit corporations from channeling our company's contributions or membership dues to influence the outcome of any election or referendum.

Shareholder Concerns Regarding Corporate Political Spending

The SEC has long recognized recognizes that shareholder proposals are an important indicator of investor interest.[1] In the 2012 proxy season, shareholders filed 71 resolutions relating to political spending.[2] This number was seven times greater than the number of shareholder votes that prompted the SEC to revise its executive-pay disclosure rules in 1992.[3]

In 2013, shareholders filed 128 political spending resolutions.[4] The average vote was 25%, 11 of the votes were above 40%, and two received majority support.[5] In addition, members of the public submitted more than 700,000 comments in favor of a potential SEC rule requiring all publicly traded companies to report on political spending in their securities filings.[6]

Shareholder Risk from Political Spending to Influence Elections

Corporate money in politics is a controversial subject. Since the high-profile U.S. Supreme Court Case *Citizens United v. Federal Election Commission*, corporate contributions to election

[1] Bebchuck, Lucian A. and Robert R. Jackson, 2013, "Shining Light on Corporate Political Spending" (*Georgetown Law Journal*)
[2] Id.
[3] Id.
[4] As You Sow, 2014, *Proxy Preview,* www.proxypreview.org/#proxy-preview-2014
[5] Id.
[6] Id.

campaigns have skyrocketed. Experts have estimated that a record-breaking $6.3 billion was spent in the 2012 electoral cycle, an increase of nearly 15% from 2008.[7] These developments are deeply unpopular among the U.S. public across party lines, and consequently expose companies to considerable risks associated with attempts to influence controversial election outcomes.

Consumer Opposition to Corporate Political Spending

Across party lines, the American public overwhelmingly disapproves of corporate money in politics:

- More than 8 in 10 Americans support limits on the amount of money given to groups trying to influence U.S. elections, with 85% support among Democrats, 81% among Republicans, and 78% among independents, according to a 2012 poll by the Associated Press and the National Constitution Center.[8]
- Bannon Communications' national poll found that 80-90% respondents agreed, across party lines, that there is "too much money in politics"; corporate political spending "drowns out the voices of average Americans"; corporations and corporate CEOs have "too much political power and influence"; and corporate political spending has made federal and state politics more negative and corrupt.[9]
- The Bannon poll found that 79% of respondents would boycott a company to protest its political spending, 65% would sell stock in the company, and over half would ask their employer to remove it from their retirement account.[10]

Consequently, companies that contribute to controversial public policy or candidate elections risk alienating a consumer base that is widely opposed to corporate money in politics. For example, retail chain Target faced in-store protests, national news coverage, and viral internet exposure in 2010 after reports surfaced that the company donated $150,000 to an organization backing a Republican candidate with a long record of opposing gay rights.[11] The company publicly apologized, and committed to reforming the review process for future political donations.[12] In another example, many companies that opposed recent ballot campaigns to label foods with GMOs suffered significant consumer backlash, and were depicted in the media as 'anti-transparency and preventing informed consumer choice.'[13] [14]

Responding to the controversy around corporate political contributions, many companies have explicitly adopted a policy to not engage in certain types of political spending. For example, more than 70 companies have ended their membership with the American Legislative Exchange

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[7] Center for Responsive Politics, Mar. 13 2013, "The 2013 Election: Our Price Tag," http://www.opensecrets.org/news/2013/03/the-2012-election-our-price-tag-fin.html

[8] Wall Street Journal, Sep. 17 2012, "Poll: Most Americans Support Limits on Political Spending," http://blogs.wsj.com/law/2012/09/17/poll-most-american-support-limits-on-political-spending

[9] Bannon Communications, 2012, *Support for Reform of Corporate Political Spending Practices*, www.citizen.org/documents/bannon-communications-research-executive-summary.pdf

[10] Bannon Communications, 2012, *Support for Reform of Corporate Political Spending Practices*, www.citizen.org/documents/bannon-communications-research-executive-summary.pdf

[11] Hamburger, Tom and Jennifer Martinez, Aug. 13 2010, *Los Angeles Times, articles.latimes.com/2010/aug/13/nation/la-na-target-gays-20100813*

[12] Id.

[13] Green America, Dec. 6 2012, "GMO Inside Campaign: Cheerios Facebook Page Flooded By Anti-GMO Comments" [Press Release], http://www.prnewswire.com/news-releases/gmo-inside-campaign-cheerios-facebook-page-flooded-by-anti-gmo-comments-182410021.html

[14] Seattle Post Intelligencer, Oct. 17 2013, ""GMO Labeling Moms React to GMA Money-laundering Lawsuit," http://blog.seattlepi.com/videoblogging/2013/10/17/gmo-labeling-moms-react/

Council (ALEC) – a tax-exempt 501(c)(3) non-profit which convenes state lawmakers and private sector representatives to collaborate on legislation – due to its controversial positions on public policy issues such as gun control and climate change.[15]

Research Suggests Negative Correlation Between Political Spending and Shareholder Value

Several academic studies conclude that corporate political spending may correlate negatively with shareholder value. These studies suggest that firms donating large sums may be linked to poor corporate governance and low shareholder power, making it difficult for shareholders to determine whether this use of company funds is in the long-term interest of the company.[16]

- Companies contributing to political action committees and other outside political groups between 1991 and 2004 grew more slowly than other firms, invested less and spent less on R&D, and were linked to poor corporate governance.[17]
- Investigating the relationship between corporate political activity and financial returns on a set of 943 S&P 1500 firms between 1998 and 2008, this study found that corporate political investments are negatively associated with market performance and cumulative political investments negatively affect both market and accounting performance.[18]
- "[F]irms that were politically active in 2008 had lower value in 2010 than other firms, consistent with politics at least partly causing and not merely correlating with lower value… Overall, the results are inconsistent with politics generally serving shareholder interests, and support proposals to require disclosure of political activity to shareholders."[19]
- Using event-study methodology, researchers concluded that firms that spend large amounts of "soft money" do not enjoy high rates of returns associated with that spending.[20]
- A study of information on lobbying and mortgage lending activity found that lenders who engaged in more lobbying also engaged in riskier lending prior to the financial crisis.[21]

Researchers have proposed several reasons for the documented negative relationship.

- Managers who support corporate political spending may in general take overly risky business decisions.
- Corporate political spending may represent poor-quality investments.
- Corporate political spending is difficult for shareholders to monitor.
- Personal reasons of senior managers, such as self-aggrandizement, ideological beliefs and other pressures may influence corporate political activity.

Proponents contend that while the potential risks associated with political spending are clear, the value to shareholders from this use of corporate funds is unclear.

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[15] As You Sow, 2014, *Proxy Preview*, www.proxypreview.org/#proxy-preview-2014
[16] *See, e.g.*, Aggarwal et al**,** 2012, "Corporate Political Donations: Investment or Agency?" (*Business and Politics*), *and* Coates, 2012, "Corporate Politics, Governance, and Value Before and After Citizens United," *(Journal of Empirical Legal Studies)*
[17] Aggarwal et al, 2012, "Corporate Political Donations: Investment or Agency?" (*Business and Politics*)
[18] Hadani et al, 2012, "In search of El Dorado: The elusive financial returns on corporate political investments," (*Strategic Management*)
[19] Coates, 2012, "Corporate Politics, Governance, and Value Before and After Citizens United," *(Journal of Empirical Legal Studies)*
[20] Ansolabehere et al, 2004, "Did Firms Profit from Soft Money?" (*MIT Economics Working Paper No. 04-11*)
[21] Igan et al, 2009, "A Fistful of Dollars: Lobbying and the Financial Crisis," [IMF Working Paper, International Monetary Fund]

Disclosure is Insufficient

Proponents contend that simply disclosing political contributions is insufficient to protect shareholders. Disclosure is retroactive, occurring after the contribution has already been made, and does not allow shareholders to anticipate or pre-emptively evaluate the potential risks associated with those contributions. Consequently, proponents believe that a company policy against political contributions intended to influence elections will ensure shareholders are protected against the potential risks and controversies associated with this practice.

The Proposal Does Not Address Other Types of Political Spending

Our proposal does not seek to constrain the company's ability to lobby elected officials – once they are elected – on specific issues relevant to the company. Rather, this proposal seeks to address the use of company funds to influence the outcomes of elections.

DuPont's Political Expenditures Risk Shareholder Value

DuPont's political expenditures have rapidly accelerated over the last 15 years. Yearly expenditures can be categorized as follows:

- 1999-2006: $1-2 million per year
- 2008-2012: $4-5 million per year
- 2013: over $10 million

DuPont contributed $5.4 million to oppose Proposition 37 in California, and over $3.4 million to oppose Initiative 522 in Washington.

Proponents are concerned that DuPont's political contributions are increasing rapidly without demonstrating returns to shareholders.

Conclusion

As demonstrated above, corporate political spending is increasingly opposed by consumers and investors, and peer-reviewed academic research has found that it negatively impacts shareholder value. DuPont is exposed to this risk through escalating and highly-scrutinized political expenditures. A self-imposed ban on this use of company funds would reduce the risk to shareholder value while still allowing the company to communicate its views on public policy through lobbying. Shareholders would immediately benefit from a policy to refrain from political spending that influences elections.