MASON-DIXON
POLLING & RESEARCH

The Center for Political Accountability

Corporate Political Spending

A SURVEY OF AMERICAN SHAREHOLDERS

2006

Conducted By
Mason-Dixon Polling & Research
Washington, D.C. - (202) 548-2680

The Center for Political Accountability

Corporate Political Spending

A SURVEY OF AMERICAN SHAREHOLDERS

2006

Table of Contents

Report

Background & Research Objectives	…….	2
Methodology	…….	3
Findings	…….	4-14

APPENDIX

QUESTIONNAIRE & TOP LINE RESULTS	…….	16

The Center for Political Accountability

Corporate Political Spending

A SURVEY OF AMERICAN SHAREHOLDERS

2006

BACKGROUND & RESEARCH OBJECTIVES

This survey was commissioned by ***The Center for Political Accountability (CPA)***. Founded in October 2003, the Center is a non-profit, non-partisan organization dedicated to achieving corporate political transparency and accountability.[1]

The CPA is mounting the first sustained shareholder campaign to convince companies that disclosure and board oversight of their political activity is in their and their shareholders' best interest. Under current law, companies are not required to fully report and account for their political activity. In fact companies are free to use corporate funds to make unlimited political contributions and expenditures without ever having to account to shareholders for those disbursements. The amount of corporate money devoted to politics is often a mystery to shareholders. The mystery is compounded by the fact that an enormous amount of corporate political spending is routed through trade associations and other tax exempt entities. These organizations, including the country's leading trade associations, are not required to report funds they spend on political activity and many do not even disclose the names of their members. The result is that tens if not hundreds of millions of corporate dollars flow into the political process, often without internal or external controls, board oversight, or shareholder knowledge.

Through the efforts of the Center and a group of institutional investors, a growing number of companies have recognized that disclosure and board oversight is just good business practice and now disclose and have their boards oversee their political activity.

To better understand the views of American shareholders, the Center commissioned one of the country's foremost public opinion firms to conduct a survey of shareholder attitudes towards corporate political involvement. The research objectives were defined by CPA and focused on:

- Current practices, governance and regulation of corporate political spending
- Risks associated with corporate political spending.
- Attitudes on proposals that require greater corporate disclosure, transparency and accountability of corporate political spending.

The results are detailed in this report.

[1] http//:www.politicalaccountability.net

Methodology

This survey was conducted by Mason-Dixon Polling & Research, Inc. from March 6-9, 2006. A total of 800 American adults were interviewed by telephone. Those interviewed stated that they held stock or mutual funds with common equities.

Those interviewed were selected by the random variation of the last four digits of telephone numbers. A cross-section of exchanges was utilized and quotas were assigned in order to ensure a fair reflection of the demographic profile American households owning stocks and mutual fund in the United States[2].

The margin for error, according to standards customarily used by statisticians, is no more than +/-3.5 percentage points. This means that there is a 95 percent probability that the "true" figure would fall within that range if all shareholders were surveyed. The margin for error is higher for any subgroup, such as an age or gender grouping.

[2] *Fundamentals*, *INVESTMENT COMPANY INSTITUTE RESEARCH IN BRIEF*, Vol. 14 / No. 5, October 2005 based on June 2005 survey of 3000 US households conducted by Investment Company Institute Research and extrapolated data from US Census Data.

The Center for Political Accountability

Corporate Political Spending

A SURVEY OF AMERICAN SHAREHOLDERS

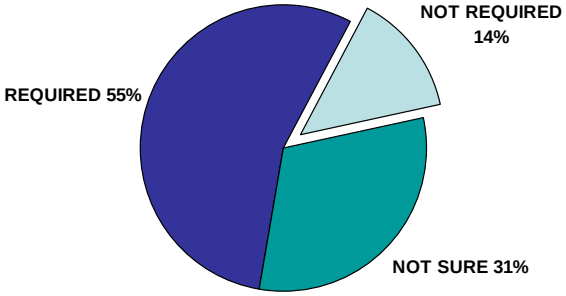
2006

Findings:

Awareness of Current Governance & Regulation of Corporate Political Spending:

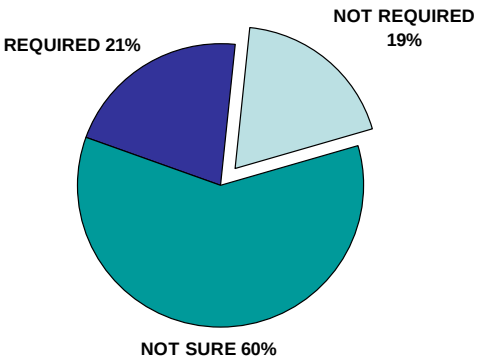
- **Just 14% of American shareholders correctly** stated that corporations are not required to disclose all political contributions. The overwhelming majority (86%%) were either under the mistaken impression that corporations are required (55%) to disclose all political contributions or stated they were not sure (31%) what current law requires.

Are corporations required or not required to publicly disclose all political contributions?



- In response to another question, only 19% of shareholders correctly stated that corporate boards <u>are not required</u> to approve and oversee political contributions. A majority (81%) either thought that corporate boards had a legal obligation to approve and oversee political contributions (21%) or did not know (60%)

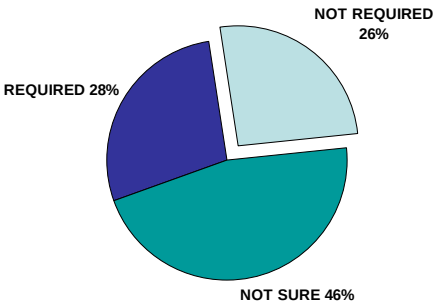
Are corporate boards required to approve and oversee political contributions?



Awareness of Current Governance & Regulation of Corporate Political Spending: (continued)

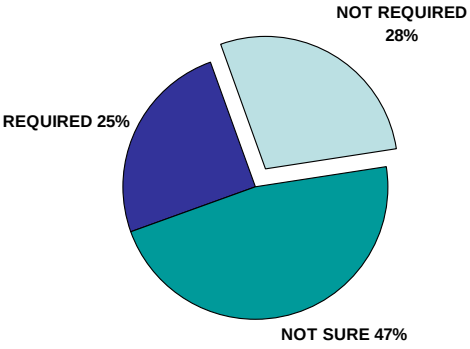
- Seventy-four percent (74%) of all shareholders did not know that corporations are not required to disclose their contributions to trade associations, which are then passed on to political committees and candidates. In 2004, more than **$100 million of corporate monies were spent by just 6 trade associations** on political and lobbying and activities, including contributions to political committees and candidates. None of this spending was required to be disclosed by the contributing corporations.

Are corporations required to disclose the amount of money they contribute to trade associations which is then passed on to political committees and candidates?



- Similarly, 72% of shareholders did not know that corporations were not required to disclose which candidates and organizations receive the money they contribute to through a trade association? (72% total, of which 47% not sure, 25% stating there was a disclosure requirement)

Are corporations required to disclose which candidates and organizations receive the money they contribute through a trade association?



Confidence in Corporate Leadership and Oversight:

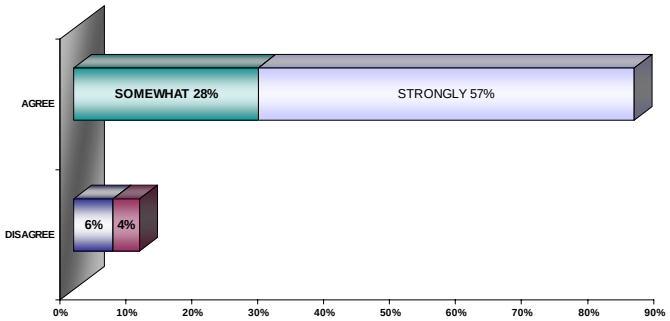
After benchmarking the level of shareholder awareness about the current governance and regulation of corporate political spending, shareholders were informed that

- Not all corporate political spending is disclosed.
- Corporate political spending does not require board oversight or approval.
- The amounts and identity of candidates and political organizations a particular corporation gives to through trade associations are not required to be disclosed.

The survey then documented shareholder opinion towards the risks posed by the lack of board oversight. It paid particular attention to the extent that shareholders were confident that corporations in which they held stock exercised corporate oversight and avoided risky political involvement.

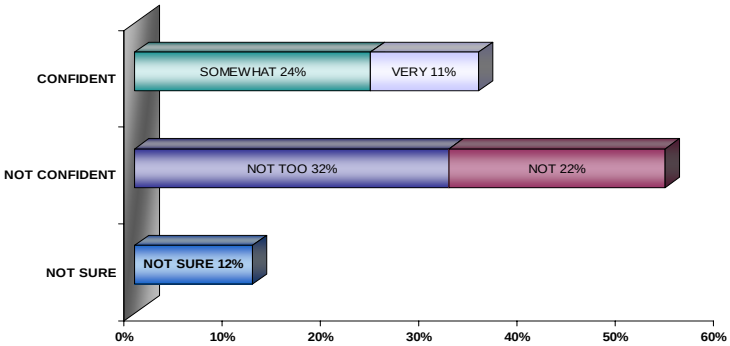
- An **overwhelming majority of 85%** of shareholders agreed that the "…**lack of transparency and oversight** in corporate political activity encourages behavior that **puts corporations at <u>legal risk and endangers corporate reputations</u>**". Intensity among shareholder **opinion was pronounced with 57% strongly agreeing** and just 28% somewhat agreeing.

The lack of transparency and oversight in corporate political activity encourages behavior that puts corporations at legal risk and endangers corporate reputations.



- Further, a majority (54%) stated that they had little or no confidence that the corporations *"...in which you own stock*" have adequate oversight of political contributions.

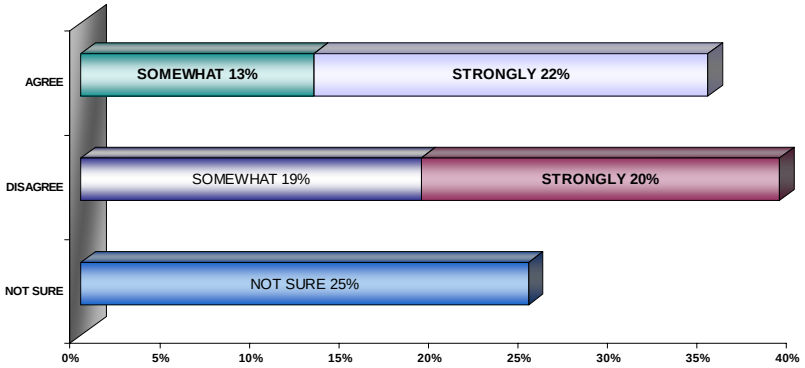
Confidence that the corporations *"...in which you own stock*" have adequate oversight of political contributions:



Confidence in Corporate Leadership and Oversight: (continued)

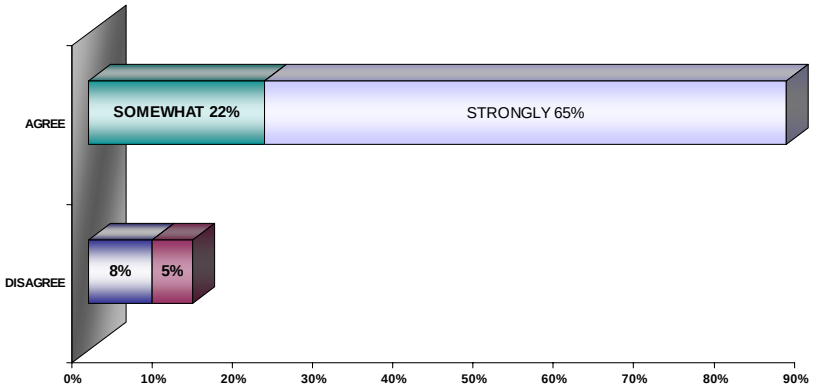
- A plurality of shareholders (39%) expressed little or no confidence that companies in which they own stock do not engage in risky political behavior. Another quarter 25% said they weren't sure. That left just over a third (35%) of American shareholders stating confidence about their investments not being exposed to risky political behavior.

I am confident that corporations in which I own stock directly or in my mutual funds do not engage in risky political behavior.



- But, the vast majority of shareholders **(87%)** agreed with the simple proposition that they would have **more confidence in investing in corporations** that have adopted reforms that **provide for transparency and oversight in political spending**. **Intensity of opinion was particularly strong** with **65% strongly agreeing** with the proposition.

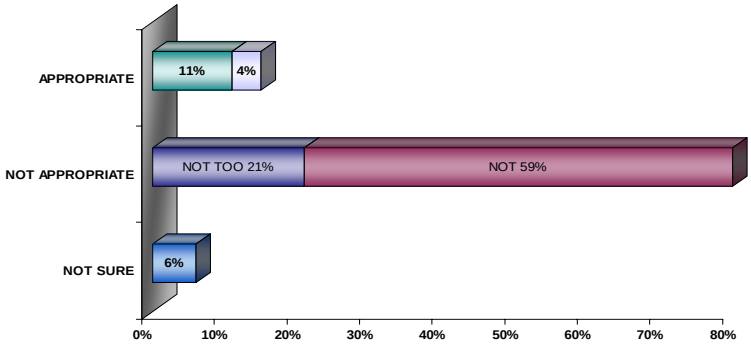
Generally, I would have more confidence in investing in corporations that have adopted reforms that provide for transparency and oversight in political spending.



Current Corporate Practices:

- The Center for Public Accountability's *Green Canary* report[3] documents several examples of "risky" corporate behavior that has resulted in criminal and civil penalties, tarnished corporate reputations and loss of shareholder value. The CPA has also documented examples of corporate payments to trade associations which are contributed to political and other organizations and candidates that promote and support controversial social agendas. **A substantial majority (80%) of American shareholders consider this an inappropriate use of corporate funds with a strong intensity of opinion** (58% "not at all appropriate", 21% "not too appropriate").

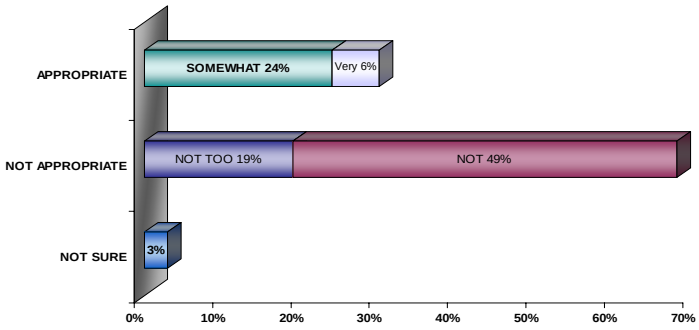
Appropriateness of corporate political contributions, passed through trade associations, supporting controversial social agendas that have nothing to do with the corporation's business:



- Another corporate behavior that poses a risk to reputations and shareholder value is that companies are increasingly using aggressive political contributions and political relationships as a critical part of their business strategy. Enron, Qwest, and Global Crossing are examples of the over reliance of corporations on political spending to salvage their failed business plans.

  When asked "*how appropriate do you think large political contributions and heavy spending on lobbying efforts are for the companies in which you own stock?"* 68% said that it was inappropriate behavior.

Appropriateness of large political contributions and heavy spending on lobbying efforts are for the companies *"…in which you own stock"*:

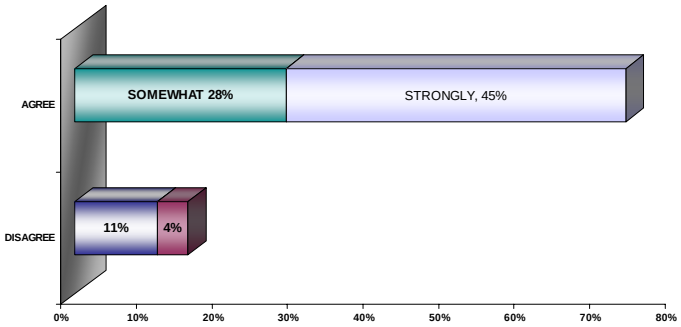


[3] *Green Canary: Alerting Shareholders and Protecting Their Investments,* The Center for Political Accountability, February 2005. http://www.politicalaccountability.net/gcreport/indexgc.htm.

Current Corporate Practices: (continued)

- Shareholders also agreed that lack of transparency and oversight led to the **inappropriate behavior** by some **corporate executives**. Fully, **73% of shareholders agreed that corporate political spending** is often undertaken to advance the **private political interests of corporate executives rather than the interest of the company and its shareholders.**

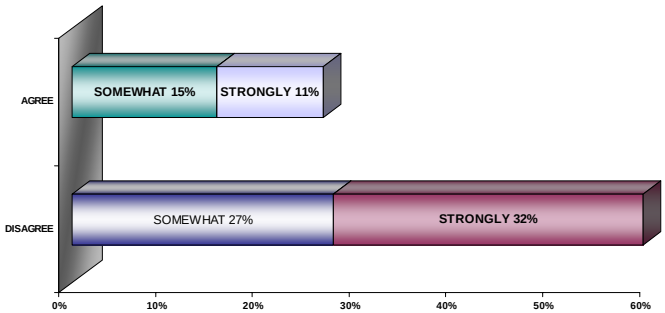
Corporate political spending is often undertaken to advance the private political interests of corporate executives rather than the interest of the company and its shareholders.



Support for Reform:

- **A majority of shareholders think that current law and regulation do not provide sufficient checks and accountability in corporate spending.** Fifty-nine percent (59%) disagreed with the statement "C*urrent law and regulation governing corporate political spending provides sufficient checks or accountability on corporate boards and executives.*" (27% somewhat, 32% strongly disagreeing)

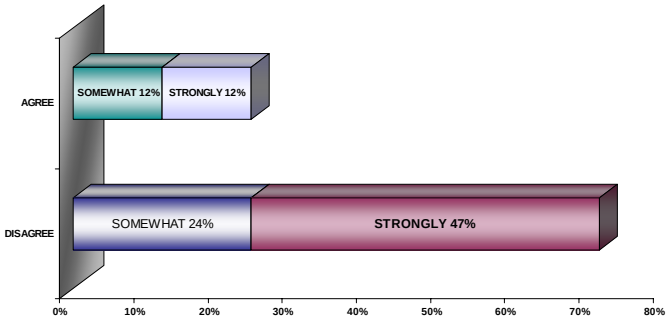
Current law and regulation governing corporate political spending <u>provides sufficient checks or accountability</u> on corporate boards and executives.



Support for Reform: (continued)

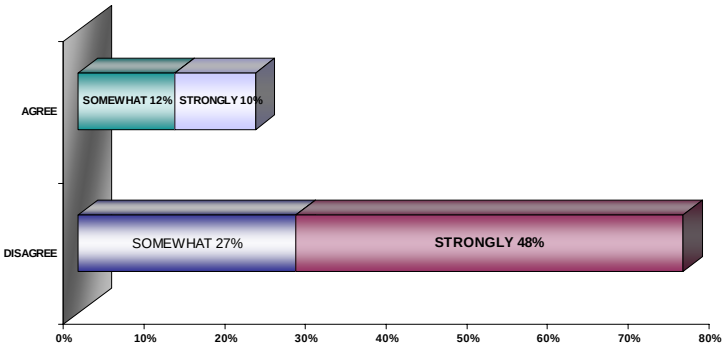
- **Shareholders clearly and overwhelming think that reform is needed**. Seventy-one (71%) disagree with statement that reform is <u>not needed</u> to protect the ordinary investor. Again, there was strong intensity of opinion with 47% strongly disagreeing. There was weak support, both in total numbers and intensity, for the status quo. Just 24% stated that reform was not necessary (somewhat 12%, strongly 12%).

Reforms in corporate political spending <u>are not necessary</u> to protect the interests of the ordinary public investor.



- **Shareholders are looking to corporate boards for leadership and accountability on these issues**. When asked to agree or disagree with the statement "*Corporate political contributions <u>should not</u> require the oversight and approval of the board of directors,*" 75% shareholders disagreed. The support for board accountability is further evidenced by the intensity found in response to the question with nearly half (48%) of all American shareholders strongly disagreeing with the statement.

Corporate political contributions <u>should not</u> require the oversight and approval of the board of directors.

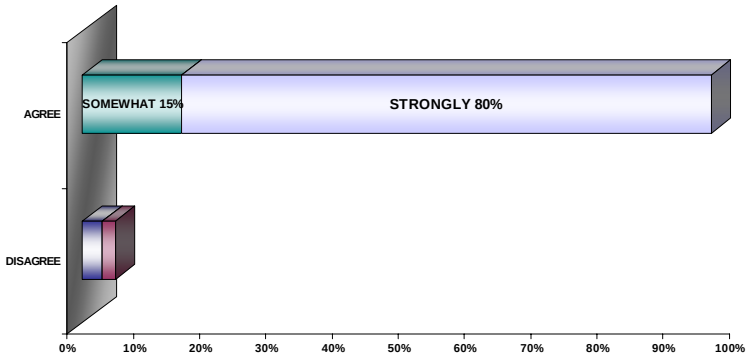


Support for Reform: (continued)

As detailed in the forthcoming *Hidden Rivers* report, some corporate contributions to trade associations end up in the coffers of political organizations that champion divisive social issues unrelated to the corporation's business. And, as documented in the report, often these **political payments support policies that are contrary to the publicly stated policies of the corporation**. The Center's *Green Canary* report also found this to be the case with company soft money political contributions.

- Of all the issues tested in this survey, **this one elicited the strongest response and greatest intensity of opinion**. Fully 95% of American shareholders agree that corporations should make certain that political contributions made to trade associations be consistent with company policies and be fully disclosed. Eighty percent (80%) strongly agreed with the statement.

Corporations should ensure that payments made to trade associations that are used for political purposes be consistent with company policies and fully disclosed.



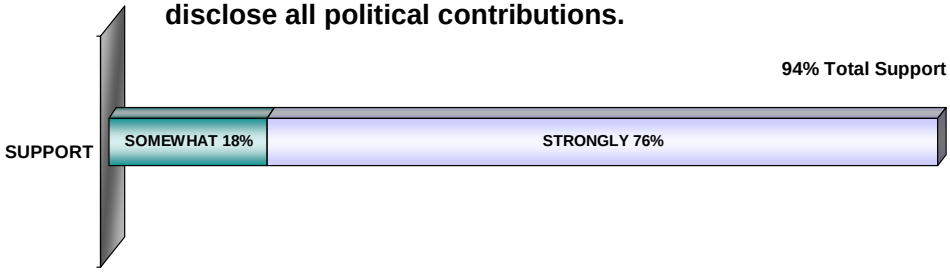
Reform Proposals Considered:

In response to the risks posed by the current lack of transparency and oversight in corporate political spending, the Center for Public Accountability has proposed a set of reforms[4] for adoption by corporations, the elements of which are:

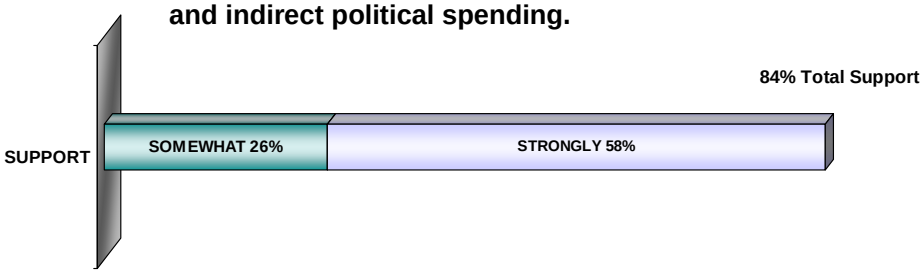
1. Corporations should be required to publicly disclose all political spending.
2. Corporate boards should oversee and approve all direct and indirect political spending.
3. Corporations should be required to disclose the guidelines they use for their political spending decisions.
4. Corporations should identify the corporate officers who manage the company's political giving.
5. Corporations should be required to disclose their political spending on the company's website on a quarterly basis.
6. Corporations should be required to disclose payments made to trade associations which are then used for political purposes.

- Shareholders were read each reform proposal and asked if they supported or opposed it. As illustrated in the charts below and on the following pages, **each proposal is supported by the vast majority of American shareholders**. **All have the support of at least 84% of shareholders**. In addition, the **degree of support was particularly intense**, with an average of **64%** of shareholders **'strongly' supporting each of the reform measures.**

Corporations should be required to publicly disclose all political contributions.



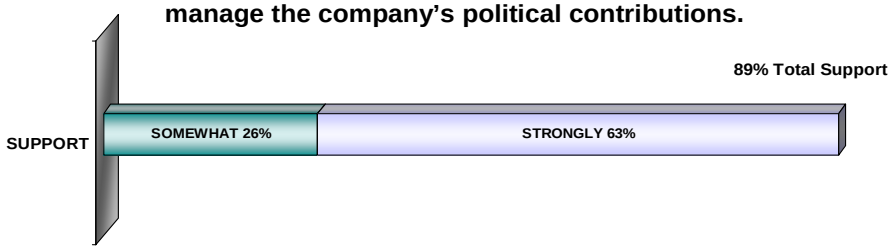
Corporate boards should oversee and approve all direct and indirect political spending.



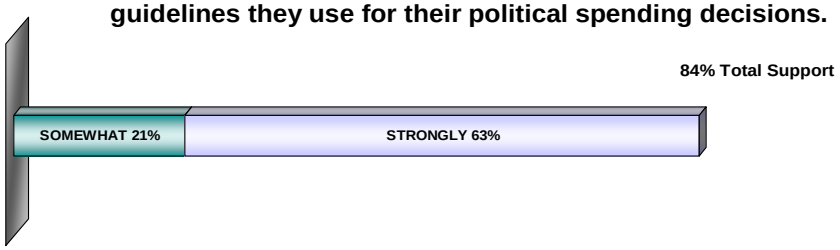
[4] The Center for Political Accountability drafted a model political disclosure resolution that has been filed by institutional investors since the 2004 proxy season. It calls on companies to disclose their soft money contributions and payments to trade associations and other tax-exempt organizations that are used for political purposes, identify the corporate officers involved in the expenditure decisions, disclose their political spending guidelines, and require board of directors oversight of their political spending. The CPA also has developed eight principles for corporate political spending and accountability for companies to follow. (http://www.politicalaccountability.net/principles.htm)

Reform Proposals Considered: (continued)

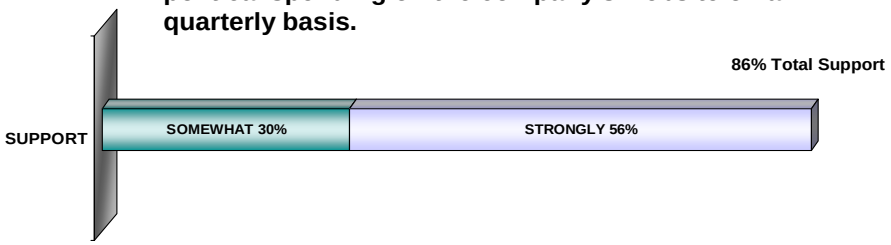
Corporations should identify the corporate officers who manage the company's political contributions.



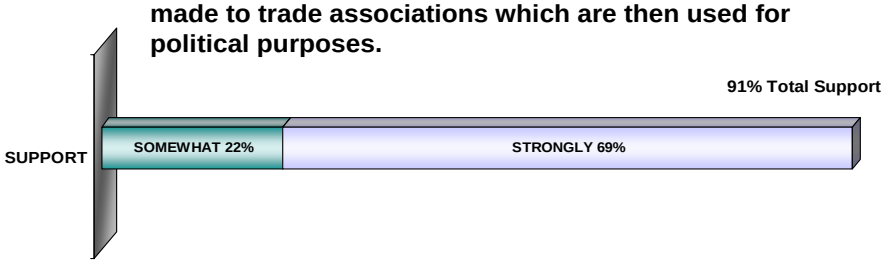
Corporations should be required to disclose the guidelines they use for their political spending decisions.



Corporations should be required to disclose their political spending on the company's website on a quarterly basis.



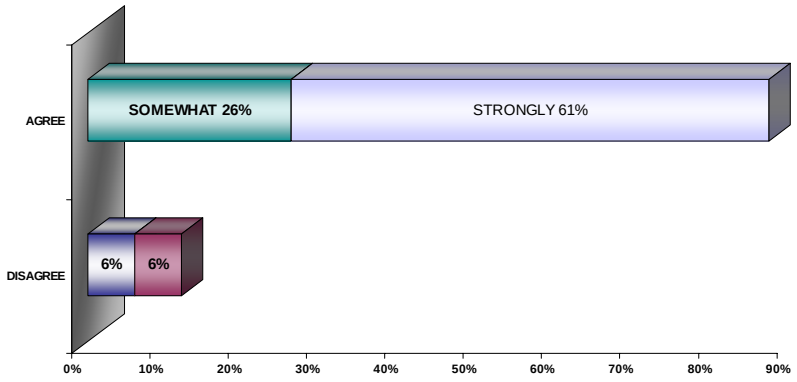
Corporations should be required to disclose contributions made to trade associations which are then used for political purposes.



Voting Their Proxy:

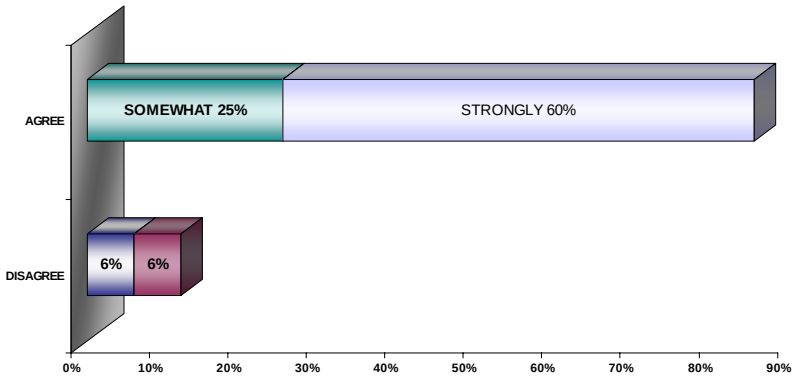
- Finally, when asked if they would vote their proxy in favor of corporate political reforms, 87% agreed with 61% expressing strong sentiment.

I would vote my proxy in corporations I hold stock in to implement these corporate political spending reforms.



- American shareholders also expressed overwhelming (85%) support and intensity of opinion for “mutual funds and other equity managers” voting their proxies in support of shareholder resolutions calling for corporate political disclosure and accountability.

Mutual funds and other equity managers should vote their corporate proxies in support of resolutions that require disclosure and board accountability for political spending.



Questionnaire

CPA Project

March 2006 Shareholder Survey

American Shareholder Awareness:

I first want to ask you a few questions about your familiarity with campaign finance laws. If you don't know, please feel free to say you are not sure.

1. Under current law, are corporations required or not required to publicly disclose all political contributions?

REQUIRED	55%	
NOT REQUIRED	14%	
NOT SURE	31%	45%

2. Under current law, are corporate boards required or not required to approve and oversee political contributions?

REQUIRED	21%	
NOT REQUIRED	19%	
NOT SURE	60%	79%

3. Corporations pay millions of dollars in dues as members of trade associations. In turn, trade associations distribute these millions to political committees and candidates. Under current law, are corporations required or not required to disclose the amount of money they contribute that is passed on by the trade association to political committees and candidates?

REQUIRED	28%	
NOT REQUIRED	26%	
NOT SURE	46%	72%

4. Under current law, are corporations required or not required to disclose which candidates and organizations receive the money they contribute through a trade association?

REQUIRED	25%	
NOT REQUIRED	28%	
NOT SURE	47%	75%

Attitudes towards the status Quo:

In fact, corporations are not required to disclose all their political contributions, and their boards are under no obligation to approve or oversee contributions made by their corporate executives and lobbyists.

5. In general, how much confidence do you have that the corporations in which you own stock have adequate oversight of political contributions so that they protect the corporation from legal liability and not threaten shareholder value? Are you:

VERY CONFIDENT	11%	
SOMEWHAT CONFIDENT	24%	35%
NOT TOO CONFIDENT	32%	
NOT CONFIDENT	22%	54%
NOT SURE	12%	

In another practice, millions of corporate dollars have been given to political committees and trade associations which in turn give this money to candidates and special interest groups that promote social agendas that have nothing to do with issues that impact the corporation's business or shareholder value. For example, issues like abortion, gay rights and other issues of morality.

6. As a shareholder, how appropriate do you think it is it that corporate political contributions given to trade associations end up supporting special interests groups that promote controversial social agendas that have nothing to do with the corporation's business? Is it:

VERY APPROPRIATE	4%	
SOMEWHAT APPROPRIATE	11%	15%
NOT TOO APPROPRIATE	21%	
NO APPROPRIATE	59%	79%
NOT SURE	6%	

Another issue of concern is that some corporations made political contributions and political relationships a critical part of their business strategy. Their strategy was to use aggressive corporate political spending to curry favor with elected officials in order to gain favors, tax breaks and regulatory relief.

7. As a shareholder, how appropriate do you think large political contributions and heavy spending on lobbying efforts are for the companies in which you own stock? Is it:

VERY APPROPRIATE	6%	
SOMEWHAT APPROPRIATE	24%	30%
NOT TOO APPROPRIATE	19%	
NO APPROPRIATE	49%	67%
NOT SURE	3%	

Support for Reform

In response, many in the investment community are calling for reforms.

I going to read several proposals and I would appreciate your telling me if you support or oppose each.

The first proposal is _____. Do you support or oppose that proposal? Is that strongly favor/oppose or somewhat favor/oppose?

8. Corporations should be required to publicly disclose all political contributions.

STRONGLY SUPPORT	**76%**	
SOMEWHAT SUPPORT	**18%**	**95% Total Support**
SOMEWHAT OPPOSE	4%	
STRONGLY OPPOSE	1%	5%
NOT SURE	1%	

9. Corporations should be required to disclose their political spending on the company's website on a quarterly basis.

STRONGLY SUPPORT	56%	
SOMEWHAT SUPPORT	30%	85%
SOMEWHAT OPPOSE	9%	
STRONGLY OPPOSE	5%	14%
NOT SURE	1%	

10. Corporations should be required to disclose contributions made to trade associations which are then used for political purposes.

STRONGLY SUPPORT	69%	
SOMEWHAT SUPPORT	22%	91%
SOMEWHAT OPPOSE	6%	
STRONGLY OPPOSE	2%	8%
NOT SURE	1%	

11. Corporations should be required to disclose the guidelines they use for their political spending decisions.

STRONGLY SUPPORT	63%	
SOMEWHAT SUPPORT	21%	84%
SOMEWHAT OPPOSE	8%	
STRONGLY OPPOSE	7%	15%
NOT SURE	1%	

12. Corporations should identify the corporate officers who manage the company's political contributions.

STRONGLY SUPPORT	63%	
SOMEWHAT SUPPORT	26%	89%
SOMEWHAT OPPOSE	8%	
STRONGLY OPPOSE	3%	11%
NOT SURE	1%	

13. Corporate boards should oversee and approve all direct and indirect political spending.

STRONGLY SUPPORT	58%	
SOMEWHAT SUPPORT	26%	85%

SOMEWHAT OPPOSE	8%	
STRONGLY OPPOSE	4%	12%
NOT SURE	4%	

Now I'd like to read several statements and I would appreciate your telling me if you agree or disagree with each. [Rotate order]

The first statement is _____. Is that strongly agree/disagree or somewhat agree disagree?

14. Corporate political spending is often undertaken to advance the private political interests of corporate executives rather than the interest of the company and its shareholders.

STRONGLY AGREE	45%	
SOMEWHAT AGREE	28%	73%
SOMEWHAT DISAGREE	11%	
STRONGLY DISAGREE	4%	15%
NOT SURE	12%	

15. Current law and regulation governing corporate political spending provides sufficient checks or accountability on corporate boards and executives.

STRONGLY AGREE	11%	
SOMEWHAT AGREE	15%	27%
SOMEWHAT DISAGREE	27%	
STRONGLY DISAGREE	32%	59%
NOT SURE	15%	

16. Reforms in corporate political spending are not necessary to protect the interests of the ordinary public investor.

STRONGLY AGREE	12%	
SOMEWHAT AGREE	12%	24%
SOMEWHAT DISAGREE	24%	
STRONGLY DISAGREE	47%	71%
NOT SURE	6%	

17. Mutual funds and other equity managers should vote their corporate proxies in support of resolutions that require disclosure and board accountability for political spending.

STRONGLY AGREE	60%	
SOMEWHAT AGREE	25%	85%
SOMEWHAT DISAGREE	6%	
STRONGLY DISAGREE	6%	12%
NOT SURE	3%	

18. Corporations should ensure that payments made to trade associations that are used for political purposes be consistent with company policies and fully disclosed.

STRONGLY AGREE	80%	
SOMEWHAT AGREE	15%	95%
SOMEWHAT DISAGREE	3%	
STRONGLY DISAGREE	2%	4%
NOT SURE	1%	

19. Corporate political contributions should not require the oversight and approval of the board of directors.

STRONGLY AGREE	10%	
SOMEWHAT AGREE	12%	22%
SOMEWHAT DISAGREE	27%	
STRONGLY DISAGREE	48%	75%
NOT SURE	4%	

20. Corporations should adopt procedures that ensure political contributions are spent lawfully and consistent with the stated public policies of the company.

STRONGLY AGREE	80%	
SOMEWHAT AGREE	15%	95%
SOMEWHAT DISAGREE	3%	
STRONGLY DISAGREE	2%	4%
NOT SURE	1%	

21. The lack of transparency and oversight in corporate political activity encourages behavior that puts corporations at legal risk and endangers corporate reputations.

STRONGLY AGREE	57%	
SOMEWHAT AGREE	28%	85%
SOMEWHAT DISAGREE	6%	
STRONGLY DISAGREE	4%	9%
NOT SURE	5%	

22. I would vote my proxy in corporations I hold stock in to implement these corporate political spending reforms.

STRONGLY AGREE	61%	
SOMEWHAT AGREE	26%	87%
SOMEWHAT DISAGREE	6%	
STRONGLY DISAGREE	6%	11%
NOT SURE	2%	

23. Generally, I would have more confidence in investing in corporations that have adopted reforms that provide for transparency and oversight in political spending.

STRONGLY AGREE	65%	
SOMEWHAT AGREE	22%	86%
SOMEWHAT DISAGREE	8%	
STRONGLY DISAGREE	5%	12%
NOT SURE	2%	

24. I am confident that corporations in which I own stock directly or in my mutual funds do not engage in risky political behavior.

STRONGLY AGREE	22%	
SOMEWHAT AGREE	13%	35%
SOMEWHAT DISAGREE	19%	
STRONGLY DISAGREE	20%	40%
NOT SURE	25%	

AGE

18-34	13%
35-49	34%
50-64	36%
65+	16%
REFUSED	0%

RACE

WHITE	90%
BLACK	5%
HISPANIC	2%
OTHER	3%
REFUSED	1%

PARTY ID

DEMOCRAT	28%
REPUBLICAN	40%
INDEPENDENT	34%

SEX

MALE	48%
FEMALE	52%

REGION

NORTHEAST	25%
MIDWEST	24%
SOUTH	28%
WEST	24%

INCOME

<$35,000	9%
$35,000-$49,999	17%
$50,000-$74,999	15%
$75,000-$99,999	20%
$100,000+	23%
REFUSED	16%