When America’s corporate titans shift their weight, the tremors travel fast. Last week, Coca-Cola, Kraft and accounting-software giant Intuit announced they were ending their membership in a conservative nonprofit group called the American Legislative Exchange Council (ALEC). The news sent reporters scrambling to explain what exactly the 39-year-old organization does, why it matters and how its role in spreading laws — governing everything from voter ID requirements to anti-illegal-immigration efforts — came to be a problem for some of America’s foremost corporate citizens.

What may have seemed like an obscure bit of corporate priority shifting quickly became a hot button. By the end of last week, the news had made the front page of social-media hive mind Reddit, whose users enjoy earnest, libertarian-leaning encomiums to open government almost as much as they like posting cat pictures. “It is time for a call to action,” the post began. “ALEC has been exposed.”

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The high-profile departures from ALEC were not set in motion nor fully explained by just a few days of public scrutiny. For the past four months, liberal advocacy groups, unions and activist investors have been reaching out to major corporations, asking them to further disclose their activity with ALEC or drop membership altogether. Things boiled over last week, but the underlying issues had been simmering for much longer.

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ALEC, a tax-exempt group operating under the 501(c)3 section of the IRS code, bills itself as “a nonpartisan membership association for conservative state lawmakers” interested in “limited government, free markets, federalism and individual liberty.” It convenes policy task forces and drafts model bills that can be introduced in state legislatures nationwide. For a modest membership fee, conservative legislators gain access to the group’s resources. Think of ALEC’s prepackaged and prelawyered legislation as Swanson TV dinners: all you need is a majority vote to reheat it, and it’s ready to serve. The result: similarly flavored bills in statehouses across the country.
In many ways, ALEC resembles groups like the National Conference of State Legislatures (NCSL), a nonpartisan resource for state lawmakers that provides assistance, research and a brainstorming forum. As statehouse budgets and staffs shrink, outside assistance has become critical. “This is how state governments work,” says Alan Rosenthal, a professor of public policy and political science at Rutgers’ Eagleton Institute of Politics. “ALEC isn’t the first organization to use model bills.”

But ALEC is unique in its ideology — the NCSL and other groups like it have no political bent. And ALEC’s coordination with corporate America is unparalleled among legislative groups.

Founded in 1973 by conservative lawmakers and activists — most notably Paul Weyrich, who also set up the flagship conservative think tank the Heritage Foundation that same year — ALEC was designed to further small-government and private-sector interests at the local level. State legislators active in its early efforts included Terry Branstad, now governor of Iowa; John Kasich, now governor of Ohio; and Tommy Thompson, the former four-term governor of Wisconsin who is currently running for the U.S. Senate. House Speaker John Boehner, the highest-ranking Republican in the federal government, is another alum. ALEC now claims some 2,000 state legislators in its ranks, roughly a quarter of state lawmakers nationwide. More than 500 companies, foundations and individuals pay membership dues, according to the organization.

(MORE: The Big Winner of the Great Recession Is …)

Giants from almost every major American industry comprise the highest echelon of ALEC’s corporate participants. Retail (Walmart), tobacco (R.J. Reynolds, Altria né Philip Morris), pharmaceuticals (GlaxoSmithKline, Pfizer, Bayer, Johnson & Johnson), telecommunications (AT&T), beverages (Diageo), oil (Koch Co., ExxonMobil), coal (Peabody Energy), utilities (Energy Future Holdings, Salt River Project), publishing (Reed Elsevier), insurance (State Farm), shipping (UPS) and umbrella lobbying groups like PhRMA and Centerpoint360 are all represented on ALEC’s Private Enterprise Board, which advises the organization on the needs of their industries. Until last week, Coca-Cola and Kraft also had seats on the board.

The intersection of business interests and the priorities of conservative lawmakers is hardly news. Each wants free enterprise unfettered by a meddlesome government, which means promoting lower taxes, less regulation and the privatization of public services. But over the years, ALEC’s policy portfolio has diversified.

For example, after Florida lawmakers passed “Stand your ground” legislation in 2005, ALEC worked with the National Rifle Association to craft a template bill based on “Stand your ground” to export to other legislatures. Twenty-five states now have such laws on the books. The shooting death of Trayvon Martin reignited the debate over “Stand your ground,” and ALEC has played a role in other recent controversies as well.

In 2010, Republican gains in statehouses and governors’ mansions across the country reshaped the state legislative landscape. Larger majorities in traditional GOP redoubts and new footholds in purple states led to the passage of a new breed of conservative laws, many of which were either based on ALEC model legislation or later became templates for ALEC bills.

The language of Arizona’s strict crackdown on illegal immigration, which requires police officers with “reasonable suspicion” to determine a person’s immigration status during routine stops or arrests, closely mirrors a model bill drafted by state senator Russell Pearce at a 2009 ALEC conference, according to NPR. Since the law’s passage in Arizona, similar legislation has been passed in Georgia, Alabama and South Carolina and has popped up in more than a dozen other state legislatures.

(LIST: The Top 10 Business Blunders of 2011)

In 2009, ALEC’s election-policy task force adopted model bills that would require voters to present photo ID at the booth. The next year, Idaho and Oklahoma passed similar laws. In 2011, Kansas, Mississippi, Rhode Island and Wisconsin did too, while Alabama, South Carolina, Tennessee and Texas tightened existing ID standards. Governors in Minnesota, Missouri, Montana, New Hampshire and North Carolina vetoed strict new voter-ID measures. Pennsylvania’s governor signed a voter-ID bill into law in March.

As conservative legislatures have ramped up, ALEC’s members have continued to be a resource. “They are dealing with a constituency of Republican legislators,” says Rutgers’ Rosenthal. “They may feel they have to respond to what Republicans want.”

But Kaitlyn Buss, a spokeswoman for ALEC, says the organization remains focused on economic issues. “Our mission is to promote [free market] principles and policies that are based on them,” she says. “We don’t do very much with these controversial issues.”

Corporate members like Coca-Cola may have disagreed. In announcing their companies’ decisions to cut ties with ALEC, corporate communications officers released a series of similar statements noting that any collaboration with ALEC had focused only on issues relevant to the companies’ interests — things like industry-specific taxes or, more broadly, economic development. The implied message: These companies had no interest in being publicly associated with the spread of more-stringent voter ID requirements, “Stand your ground” laws or strict immigration crackdowns.

“Our involvement with ALEC was focused on efforts to oppose discriminatory food and beverage taxes, not on issues that
Advocates call anti-ALEC efforts a public education campaign, though it wasn’t very public until last week. Last year a number of advocacy groups began a back-channel dialogue with companies like Coca-Cola about their relationship with ALEC and some of its controversial stances. They found at least a few that were willing to reconsider their membership.

“We haven’t found many companies who were deeply aware of ALEC and what they were doing,” says Tim Smith. A senior vice president at Walden Asset Management, a division of Boston Trust that focuses on socially responsible investing, Smith began voicing his concerns in informal conversations with Coca-Cola last December. “It surprised a number of companies, and that’s not why they’re there.” Smith put together a group of shareholders who asked Coke, and other companies, to disclose more about their lobbying activities, both direct and indirect. (What ALEC does is not technically lobbying.)

Formerly the executive director of the Interfaith Center on Corporate Responsibility, a group of 275 religious investors, Smith convenes like-minded shareholders to pressure companies on issues ranging from executive pay to the funding of organizations that deny climate change. Even if the companies don’t act on his advice, Smith can get their attention by filing shareholder resolutions that are subject to a vote at annual general meetings. “When we’re raising these issues,” says Smith, “we say to a company, Your brand is at risk.”

Members of Smith’s group — including a representative of the American Federation of State, County and Municipal Employees (AFSCME), a powerful public-employee union — met with Coca-Cola’s government-affairs office three times this January and February to discuss ALEC and broader disclosure issues. Their efforts bore fruit: on April 3, a dozen companies, including GE and Johnson & Johnson, agreed to broaden their disclosures after hearing from Smith’s coalition. Coca-Cola soon took it one step further, severing ties with ALEC altogether.

Around the same time that Smith went to Coke with his concerns, Color of Change, a liberal advocacy group that focuses on issues affecting black Americans, began its own outreach efforts. Taken aback at the spread of voter ID laws that critics, including people in the Obama Justice Department, say disenfranchise minorities, Color of Change selected 15 companies to contact about their membership with ALEC. Coca-Cola was among them.

Unlike the shareholders, who were asking for more transparency, Color of Change explicitly wanted these companies out of the organization altogether. “They have their own government-affairs offices,” says Color of Change executive director Rashad Robinson. “It’s a choice.” When the shooting death of Trayvon Martin brought “Stand your ground” gun laws to the fore, Color of Change made the connection to ALEC’s work on spreading similar legislation and redoubled its outreach efforts to persuade corporate members to withdraw. “We really tried to work hard behind the scenes to get a good result,” Robinson says.

It didn’t end behind the scenes. Last week, Color of Change called on its members to start telephoning Coca-Cola to register complaints. The company was a natural first target for activists. Coke is a high-profile brand with a large African-American customer base. It’s headquartered in Atlanta, the fourth largest black-majority city in the nation and an important political and cultural hub. One of its chief competitors, PepsiCo, decided late last year not to renew its membership. Five hours after the possibility of a boycott had been raised, Coca-Cola issued a statement saying it was ending its relationship with ALEC, effective immediately. Two days later, Kraft and Intuit followed suit.

The backlash against ALEC is, no doubt, heavily influenced by a sudden flurry of media attention. The group has been drafting model bills and bringing together businesses and conservative legislators for years. But the leak of 800 pieces of model legislation last year, the intensified activity of conservative legislatures and the Trayvon Martin shooting have brought ALEC the kind of attention it has largely eluded in its nearly four decades of operation.
“If ALEC is proving to be successful, it seems to me it will be contested or imitated on the other side,” says Rosenthal, who compares it to the campaign-finance arms race under way between presidential candidates’ super PACs. “It’s definitely going to be a two-sided war.”

As of yet, there are no ALEC imitators on the left. Instead, liberal interests like organized labor groups — notably AFSCME — have begun trying to counteract the group by pressuring its corporate members, whose dues provide 98% of ALEC’s $7 million annual budget.

But Smith, of Walden Asset Management, insists the debate is more than an ideological wrestling match. “You could quickly say we’ve got a partisan fight here. That would be a grave mistake,” he says, crediting Coca-Cola for carefully listening to its diverse shareholders. “There’s a brush fire out there on this issue.” After last week, there’s no debating that.

Correction: A previous version of this article incorrectly stated that Color of Change called for a boycott of Coca-Cola products.