Steer Clear Of Political Crossfires

by Robert Zafft

Political and social division has grown so intense in American society that every day we see another public personality or business blasted for landing on the wrong side of some hot-button issue. As a board member, what do you do when your company suddenly finds itself in a Twitter or other storm? How can you prepare, and how do you respond?

In 2010, retailer Target contributed to the campaign of a pro-business gubernatorial candidate who tangentially supported traditional marriage. As a result, the company found itself boycotted by the left, even though less than one year earlier, all major presidential candidates—Democrat and Republican—had likewise supported traditional marriage.

Having been burned once, in 2016, Target decided to get ahead of the curve by announcing a gender-fluid bathroom and changing room policy. This step triggered a boycott from the right that has cost the Minnesota-based company an estimated $10-15 billion in market capitalization.

In December 2016, Uber CEO Travis Kalanick joined President-elect Trump's economic advisory council. After Trump's January 27, 2017, Presidential Executive Order curtailed immigration from certain countries, Kalanick's participation on the council became controversial. In addition to internal grumbling among Uber employees, more than 200,000 Uber customers deleted their accounts.

Uber's rivals also pounced. The New York Taxi Workers Alliance organized a protest outside of Uber's New York offices. Rival service Lyft pledged $1 million to the American Civil Liberties Union and saw downloads of its application surge. On February 2, 2017, Kalanick resigned from the council.

Also in February, retailer Nordstrom announced that it was dropping Ivanka Trump's fashion line. President Trump tweeted his displeasure. While progressives cheered, some Trump supporters vowed never to shop at Nordstrom again.

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☐ ***No safe havens for non-combatants.*** Several factors have shrunk—or perhaps even wiped out—safe havens for businesses hoping to remain non-combatants in today's political and cultural wars. The first is the increasing politicization of civil life. The phrase "The personal is political" gained currency in the 1960s and 1970s. That viewpoint now suffuses much of modern culture. For many people, it also means that politics has become intensely personal: "You are either with us or against us."

The period from the 1960s onward also saw the rise of reputational adversaries. These are persons whose vocation or avocation depends on making businesses look bad. Adversaries can include business competitors, "crusading" media, non-profit "consumer" organizations, and activists of various stripes. Over the last 20 years, digital information, the Internet, and social media have produced an echo chamber for generating and amplifying news, opinion, and propaganda, while blurring distinctions among them.

In this environment, companies can feel like the saloon keeper in a Western-movie bar fight who tries to keep his head down, only to get shot in the backside. Ducking for cover is not an option for businesses. It is the board's job to make sure that, through the mayhem, the saloon not only stays open but thrives.

At the board level, thriving in this politicized environment means guiding and monitoring senior management across three axes:

- ☐ Building "good neighbor" social capital.
- ☐ Adapting to social trends without getting too far ahead, or too far behind, the herd.
- ☐ Handling crises through a combination of advanced planning and tactical flexibility.

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☐ ***Building "good neighbor" social capital.*** A widely disliked company resembles a lame animal in the wild. Its predators will try to cull it and kill it. A company needs to build up goodwill and alliances in advance. People should see the company as a "good neighbor." This means it obeys the law and commercial custom, and cares about its employees, customers, and other stakeholders. It contributes more than the bare minimum to the community, supporting worthy causes. People should believe that the company not only seeks to do well, but to do good.

Social capital pays off. Bad buzz on the company will more likely be doubted, discounted, or put into context. Credible allies, preferably from the same side of the political spectrum as predators, reinforce messages favorable to the company, and signal to predators that they should look for slower and more isolated game.

What is the board's role in this effort? Traditionally, board responsibilities have comprised selecting senior management and guiding and monitoring the formulation and implementation of corporate strategy, as a well as ensuring the board's own accountability to shareholders. Over the past decade, the board has also been charged with overseeing the design and performance of control systems covering areas such as risk-management, finance, and compliance.

Board structures and processes typically function at too high a level and too slow a pace to handle "live" crises. Often, by the time crisis deliberations occupy the board, the question at hand is whether to fire the CEO. Debate at this level indirectly signals the board's failure in overseeing strategy formulation and implementation, as well control systems.

What boards need to do well before crises arise is ensure that the company's mission, values, culture, and brand cohere with each other and inform company strategy. In addition to guiding, the board also monitors through selection of *Key Performance Indicators* (KPIs) and assessment of senior-management performance against these KPIs.

Retail giant Walmart provides an example of what a full-bore social-capital strategy looks like. For many years, Walmart had been a deeply unpopular company among large segments of society. It had a reputation for hollowing out Main Streets within a wide radius of its stores.

Labor unions loathed the company as one of the nation's largest non-union employers. Unions also claimed that as a workplace, Walmart combined low pay and benefits with harsh working conditions. Environmentalists decried everything from the company's asphalt footprint, to its carbon footprint, to the amount of packaging waste its products generated.

Love Walmart or hate it, few would dispute that it is one of the largest and most operationally tight concerns in the world. So, starting around 2004, when Walmart decided to build social capital, it rolled out a plan that was comprehensive, well-funded, and determined. As such, it serves as an example for boards to study.

First, Walmart staffed up. It hired a Senior Director for Stakeholder Engagement. The company also built a "war room" staffed by people with political experience to track and respond to reputational threats, as well as "action alleys" in its headquarters and Washington, DC to deal with breaking issues. Walmart hired a bi-partisan team of politically connected media advisors as well as a public relations firm with ties to traditionally hostile activist groups. The team and firm enabled Walmart to work both (or all) sides of an issue.

Second, Walmart countered the bad buzz around its employment practices with internal changes. The company improved employee health benefits. It started a diversity program and minority-employee support groups. The pharmacy department put in place conscientious-objector workarounds for pharmacists with religious objections to dispensing the abortifacient RU-486.

Third, Walmart reached out to critics and influencers. It launched eight community relations centers in cities which had successfully fought new stores. Walmart met with the Investor Responsibility Research Center, as well as environmental and anti-sweatshop organizations. The company also promoted

Working Families for Walmart community groups, which commissioned research showing Walmart's positive impact on working families.

Fourth, Walmart began a mass communications campaign. It commissioned a global insight study showing how Walmart reduced the cost of living. The study was presented at a Walmart-sponsored conference on the company's economic impact. Walmart held a media conference in which it announced support for an increased minimum wage. The company also took out ads in 100 U.S. newspapers to explain its wage-and-benefits policies and employment practices, and ran television ads in East Asia featuring minority and women employees speaking of their satisfaction with Walmart.

Finally, Walmart began funding "worthy" causes. With regard to the environment, it partnered with Conservation International and the Natural Resources Defense Council. The company committed to reducing waste from packaging and opened an environmental-demonstration store focused on renewable energy and sustainable practices. They funded wilderness set-asides to offset store footprints.

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On the "human capital" side, Walmart created a private-equity fund to promote minority-and-woman-owned businesses among its suppliers. The company funded journalism fellowships, and sponsored programming on the Public Broadcasting System and National Public Radio. Walmart also set up job-and-opportunity banks to mitigate its damage to Main Street businesses, and promised not to establish bank branches in its stores.

In fact, Walmart's worthy-cause efforts seemed precisely designed to split the labor/green/urban-progressive coalition which had united in criticism of the company. Ironically, Walmart's reputational adversaries cite the very scale and precision of the company's effort as evidence of Walmart's cynicism and failure to change.

We can note the breadth and coordination of Walmart's plan, as well as the determination with which the company followed through, without judging its sincerity. As a template, the plan shows how to link strategy to mission, values, culture, and brand. For each plan element—staffing, internal change, outreach, communications, and worthy-cause support—a board should work with senior management to establish the KPIs that will show success or failure, as well as the methods by which return on investment will be measured.

Measuring Walmart's own success or failure yields no clear answer. The company remains far from loved, and its reputational adversaries continue their attacks. However, Walmart never expected to win over a significant number of these adversaries. Since launching the plan, Walmart stock has outperformed the discount and department retail industry by approximately 25 percent. Overall, the retailer has known progress without peace. Through Walmart's eyes, this may be what winning looks like.

☐ ***Leading without sticking your neck out.*** Abraham Lincoln once stated that "A universal feeling, whether well or ill-founded, cannot be safely disregarded." A major challenge facing businesses and their boards in current times is the speed with which such universal feelings can erupt or shift.

Boards and their senior managers, for example, must continually grapple with how new technologies and business models should integrate with people's settled expectations and ways of doing things. A case in point is the interplay of consumer privacy concerns and online behavioral advertising.

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At the same time, sea changes in public sentiment can take place remarkably fast. Over the course of two years, gay marriage went from being prohibited by federal law to being a constitutional right, with vendors who refuse to supply or service gay weddings in certain states subject to fines and damages.

New or fast-changing areas like those above trigger the "ethics of establishing the ethics." Collectively, we have to ask whether new rules are required, what processes should apply to working them out, and what the substance of the new rules should be.

At the company level, the key question for the board is whether the company must or should get involved. Directors and senior managers must guard against mistaking their own values and wishes for the good of the company. This temptation will spike in culturally uniform companies where like-minded people reinforce each other's views—while misconstruing their particular opinions for universally held feelings.

Speaking out when not in the interest of the company can be a form of self-dealing or waste. For example, the head of global diversity and inclusion of a publicly traded technology company recently tweeted his company's opposition to a change in federal-government guidance on transgender students in public high-school restrooms and locker rooms.

Whatever the merits of the tweet's substance, it is hard to divine what corporate purpose the tweet served. Using company assets (including brand goodwill) simply to advance a personal agenda or profile is wrong. Directors should ensure that the CEO has a clear communications strategy and that corporate leaders do not muddle or mix their personal goals and interests with those of the company.

This said, there will be situations where a company's mission-values-culture-brand rubric calls for action. In the case of retailer Target, for example, action was triggered by a North Carolina law stating that in government buildings, individuals may only use restrooms and changing facilities that correspond to the sex identified on their birth certificates.

Since the North Carolina law only applied to government buildings, there was no immediate effect on Target's stores in that state. However, a raft of legislation in other states raised the question of what Target's own policy should be, and how it should respond to future legislation or ordinances that might apply to public conveniences like its stores. Moreover, for many years, Target's values, culture, and brand had led the company to embrace "progressive" viewpoints and causes.

Needing to act does not justify taking any action. Without prior warning or public consultation, the company announced a gender-fluid restroom and changing room policy. Target shoppers would be free to use the facility that aligned with their self-perceived gender. Target's stock price plummeted. Boycotts began, and any questionable behavior in a bathroom or changing room by a Target customer made national news. Since announcing the policy, Target's share price has underperformed those of its competitors by over 30 percent.

So, what should Target, or a similarly situated company, have done? At times, leadership does not mean running ahead of or driving the herd, but urging it forward. In Target's case, the company could have shown leadership consistent with its progressive values, culture, and brand by calling for civil dialogue on restroom and changing-room policies among retailers, customers, and other interested groups. This dialogue could have been organized and run by the National Retailers Association, or similar non-profit body.

Calling for civil dialogue is not an empty gesture. When creating or changing policies people have to live with, persuasion is better than force. This means process is at least as important as logic. Civil dialogue, even where there is fierce disagreement, stops the crossfire by orienting parties towards a common goal. Such dialogue creates a space and a mechanism whereby a business can serve *all* of its customers, as well as the greater good.

Traditionally, Americans have had a genius for civil dialogue and compromise. Companies looking to avoid or evade political crossfire should recover this tradition.

The Federal Trade Commission's (FTC) handling of consumer privacy and online behavioral advertising is a good example. The FTC held a series of open town halls where all interested parties could meet and express their views. They invited the posting of public comments on its website, and issued principles for self-regulatory guidelines. These guidelines defined key terms, established general principles, described areas of agreement and disagreement, and identified topics for further study.

Traditionally, Americans have had a genius for civil dialogue and compromise. Companies looking to avoid or evade political crossfire should recover this tradition. It allows them to demonstrate caring leadership without singling themselves out for attack. It also creates a safe haven and mechanism for working through new or changing issues which have to be addressed.

Since societal and political change is continuous, boards should expect their CEOs to report across three horizons. The first comprises changes the company is *implementing*. The second covers changes the company is *defining*, preferably in concert with business associations and other stakeholders. The third describes changes the company is *anticipating*. In each case, the CEO should identify the relevant stakeholders and describe how the company's social-capital strategy is building bridges with them.

☐ ***When the stuff hits the fan.*** Stuff happens. Despite the most artful social-capital strategies and earnest calls for civil dialogue, at some point, a company may find itself in a true crisis or media frenzy. The two are not the same. True crises are rare—media frenzies, unfortunately, are not.

As noted earlier, the board is not the best forum for managing crises. What the board can do is ensure that crisis-management and processes have been put in place. Walmart provides an excellent example.

When a crisis *does* hit, directors can help the company by asking certain key questions. First, how well is the company operating through the "fog of war"? Much of the information swirling around a crisis is wrong, incomplete or out of date. How is management distinguishing among what it knows, what it suspects, and what it wishes were so? How is management ensuring the company is moving fast enough to find out what is actually happening and adjusting as the situation shifts or new facts come to light?

A second area for board inquiry is whether the company's senior leaders are focusing on the right problem. Through much of the 1970's Ford Pinto scandal, for example, the car maker focused on whether the Pinto's fuel system was defective. By the time the scandal reached the board for decision, however, the issue had become "How do we want our brand associated with safety and trustworthiness?" Framed this way, the decision to recall Pintos and upgrade their fuel systems became clear.

Third, directors need to hear from the CEO what the company's message is with regard to the crisis, how the company intends to "sell" that message, and to whom. The company should speak with one voice and stick to its core message.

Fourth, the board must keep the CEO and senior executives focused on the big picture. This includes not only the crisis, but the company's operations during the crisis. In this regard, someone has to mind the store and communicate internally, so that employees can concentrate on their day-to-day tasks. Focusing on the big picture also means the company will cut its losses fast, if need be. Here, the board must practice what it preaches. Cutting losses can mean firing the CEO and/or forcing resignations among the directors.

Negative ads have become a permanent feature of our politics for a simple reason: They work. Likewise, political crossfires will continue so long as at least one side believes they deliver advantage. As with other features of the commercial landscape, directors need to understand and manage risks while seeking ways to turn hazard into opportunity. ■

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