May 2025

Corporate Lobbying: Exploring the hidden side of stewardship

Summary

Lobbying refers to the efforts of a wide range of entities — from large corporates to non-profits — aiming to influence public policy.

While it can foster positive change through constructive engagement between corporations and policymakers, unchecked lobbying poses significant risks for asset managers and owners. At Isio, we have observed that despite the significant impact investee companies' lobbying efforts can have on sustainability issues, these activities are often overlooked in stewardship discussions.

We have identified several types of lobbying risks, each of which can pose distinct challenges for firms. For instance, resisting climate regulations may weaken a company's market position in the long-term, while misaligned lobbying activities can damage reputations and lead to financial losses.

Ultimately, we set out some key areas for asset owners and asset managers to respond. Asset managers can look to integrate lobbying assessments into corporate diligence, engagement and collaboration strategies – and from a straw poll, we find that whilst many asset managers aim to do this, many are facing an implementation gap in practice. In turn, asset owners should seek to ensure greater accountability by engaging with managers on their lobbying oversight, as well as collaborating with peers on corporate engagement, in line with their sustainability objectives.

Introduction: Exploring the hidden side of stewardship

Lobbying involves the efforts of a wide range of entities — from large corporates to non-profits — aiming to influence public policy. In recent years, it has become a powerful force in modern politics, significantly impacting social and environmental issues.

Lobbyists are essential in shaping key legislative decisions, swaying opinions on important matters like health standards and environmental regulations. As such, when done effectively, lobbying can drive meaningful, beneficial change by fostering constructive dialogue between the private and public sectors. But when misused, it may lead to negative outcomes, creating significant risks for asset managers and owners.

These risks are often overlooked in stewardship activities, where lobbying remains less visible than other corporate commitments. Yet, lobbying practices can have a profound impact on sustainability issues, potentially undermining the very values that investors aim to uphold through their capital.

While it is challenging to define the types of lobbying comprehensively, we have identified three key areas where lobbying can expose asset owners to material risks. These categories, though not mutually exclusive, capture the various ways in which lobbying can affect investment outcomes and asset owner interests.

- **Harmful lobbying**: When lobbying efforts directly counter widely recognised and non-controversial sustainability principles, such as initiatives to protect basic human rights, or enhance corporate transparency.
- **Contradictory lobbying:** When a company's lobbying activities are misaligned with its public sustainability commitments or those of its investors. For example, a firm pledging to support climate action may simultaneously lobby against stronger climate regulations.
- **Non-transparent lobbying:** When the goals, strategies, or beneficiaries of lobbying are not clearly disclosed, leading to concerns about governance, accountability, and transparency.

For asset managers and asset owners, understanding and mitigating the risks associated with investee companies' corporate lobbying is crucial for upholding the integrity of sustainable investments. By examining how lobbying activities intersect with stated corporate and investor values, this blog aims to shed light on these often-overlooked risks and offers guidance on developing a more systematic and effective engagement strategy.

Corporate risks: The challenges of active involvement

Under the three scenarios we identified above, corporate lobbying can expose companies — and by extension, asset owners — to a variety of risks that attract stakeholder scrutiny and affect long-term value creation. At Isio, we generally group these into three broad categories: competitive, reputational, and operational.

1. Competitive risk:

Companies that lobby against forward-looking regulations may inadvertently weaken their competitive position by resisting necessary adaptations to shifting market conditions. By failing to embrace change, these companies may expose themselves to transition risks while more adaptable competitors secure an advantage in the evolving marketplace.

Case study: A prime example can be found in the phase-out of internal combustion engines, a critical step in the transition to a low carbon economy. In 2022, one shareholder meeting launched a campaign to remove a chairman due to the perception that the company had chosen to lobby against the adoption of electric vehicles (EVs) and inadequately invest into developing its own EV capabilities.[i]

2. Reputational risk:

When a company's lobbying efforts conflict with its publicly stated sustainability commitments, it risks damaging its reputation and losing the trust of investors, consumers, and other stakeholders. Such discrepancies can lead to high-profile media coverage, public 'naming and shaming,' and a decline in share value.

Case study: Documents from one consumer staples company showed that, whilst publicly championing recycling and waste clean-up efforts, privately, there were active lobbying efforts against measures to combat (single use) plastic waste. The resulting media response not only damaged the brand's reputation but also raised concerns about the company's valuation and commitment to sustainability goals.[ii]

3. Operational risk:

Lobbying against necessary regulations can also expose companies to operational risks, particularly when they fail to adapt to evolving regulatory frameworks. Such resistance may lead to compliance failures, operational disruptions, legal penalties, and significant financial losses.

Case study: Lobbying targeting health and safety standards provides a clear example of the operational risk that such activities can pose. This was illustrated following a major derailment incident after successfully lobbying against the introduction of improved safety regulations for rail transport. The derailment resulted in the contamination of over 175,000 tons of soil and 1.1 million gallons of water. Cleanup efforts cost over US$800 million, and the company's profits for the year were cut by more than half. [iii]

i A case study taken from Influence Map
ii A case study reported on by The Intercept
iii A case study by The Washington Post

Best practice for asset managers

Given the risks associated with corporate lobbying, we set out to evaluate how effectively these issues are addressed and monitored within the asset management industry. In this section, we outline what we at Isio consider best practice for asset managers in managing the corporate lobbying activities of investee companies.

Corporate lobbying: Isio's framework for asset managers

1. **Corporate lobbying policy:** We believe a formal lobbying policy is essential for sound governance, establishing clear guidelines that promote transparency, accountability, and alignment with shareholder values. Such policies enable consistent engagementwith investee companies, ensuring lobbying activities are well monitored and aligned with sustainability objectives..

2. **Lobbying in corporate due diligence:** Integrating lobbying assessments into due diligence can help asset managers avoid risks that could undermine shareholder value or lead to reputational harm. This process also highlights companies engaged in constructive lobbying that supports sustainable, long-term outcomes. lobbying that supports sustainable, long-term outcomes.

3. **Lobbying as a stewardship priority:** Including lobbying as a core element of stewardship ensures active monitoring and engagement with corporate lobbying efforts, aligning them with shareholder interests and sustainability goals. This approach strengthens corporate accountability and advances sustainable governance practices.

4. **Collaboration for greater impact:** Partnering with industry peers and joining influence initiatives (e.g. those by InfluenceMap) enhances lobbying transparency and accountability. Through collaboration, asset managers can increase their collective influence and hold companies accountable for their lobbying practices.

Asset manager approaches to corporate lobbying

Having defined the above framework for best practices in lobbying, we set out to assess how effectively the asset management industry adheres to these principles. To do this, we conducted a sample straw poll assessment of a diverse group of asset managers, selected to represent varying sizes and geographical regions.

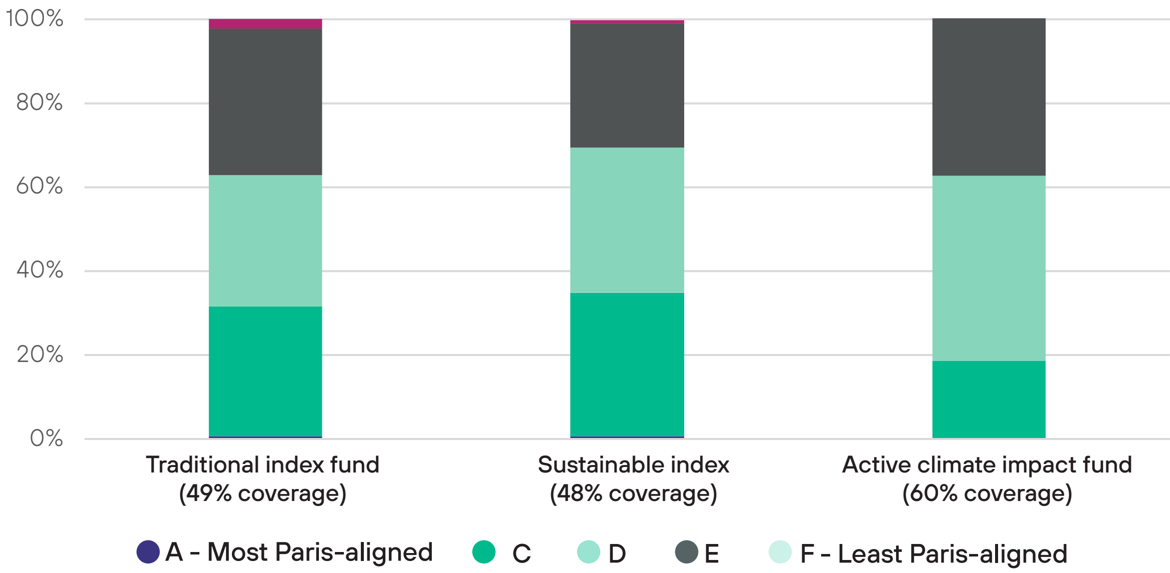
- Encouragingly, **over two thirds of asset managers we surveyed have developed formal policies** addressing corporate lobbying, either as standalone measures or integrated within broader sustainability frameworks.
- However, the picture shifts when it comes to the practical application of these policies: **under a third of managers include lobbying evaluations in their due diligence processes**, highlighting a disconnect between policy formulation and execution. This limited integration suggests that lobbying is often viewed as secondary to core investment analysis, underestimating its potential impact on both financial performance and sustainability outcomes.
- As expected, **this disconnect is reflected in the prioritisation of lobbying within stewardship strategies**: less than a third of assessed managers provided clear examples of engagement focused specifically on lobbying, suggesting that it is frequently overshadowed by other key activities.
- Similarly, **participation in lobbying-related industry initiatives is currently minimal**. This represents a missed opportunity to apply collective pressure and raise standards across the sector.

To further enhance our understanding of how asset managers address lobbying issues, we also sought to investigate the differences across various types of managers – e.g., passive versus active, sustainability-focussed versus conventional – to explore how lobbying considerations may vary within the asset management landscape.

Leveraging company data from InfluenceMap, we assessed three distinct equity funds: a sustainable index fund, an active climate impact fund, and a traditional index fund that represents their comparable universe. Each of the investee companies within these funds was evaluated and scored on a scale from A to F by InfluenceMap. An "A" score indicates that a company's lobbying activities align with the goals of the Paris Agreement, while an "F" score reflects actions that are contrary to those goals.

The results of our assessment revealed some expected outcomes, such as the sustainable index fund displaying marginally lower exposure to companies with poor lobbying practices. However, a surprising finding was that the active climate impact fund had a higher exposure to poorly rated companies than either of the index funds. This discrepancy raises important questions about the effectiveness of active management in aligning with good practice corporate lobbying oversight and reinforces our understanding that, even among asset managers that integrate sustainability considerations into their investment processes, corporate lobbying is often overlooked.

% of each fund by investees' lobbying activity alignment to the goals of the Paris Climate Agreement



Source: Managers, Influence Map. Figures have been scaled for non-coverage of investee companies within the Influence Map scoring universe.

Recommendations for asset owners

The findings prompt an important question: how can asset owners ensure that lobbying is adequately considered in their investment strategies?

With great power comes great responsibility

A thorough approach to lobbying, like any effective stewardship activity, should align with the investor's sustainability priorities and specific asset allocation strategies. To this end, we outline two key actions for asset owners to consider:

1

Engage with asset managers

Actively communicate with managers through written correspondence and meetings to stress the significance of corporate lobbying oversight. Discuss potential escalation measures for those managers who fail to effectively manage lobbying risks.

2

Collaborate with other asset owners

Foster collaboration with peers to share insights, best practices, and expectations regarding lobbying oversight. By leveraging collective efforts, asset owners can raise standards among asset managers and drive greater accountability.

Corporate lobbying is an essential part of stewardship often overlooked by the investment industry, yet can have a material effect on an investee company's financials and impact on the world and society we live in. Whether lobbying is a force for good or a barrier against sustainable progress is all in the detail.

We work with our clients and their investment managers to understand the potential risks and opportunities corporate lobbying may present, but firmly believe investors can and should do more to ensure we are proper stewards of the assets we invest.

isio.

Contacts

Mark Irish
Deputy Head of Sustainable Investment Consulting
mark.irish@isio.com

Ajith Nair
Head of Research
ajith.nair@isio.com

Beatrice Smorto
Sustainability Consultant
beatrice.smorto@isio.com

Iona Young
Sustainability Consultant
iona.young@isio.com