Case Study
Do Business and Politics Mix?

A CEO struggles with the fallout from a controversial campaign donation. by Brian K. Richter

As soon as Harold Leeson, the CEO of Natural Foods, pulled into the parking lot of his company’s headquarters, his phone rang. It was Kenneth King, one of his board members. Harold braced himself before answering. “This is a total mess,” Ken said immediately.

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“I know,” Harold replied, exhaustion creeping into his voice. “But our publicity team is telling me it’s going to calm down soon—people will forget about it.”

“Which people? The media? Our employees? Our customers? Because a lot of people are upset with us right now. And personally, I think they have a right to be.”

The trouble had started several weeks earlier, when the StarTribune ran a story about the donation that Natural Foods, a mid-size chain of organic grocery stores based in Minneapolis, had made to a super PAC called Minnesota Business First. The company had chosen to support the group because of its plan to fund ads promoting political candidates who had strong pro-business platforms in the upcoming elections. However, in a last-minute push to court conservative voters in a tight race, one of those candidates, Pat Erikson, a rising star in the Minnesota Republican Party, had taken a strong stance against gay marriage, saying that he’d vote against any bill to legalize it. Much to Harold’s dismay, Natural Foods was now equated with that position.

“I’m not happy about it either,” Harold told Ken. “You know more than anyone how much I don’t want the word ‘antigay’ associated with Natural Foods.” The two men had discovered early on in their 10-year working relationship that each of them had a gay son.

When Harold had approved the super-PAC donation a few months before, he hadn’t thought to question how Minnesota Business First vetted candidates on social issues. And even when Erikson shifted to his hard-line stance on gay marriage, Harold hadn’t anticipated how big the ramifications would be for Natural Foods.

Customers had staged protests at several of the company’s larger stores in San Francisco, Los Angeles, and Minneapolis, and many of its 10,000 employees had signed a letter to Harold asking that Natural Foods explain its support of Erikson. Several senior executives privately expressed concern that their gay and lesbian team members were feeling alienated. With the help of Betty Martin, Natural Foods’ head of government relations, Harold had issued an internal statement saying that the chain’s donation did not mean that Natural Foods endorsed all the views of the candidates Minnesota Business First supported and that the executive committee and the board would be reviewing its policy on campaign donations.

“I saw your letter to the employees, and that was the right message,” Ken said. “Make it clear that Erikson’s position is not what Natural Foods stands for; we’re a socially progressive organization.” The company was known for being a generous donor to nonprofits, both in Minnesota and in other states where it had stores; it gave 5% of its pretax operating profits to charity each year.

“But we need to take it a step further,” Ken continued. “As someone who gets paid to think about risks that you and your team don’t see, this is where I need to advise you to avoid making the same mistake again.

HBR’s fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the Ivey Publishing Case Study “Rethinking Political Activity at Target” (case no. W12350-PDF-ENG), by Brian K. Richter and Anisha George, which is available at hbr.org.
Natural Foods should get out of politics.”

Harold had known that this would be Ken’s take on the situation. Ken had always argued that the world of campaign donations and lobbying was a minefield that sooner or later would result in a crisis, just like this one. But he was outnumbered by fellow directors who thought that ignoring politics was even riskier. There were many policy issues, from taxes to food regulations, in which the company needed a say if it was to remain a successful, profitable business and realize its mission of getting healthful food into the hands of more people.

“Everyone likes to say it’s impossible,” Ken said now. “But look at Starbucks, Costco. They don’t make federal campaign donations. They don’t lobby Congress. And the Supreme Court’s decision in Citizens United hasn’t changed their position on that.”

“Come on, Ken. That’s all true, but those companies are in politics. They’re just involved in ways that don’t leave obvious ‘receipts’ lying around for the national media to find. We’ve built our reputation on doing the right thing for people—our customers, our employees, the environment—and most of the issues we get involved in put those stakeholders first. Think about how we support the expansion of federal food education and safety programs. We need political clout to make those things happen. And it doesn’t cost us much; it’s a tiny percentage of our revenue.”

Harold looked out his car window and saw several employees wave at him on their way into the office. He was usually one of the first to enter the building, but this call was holding him up.

“We can maintain that reputation by giving to charities and nonprofits, but politics is getting too dangerous,” Ken retorted.

“I’m not sure we’re getting the results we want from these donations.”

“We’ve gone over this before,” Harold said. “Betty has made it clear that supporting these PACs isn’t about buying legislation or votes, but it does give us a voice. Do you think I would have gotten a meeting with the governor on 24-hour notice if we hadn’t been a donor?” The year before, the Minnesota legislature had taken up a GMO-labeling bill that, if passed as written, would have imposed requirements inconsistent with those in other states, forcing the company to change its labeling system and costing it millions of dollars. Harold had secured the governor’s word that he would veto it and encourage state lawmakers to focus on rules more consistent with those in place elsewhere.

“Please. We’re one of the biggest employers in Minnesota. We’d have that access even if we didn’t make donations.”

“That’s not what Betty says,” Harold replied. “Let’s talk to her about this at the board meeting.”

“You know what her position is going to be,” Ken said. “She doesn’t want to jeopardize her job.”

**No Way Out?**

Harold was opening his car door when the phone rang again. It was Betty. He was sure the conversation would be one he didn’t want to have walking the halls, so he closed the door and leaned back again.

“Listen, Harold. I hope you’re not panicking this morning.”

“No, no. Like I said last night, it’s already dying down. We just need to give it more time, not make any rash decisions. I know you’ve been hesitant about our super-PAC donations. But we need to do everything we can to get access to politicians who are potentially sympathetic to us.”

“Right. But I just spoke to Ken, and you won’t be surprised to hear that he thinks this is a sign. Perhaps we do need to rethink what we’re doing in politics—though I know that would have big implications for you.”

“This isn’t about me,” Betty said curtly. “It’s about what’s best for Natural Foods. It’s absurd to think that a company our size doesn’t need influence in Saint Paul and Washington. How would you feel not having a voice in the debate on the definition of ‘organic,’ or in the conversation on import tariffs for the specialty products our customers demand? When the farm bill comes up in Congress this year, do you want a say or not? These are things that affect our business model. We’d be silly not to give ourselves access to decision makers, especially since our positions on all these issues are subtle. We can’t explain them with philanthropy or reduce them to marketing sound bites.”

Harold knew she had a point, but he wasn’t fully convinced.

“The StarTribune article said that only 10% of publicly traded companies lobby at the federal level, and only half the S&P companies make campaign contributions. I didn’t believe those numbers at first, but I checked them. Even in a post-Citizens United world, it seems we’re the outlier here.”

“But we’re already in the game—and playing it successfully, in spite of this situation with Erikson,” Betty said. She explained that Starbucks and other companies had adopted policies against campaign contributions early on. And although Howard
“Do you think I would have gotten a meeting with the governor on 24-hour notice if we hadn’t been a donor?”

Schultz, Starbucks’s CEO, might be able to catch key politicians’ ears regardless, most chief executives weren’t in that position. “We meet with governors. We meet with our representatives and senators. We meet with majority and minority leaders and with key committee chairs. We’d be crazy to throw away the investment we’ve put into making that happen.”

Even before Citizens United, the company had maintained a traditional PAC through which it amassed employee and shareholder contributions to target specific candidates. But those donations were limited to $5,000 per candidate. For the past five years Natural Foods had shifted money from its general treasury to super PACs, where contributions were unlimited, and had been lobbying at the national level.

“So what do I tell our customers? What do I tell our employees?” Harold shifted in his seat. He knew his assistant would be wondering where he was.

“Like I said, Harold, this situation is an anomaly, and everyone will move on soon. Revenue at the stores where there have been protests hasn’t even dropped. But politics does not go away. We need those relationships.”

Harold jumped when someone knocked on the glass next to him. It was Camilla Fernandez, the company’s no-nonsense general counsel. When he lowered the window, she said, “You’re late for our meeting.”

It Could Happen Again

Harold was happy to finally be in his office. Camilla sat opposite him.

“I know you don’t like to wait,” he said. “Sorry about that.”

She shrugged. “I saw you on the phone. I assume you’re getting calls about the protests?”

Harold told her about his conversations with Ken and Betty.

“Everyone is giving you their gut reaction, Harold. Betty loves politics. Ken hates it. We need to be measured about this.”

“That’s why I wanted to meet,” he said. “I’d like to get your perspective.”

“Is there a middle ground?” Camilla asked. “Could we give to campaigns exclusively through the National Grocers Association PAC? We wouldn’t have as much say over the candidates endorsed, but if there were problems, it would be Whole Foods or Safeway taking the heat, not us.”

“But then it’s also them, not us, with access to lawmakers,” Harold said.

“OK, so what about taking out the middleman?” Camilla said. “Just give directly to candidates we’ve thoroughly vetted.”

“In either of those cases, our contributions would be limited by the laws governing traditional PACs. Plus reviewing candidates would mean that Betty needed more resources, and the board would have to approve a new process and criteria. And I don’t know that we could say for sure whether a candidate would be aligned with all the issues we care about.”

“We’d be even more closely tied to the next Pat Erikson.”

Harold nodded. “This all just leaves such a bad taste in my mouth.”

“What does Nick say?” Camilla asked, referring to Natural Foods’ CFO. “He says that neither store revenue nor the stock price has been affected, and until they are, he doesn’t have an opinion.”

“Spoken like a true numbers man,” Camilla said. “But I’m surprised we haven’t seen any financial fallout yet.”

Me too, Harold thought.

A Bold Move?

That evening Harold was returning to his car when his phone rang: Conversations with an angry Ken would bookend his day. This time Ken was more subdued, however. He had talked to several other board members that afternoon, and opinion was divided.

“I’ve been going back and forth on this all day,” Harold said. “Betty made some strong arguments about why we need to keep investing in politics. And Camilla had some good advice about ways we could stay active with less risk.”

“Betty’s talking her own book, and Camilla’s a lawyer—of course she’s going to try to mediate between the parties and negotiate a palatable compromise. But this is your opportunity to make a bold move and do what’s right for the company. There’s a real split, Harold. People are looking to you to lead the way.”

Should Natural Foods stop making campaign contributions?
See commentaries on the next page.
IN MY VIEW, the heart of this controversy is actually management's reaction to the accusations of discrimination. The company's first priority should be to clarify its position on the issue of gay marriage and thus change the perception that Natural Foods shares the candidate's view. As it is, events are defining the company's stance. An internal statement from the CEO, especially one that sounded as defensive as his did, is not enough. Harold (or a designated spokesperson) must say that Natural Foods opposes discrimination of any kind—period. Then his team needs to get that message out in a variety of venues—blog posts, in-store displays, a CEO interview or two.

That said, Natural Foods should not stop making campaign donations. Any company of size and consequence should be actively engaged in the political process, and that includes political giving. Once in office, candidates are likely to give reasonable access to those who helped them.

In today's world, where business is highly regulated, corporate leaders who insist on staying out of politics may be neglecting their fiduciary responsibilities. Not only is Ken King's stance unrealistic for Natural Foods, but it could damage shareholder value over the long term, leaving the company at the mercy of too many external players. At Exxon Mobil, where I head up our company's PAC, we see campaign donations as an important way to stay involved in political discussions. After all, few industries are more closely regulated than energy.

When making contributions, we seek out candidates who have a history of supporting open markets, understand business, and have demonstrated a willingness to hear the facts involved in a particular debate. We certainly don't expect a candidate we've supported to vote in our favor 100% of the time, but we do seek to have a voice in the debate. Camilla, the general counsel, suggested better vetting of candidates, but of course that's not always possible. We focus on the candidate's positions on issues that are core to our business.

Recently we've had some investors who shared Ken King's views and introduced proxy proposals that would impact our ability to influence policy making. To date, however, these initiatives have not gained much support from other shareholders.

Natural Foods shouldn't give up its role in the political process because of this one incident. Campaigns generate controversy and debate, which the media will cover. It's how you handle yourself in such situations that matters. As long as Harold and his team are clear on what the company stands for, Natural Foods can survive those storms and retain the access to government decision makers that gives it a place at the table in policy debates relevant to its business.
of candidates that aren’t directly relevant to the business may create risk for the overall brand.

Robert J. Choi, principal, RJC & Co.

Stay away from PACs

Political endorsement is very different from issue alignment, and getting behind a PAC that supports a slate of candidates is always a high-risk proposition. I would never advise a client to get involved with a PAC; too many of them have dubious practices that go unchecked. If you favor what the PAC advocates, align with a legacy organization in the issue sector that is publicly accountable.

Art Stewart, vice president for corporate development, Maine Pointe

John Harrington is the president and CEO of Harrington Investments, a registered management advisory firm.

KEN KING is mostly right when he says that Natural Foods needs to get out of politics. Political donations are not a good use of the company’s money and, as the current situation demonstrates, can be harmful to its reputation.

Executives often frame campaign contributions as investments in their company’s future—a necessity if they want to be engaged in the political process and to secure beneficial tax legislation and business contracts. But this argument has many flaws.

For one, when a company gives money to a PAC (or a super PAC), it has no control over how the money is ultimately spent, as the Natural Foods case makes clear.

In my view, lobbying is a far better use of corporate funds. Although I have reservations about how it is done, at least it’s issue-specific, you have more control over where the money goes and how it’s used, and you get more-specific and documented results.

Wasted money is one risk. A damaged reputation is another. The more corporations dominate the political system, the greater the chance of public backlash. Natural Foods customers have reacted to a particular contribution, and that is certainly a danger. But a growing number of Americans see the issue more broadly: They don’t want to support companies that try to “buy” politicians and corrupt the system.

To protect Natural Foods from this future, Harold should tell the board he wants the company to stop making campaign contributions. I introduced shareholder resolutions to this effect at Starbucks and at the health care provider WellPoint. They were voted down, because executives and other investors wanted to reserve the right to make donations at some point in the future. This was shortsighted and will come back to haunt management.

If Natural Foods continues to make political donations, it will see more and more controversies like the one it’s facing now.

Lobbying is a far better use of corporate funds. You have more control over where the money goes.

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