

SPECIAL EDITION DATA DELAWARE: Tuesday, March 17, 2020
SUBJECT: The corporate governance war! (Part 2)

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Dace Blaskovitz:

Welcome back to Money and Politics in Delaware. Charles Elson, Corporate Governance guru, University of Delaware. Charles, we're talking about this a politically motivated, in my opinion, ESG movement, this Environmental Sustainable Governance. And I don't want to be too mean-spirited, but I'll give you an observation, it ends with a question mark.

Dace Blaskovitz:

So the political left, especially progressive's, cannot win at the ballot box. Climate change is a deal killer. You cannot get elected arguably with that position. Then you turn into it, the Wall Street Journal through the government institution ...Government Accounting Institute, GAI, comes out and points out that many of the mayors, 40, are talking about climate change and all the rhetoric. But their perspectives, the legal documents on any of their states or cities, has absolutely virtually no disclosure. Then you get into that the benchmarks keep moving. I believe in 2018, climate change was the seventh most important cause, now it's the first important cause. And then investment news comes out, in I believe it's the February 17th edition, and Vanguard and I believe State Street are talking about the movement being subjective. Remember that word choice, subjective. Charles Elson, what's going on?

Charles Elson:

Well, here's the issue. These large passive investment funds, BlackRock, State Street, etc., control massive amounts of stock. Usually, probably, amongst the Big Four, probably 20, 30% of the shares of any US public company, and they vote. And one of the heads of these funds, Larry Fink, has come out and said that he believes his fund, it should focus on these ESG, really also hit more ES issues if you will, and they're voting. And ally environmental progressivism, social progressivism and that in their voting that the companies that they own, these companies need to take positions that he feels are consistent with his view of sound environmental and social policy.

Charles Elson:

The problem there and he's come out with letters and made statements to companies that his fund will hold them accountable when they don't. Difficulty with that is both of these positions are highly, highly controversial politically as you know. And that they are basically divergence of viewpoint all over the road, this true in the American public, but it's also true amongst his investors and his employees. And for one individual to take a particular position and use the force, the fund to push that position really may run very counter to those whose money really is at stake, those who've invested in the funds. And it's a bypassing of the political system. If you disagree with environmental policy, social policy, that's when elections are bad. That's when legislature's bad. If you're concerned with it, run for office, lobby your legislature. But to use other people's money invested in the corporation to pay for their retirement, to push a social agenda I think is frankly wrong and I'm very disappointed that he's taken that tack. I don't think it's appropriate for an asset manager.

Dace Blaskovitz:

On your side, let's continue down there because this story, and it can't get any uglier, actually gets an uglier. The Sustainability Accounting Standards Board, the SASB, Wall Street Journal opinion pages have done two just hit pieces on the, yes, the craziness of it according to The Wall Street Journal. And exactly how Bloomberg actually profits from it. But again, the word, subjective, that all these proposed guidelines are ... They vary among the industries. I mean from the outside in, it certainly looks, I don't want to mean spirited but silly. Tell me I'm wrong Charles or tell me I'm spot on.

Charles Elson:

Well, Dace the SASB was a good way to sort of create some sort of consistency amongst policy in this area. They bring different people together to come up with some common policy on environmental issues and sustainability issues that everyone could agree on and then create some sort of a model. Difficultly is, it's an area that's got so many different components and so many industries have so many different ways of approaching it. I think if they just have a really tough task ahead of them. I applaud them for trying to come up with something. I think that's a good idea, but I think that a industry-wide standard is extraordinarily difficult because of the different kinds of industry. If you're talking, let's say about oil and gas let's say versus a computer technology versus healthcare, those standards are pretty hard to apply across such disparate industries. And can everyone agree on a standard?

Charles Elson:

And that's why I think that's the role of the legislature. That's why we have a Congress. That's why we have state legislatures. They're there to figure it out because ultimately it's the people's will, it's not the legislature, it's the people who elect them. And if the people want to elect folks who take that tack, so be it. And if people take that tack and people disagree, they replace them, they throw them out of office and elect someone else. That's why the political process was created in this country. We're a democracy based on the voters. When people attempt to get around that process and make public policy outside of that process, it smacks of, well it smacks of unilateral conduct by individuals as opposed to a consensus reached amongst citizens in a democracy. And it's very disturbing to me. Not the SASB but an attempt to force something on folks.

Dace Blaskovitz:

Charles, my favorite Charles Elson story has nothing to do with Charles. I've told it on the air, but it's worthy since we're in the middle of this conversation. My favorite Charles story isn't about Charles. It's about me. I'm at one of your events. I'm sitting next to one of these people that has a strong opinion and they are giving me a dissertation that politics belongs in everything to which I allow them to pontificate. And that at some point I say "By the way, your politics or mine," and with that out came to coffee out of his nose and his mouth, how dare me challenge him. And then I went for the knockout blow and I said, "Your politics or Charles Elson's, who by the way is paying for that cup of coffee." And he had a tizzy and floated away. So giggles aside, it is really that crazy isn't it?

Charles Elson:

Well, I think that politics are interesting, they're important, but I think in economic decisions they really have no place because they divide. Politics divides people and businesses to be successful, have to move with unanimity. Everyone has to agree, pulling together. It's like being on a crew boat. The old crew boat, we have all these people rowing. If one person is rowing the other way, the whole thing stops. The key is to work together and businesses to be successful, everyone has to work together. And politics by nature divides people. People are always going to have different opinions. That's why the old joke, certain things you don't talk about in polite company, politics is one of them. Certain things that always ruin family gatherings are politics. Families are supposed to be together. Politics divide people. That's why you have the elections. Once the election is over and someone has won, you move forward. If you don't like what they've done, you have another election a year later and you change direction.

Charles Elson:

But in the meantime, to inject it into the corporate process is I think fatal to a successful organization. And that's why I've always steadfastly stayed out of it. I don't like to talk about people's politics in business. I think it's inappropriate to ask about it. If it comes up, I'd rather change the subject. If you run into a like minded person, perhaps you go off in a corner and laugh about it. But in the business of a business, the business is the business and the politics need to be left outside. It's an old joke. In the law business, the American Bar Association has groups that make guest suggestions for changes in the law. And the old joke is when you walk in that room, you leave your clients at the door, and I've always believed that. You're looking for what's best in society, not for your client. You're looking for what's best for all of us. And that's the business, it's what's best for our shareholders.

Dace Blaskovitz:

I've got to turn to the audience. We're out of time. In the wisdom of Charles Elson in a sentence, politics doesn't belong in the board room. It can't be any more simple. Politics do not belong in the board room. Fascinating guy, University of Delaware, Professor Charles Elson.