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## **CORPORATE GOVERNANCE**

### Analysis

### **Politics and Purpose in Corporate America**

In their column on Corporate Governance, David A. Katz and Laura A. McIntosh consider how a corporation can successfully handle political pressures through a focus on corporate purpose.

By David A. Katz and Laura A. McIntosh | October 28, 2020 at 02:30 PM



David A. Katz and Laura McIntosh. Courtesy photos

Political engagement traditionally has been viewed as a no-win situation for a public company or a public company chief executive officer. In a sharply divided nation, taking sides on a controversial topic can instantly alienate half of a company's stakeholders, from investors and customers to suppliers and employees. These days, however, silence can also be viewed as a political statement, which places public companies in a difficult position. While the incursion of sociopolitical issues into the business world has slowly gained momentum over the last decade, it has recently accelerated due to major societal upheavals, high-profile foreign affairs and trade issues, and an election cycle like no other, all in the unrelenting spotlight of 24/7 news and social media. At the moment, corporate America is under pressure from many directions and is widely viewed as a potentially powerful—albeit reluctant—agent of sociopolitical change.

The answer to the question of how a corporation can successfully handle political pressures may be found through a focus on [corporate purpose](#). It is incumbent upon each company's board of directors and management team to understand the company's own *raison d'être*, to have a clear sense of the solutions it proposes for the problems of the world. A corporate purpose can inform and guide decisions as to which political issues are relevant and how they should be addressed. A clearly expressed statement of purpose can also unify leadership, employees, investors and other stakeholders behind initiatives that are aligned with the company's role in society. The lack of

such unity could undermine the effectiveness of company leadership and render political action and engagement ill-considered and self-defeating.

## **Pressure Toward Politicization**

Companies in America today are under pressure to respond to issues arising from sociopolitics, electoral politics, and even geopolitics. The pressure comes from a variety of sources. First and foremost are state and federal politicians. Lawmakers continue to advance a progressive social agenda through legislation affecting corporations, such as the recent [racial and gender diversity mandates for California public company boards](#) and the proposed [“Green New Deal” requirements in the Democrat-controlled House of Representatives](#). Elected officials are also increasingly taking aim at corporate transactions to further their political agendas. Attacks on proposed transactions by high-profile national politicians can be amplified at the state level with review and challenges by state attorneys general. Opposition from lawmakers can create enormous difficulties for M&A transactions even in the absence of legislative hurdles, as attention from state and federal officials is likely to delay, alter, or quash a proposed deal. Geopolitical developments are also affecting corporate dealmaking, as evidenced by the Trump Administration’s stance toward several Chinese-owned social media companies.

Current events have prompted some companies in recent months to engage on certain sociopolitical issues. Many businesses responded to the coronavirus pandemic and related shutdowns with new commitments to employee health and safety, for example. Similarly, the race-related protests of this past summer gave rise to a wave of corporate initiatives toward diversity, equity, and inclusion, along with other efforts to ameliorate the effects of a national history of racial injustice. At many companies, employees are the driving force behind sociopolitical initiatives. Employees are increasingly aware of, and vocal about, the political stance of the company for which they work, and—particularly with the powerful tools of social media—they can exert a great deal of pressure on company leadership. The same is true of some customer bases. With or without prompting from employees or customers, CEOs with strong personal convictions or political ambitions also may be particularly inclined to enter the sociopolitical fray.

Institutional investors, proxy advisors, and nonprofit organizations are additional sources of pressure for corporations. Investment managers and public fund managers, including BlackRock and NYC Comptroller Scott Stringer, have expressed strong views on sociopolitical issues such as diversity and sustainability in the companies in which they invest. ISS has announced consideration of new withhold-vote policies for lack of racial and ethnic diversity and failure of environmental and social risk oversight. The Business Roundtable has responded to current events with commitments designed to advance racial equity and justice. With all of the above factors at play, it may fairly be said that, at this point, politics are a mainstream issue in the business world.

## **Purpose as Principle**

While at one time it was considered a self-inflicted wound for a CEO to talk politics, or at least a [“double-edged sword,”](#) in some situations it is now necessary for CEOs to address political topics or events in one way or another. The relevant questions may no longer be “whether” and

“why” a public company should engage with political issues, but rather “which” and “how.” Answering these questions requires corporate leaders to consider, and communicate, the business case for any political engagement. Political interventions should represent a furthering of corporate purpose, not a distraction from it. When public company CEOs decide to publicly adopt a position or initiative, they should do so with explicit acknowledgement of their role as CEO and with a compelling vision for how their statements or actions will further the corporate purpose and benefit the company’s stakeholders over the long term. CEOs who do not consider the impact of their personal statements or actions on the company and its stakeholders run the risk of damaging public backlash.

There is a growing sense that corporate purpose is foundational to a successful enterprise. McKinsey, which has a practice focused on corporate purpose, [found](#) that while over 80% of employees and leaders surveyed by the firm believed in the importance of corporate purpose, only about 40% believed they had one with any real impact on the organization. Companies in need of outside assistance to define and articulate their purpose have a widening array of resources available to them. In 2019, the [Business Roundtable](#) issued a statement on the purpose of the corporation, and the [British Academy](#) released a set of principles for purposeful business; in 2020, [Martin Lipton](#) provided a succinct formulation of corporate purpose, and Oxford University published a report titled [Enacting Purpose Within the Modern Corporation: A Framework for Boards of Directors](#). Meanwhile, in the private sector, the new field of purpose consulting is expanding rapidly. Boston Consulting, like McKinsey, now offers corporate purpose consulting, and the firm [reports](#) an exponential growth in interest over the past five years.

As described in the Oxford University report: “Purpose ... is not the destination. Its essential power lies in its role as a ‘north star,’ guiding the critical board choices that have to be made.” Corporate purpose is not a theoretical abstraction; in practical terms, a robust understanding of purpose can, among other things, enable boards and CEOs to answer the difficult questions of which political issues to engage and how to do so. Some businesses were founded with political activism in their core purpose, and they often manifest this through their strategic decisions, policy statements, and targeted philanthropy. For others, while political engagement is not fundamentally the job of a CEO, nor the primary aim of the corporation, nonetheless—with respect to issues that touch a company’s purpose, mission, and values—“purpose as politics” could in certain situations provide a strong case for a CEO to venture into political engagement.

That said, caution is warranted. Recently the nation has seen loud, urgent calls for action—amplified by social media to an unprecedented degree—that are quickly supplanted by the next issue of the day. A strong sense of purpose and core values will help CEOs avoid being caught up in the topic of the moment and instead focus on meaningful and lasting interventions that align with the company’s long-term prosperity. Substantive political engagement does not, in any event, consist of symbolic statements and rapid reactions to headlines. Corporations should begin the process of political involvement with thoughtful consideration of their goals and deliberation over the concrete actions, if any, that are required to achieve them. Only then should they reach the questions of whether and how to publicize their decisions with statements or other public outreach. To the extent practicable, public company CEOs would be well-advised to consult with their boards of directors before engaging in political involvement. This engagement should

determine whether the proposed political involvement is sufficiently related to the corporation's purpose and overall strategy.

The logic of having a clearly understood corporate purpose embraced by all stakeholders extends in particular to institutional investors. Companies and their large investors should consider themselves close allies in pursuing long-term growth and in making the decisions that lead in that direction. Institutional investors have been at the forefront of corporate sociopolitical activism in recent years. If an investor understands the guiding principles by which a company makes decisions, it is likely to be supportive rather than critical of a CEO's corporate sociopolitical engagement (or lack thereof) in a given situation, and to give corporate leadership the benefit of the doubt in situations where there is a difference of opinion. The same holds true for employees, customers, and other stakeholders who may wish to see more or less political action on the part of the corporation. Corporate purpose should be the "north star" that guides corporate decision making, from the board room to the front line employees, and serves to align the long-term interests of all stakeholders, in politics as elsewhere.

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