Proxy Proposals on Charitable Contributions Are Rare, but Will We See More?

Socially responsible investors have become a bigger part of a company's ownership. Large funds, such as Vanguard, BlackRock, pension funds and others are exerting their influence for better ESG (Environment, Social, Governance) performance. Various nonprofits are also flexing their muscles. Will the increased scrutiny lead to more proposals on charitable contributions?

In 2017, there were four proposals regarding companies' charitable contributions, at Alphabet (Google), Apple, General Electric, and McDonald's. Each of these proposals received a very low number of votes in favor of the resolution (0.5 to 3.5 percent) and as a result failed.

In general, the four proposals posed a similar request regarding the reporting of a company's charitable contributions. One example stated: "Company shall provide an annual report of charitable contributions, omitting proprietary information and at reasonable cost, disclosing: the company's standards for choosing recipients of company assets in the form of charitable contributions; the business rationale and purpose for each of the charitable contributions, if any; personnel participating in the decision to contribute; the benefits to society at-large produced by company contributions; and a follow-up report confirming the contribution was used for the purpose stated. The report should be published on the company's website."

One area of confusion among voters, which is evident in some of the lists of companies' giving, is the difference in reporting regulations for corporate funding versus company foundation funding. In the US, foundation giving is public knowledge and contributions may be reviewed on the foundation's IRS Form 990.

Public disclosure of non-foundation company giving is not required. However, many companies now disclose the organizations they give to in CSR reports, for example, with some including the amount, and some the purpose of the gift. Conversely, some companies still don't publicly disclose their non-foundation total giving statistics at all.

The inconsistency of reporting across the spectrum can be frustrating to certain advocacy groups. And when companies do not disclose the data, these groups and other stakeholders often presume the company is purposefully trying to hide information. Some investors believe that they need to have a complete understanding of where all corporate contributions are going, because there might be an impact in other areas of the business.

For example, philanthropy officers need to be careful when they're making decisions about the nonprofit organizations they support, because these organizations could be affecting other parts of the business in a negative way. I have seen nonprofits request charitable support from a company while the same organization is waging a protest against one of the company's business units or products. I had two instances of this while I was at Disney. These are conflicts that can significantly affect a company.

It will be interesting to watch if companies' stances on issues such as immigration, racial inequity, sexual misconduct and guns will lead to a deeper look at charitable contributions by some, particularly those in the ESG investment community.

Heightened focus on corporate citizenship issues

"The volume of environmental and social proposals at Russell 3000 companies has consistently gone up in the past five years," according to The Conference Board report *Environmental and Social Proposals in the 2017 Proxy Season*. "Although such proposals received average support of only 21.4 percent of votes cast in 2017, support levels for these proposals continue on an upward trend. The uptick in successful E&S proposals can largely be attributed to a shift in the voting policies of traditionally passive investors."

The Interfaith Center on Corporate Responsibility is a group of shareholder advocates who press companies on ESG issues. Their coalition of over 300 global institutional investors currently represents more than $400 billion in managed assets. They leverage their equity ownership in some of the world's largest companies to engage management to identify and mitigate social and environmental risks resulting from corporate operations and policies.

The center focused on 10 issue areas in its 2018 Proxy Resolutions and Voting Guide. The number after each category is the number of resolutions by issue:

1. Climate Change - 61
2. Inclusiveness/Diversity - 57
3. Lobby/Political Contributions - 45
4. Human Rights/Trafficking - 26
5. Corporate Governance - 25

6. Environment, Health & Sustainability - 23
7. Health - 12
8. Food - 8
9. Water - 7
10. Financial Practices & Risk - 2

The report is available at: http://iccr.org/iccrs-2018-proxy-resolutions-and-voting-guide

While the proposals submitted don’t specifically target charitable contributions, many of the issue areas are important to a company’s corporate citizenship strategy. And although most shareholder proposals for social and environmental issues don’t pass, they do often prompt changes in company policies.

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