

# The Need for Business Political Acumen

Within two weeks of Russia's invasion of Ukraine, in an unprecedented exodus, over 300 leading global enterprises shut down their Russia operations or otherwise withdrew from the country. The list includes iconic brands from Levi's to Lego, Mattel to Mercedes, and Rolex to Rolls-Royce. It also includes leading professional service firms such as McKinsey, Accenture, Goldman Sachs, and S&P. The vast majority of these companies went far beyond what sanctions enacted by the United States, the European Union, and other jurisdictions demanded.

By David Bach

While the speed and scale of global companies' taking sides was new, the fact of companies and their leaders assuming a much more prominent political role was certainly not. In fact, over the past decade in particular, business has become considerably more political. A growing number particularly of younger employees and customers simply expect CEOs to speak out on key issues. Public relations firm Edelman, for example, found in its 2022 Trust Barometer survey that 60% of employees agreed with the statement "When considering a job, I expect the CEO to speak publicly about controversial social and political issues that I care about."

Many CEOs have told me that they wish they could focus on the business and leave politics to the politicians. However, the demand for business to take sides on key issues reflects the fact that business is more trusted than government across most major economies, particularly when it comes to the question who can get things done. Edelman argues that trust is a combination of both competence and acting ethically, and on both dimensions, business currently eclipses government. In fact, the gap has widened in recently years. With the growing presence of businesses in our lives, and efforts by leading brands to connect deeply with their customers, as well as with their employees, it should not



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surprise that the same customers and employees expect businesses to live their values when circumstances require it. To put it simply, business is political and it is the very success and impact of business that has made it so.

Now, just because a growing number of stakeholders expect CEOs to speak out does not mean that taking sides, particularly on controversial topics such as LGBTQ+ rights, immigration, or COVID restrictions is risk-free. There have not been many empirical studies of the consequences of so-called "CEO political activism". One prominent study by Aaron Chatterji of Duke University and Michael Toffel of Harvard University found that CEOs' speaking out is not more effective in swaying public opinion than any other prominent messengers. At the same time, while those sharing a CEO's stated position professed greater customer loyalty, those with an opposing viewpoint expressed diminished willingness to purchase. In other words, CEO political activism is above all a signaling tool, an opportunity for companies and their leaders to remind key stakeholders of their values. Precisely because doing so in the midst of a controversy carries risk, the signal is perceived as authentic and credible.

Outrage around the globe about Russia's unprovoked invasion of Ukraine is such that few CEOs risked alienating stakeholders when they took a firm stance, at least outside of Russia. If anything, the reputational costs of not joining others in pulling out exceeded any potential benefit of staying. However, most political issues are less lopsided and before long, companies and their leaders will again find themselves in the midst of contentious societal debates. That is why they would be well advised to bolster their political acumen.

Source: Chatterji and Toffel, "Assessing the Impact of CEO Activism Organization & Environment" (2019)



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