Viewpoint Diversity in Business

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Viewpoint diversity is an essential component of corporate governance. Respecting different social, political, and religious beliefs in policy, governance, and the marketplace helps companies mitigate risk, improve performance, and better align business goals with shareholders' interests. Promoting robust viewpoint diversity also enriches and strengthens society by fostering a culture that respects free speech, religious tolerance, and open discourse.

Companies generally recognize the importance of promoting diversity in terms of race, gender, and ethnicity, but often fail to prioritize viewpoint diversity, which underlies and supports all other forms of diversity. This oversight is concerning given that respect for diverse perspectives and viewpoints has a strong positive impact on firm performance. Like sustainability, equity, and inclusion, viewpoint diversity is not easily measurable, yet it often plays a central role in defining a company's duties to its customers, employees, shareholders, and society at large. Researchers, though, have successfully used political ideology as a proxy for drawing conclusions about the relationship between firm performance and the level of political ideology in corporate boardrooms.[1] Other proxies for viewpoint diversity include corporate PAC spending, political endorsements and statements by a company or its executives, corporate membership in external groups and coalitions with particular social or political agendas, charitable giving, and corporate policies or practices that punish or endorse the expression of certain beliefs and values.

When companies have a narrow approach to diversity, for example, one which focuses on only gender or age, they forgo the many benefits associated with integrating other factors into their diversity frameworks.[2] There is ample evidence that tolerance for a wide range of religious, social, and political views in a company's workplace, business affairs, charitable giving, and political engagement makes good business sense. And research suggests that failure to include viewpoint tolerance as a factor in corporate governance can adversely affect a company's reputation, workplace culture, competitiveness, and financial performance. It is common sense that alienating large groups of potential customers by marginalizing their beliefs or views is a bad business practice that harms shareholder value.

Viewpoint diversity is more than just a good business practice, it is essential to ensuring that companies meet their fiduciary obligations. As stewards of their investor's capital, companies have a duty to ensure that the decisions they make are in the best interest of shareholders. One major aspect of this obligation is the responsibility to preserve the reputational integrity of their brands. In the Digital Age, businesses are under constant pressure to appeal to certain constituencies and their every decision is scrutinized. This environment presents major challenges. One wrong move can cost a business millions in lost credibility and revenue. This is especially true when dealing with divisive social and political issues. When companies espouse controversial positions, they may please certain constituencies, but alienate others in the process. Striking the right balance is important for businesses that value their

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[1] Incheol Kim, Christos Pantzalis, and Jung Chul Park, *Corporate boards' political ideology diversity and firm performance*, 21(c) Journal of Empirical Finance 223, 225 (2013).
[2] Stephanie Creary, Mary-Hunter McDonell, Sakshi Ghai, and Jared Scruggs, *When and Why Diversity Improves Your Board's Performance*, Harvard Business Review, (2019).

reputation and focus on risk mitigation. Finding the balance requires that companies avoid echo-chambers that may cause them to overlook important opportunities or red flags. For every company, responsibly cultivating their public image means considering a wide range of different values and perspectives.

Corporate Social and Political Activism Can Harm Companies and Shareholders

In its Closer Look Series, Stanford's Graduate School of Business evaluated public views on CEO activism and its impact on business interests. The study showed that CEO activism risks alienating at least 1/3 of the public (approx. 70 million adults), with 35% of those surveyed objecting to CEOs of large companies using "their position and potential influence to advocate on behalf of social, environmental, or political issues they care about personally."[3]

Looking deeper, CEO activism in politics, religion, and contentious social issues "garner the least favorable reactions."[4] As Stanford reports:

> Of these issues, CEOs speaking up about gun control is the only one with a net-favorable position (45 percent favorable versus 35 percent unfavorable). Abortion (37 percent versus 39 percent), politics (33 percent versus 43 percent), and religion (31 percent versus 45 percent) all elicit net-unfavorable reactions . . . .[5]

Data also suggest that CEO activism drives customers away. Stanford reported that while customers claimed that they change their behavior based on agreement with a CEO's position, the survey told a different story. Respondents were "significantly more likely to remember products they stopped using or use less because of the position the CEO took than products they started using or use more."[6]

While CEO and brand activism on contentious social, political, and religious issues may build rapport with some "employees, customers, or constituents," it will also likely "alienate important segments of those populations."[7] For example, at least one study found that Nike's high-profile advertising campaign featuring national-anthem protestor Colin Kaepernick led to "Nike's brand favorability and purchase-consideration ratings falling sharply across all demographic groups, even when segmented by age, race, and political affiliation."[8]

These findings are consistent with a 2020 survey indicating that 53% of respondents oppose brands "getting involved in political or cultural issues."[9] According to the poll, "[o]ne-third of respondents have

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[3] David F. Larcker, Stephen A. Miles, Brian Tayan, and Kim Wright-Violich, *The Double-Edged Sword of CEO Activism*, Stanford Closer Look Series, 4 (Nov. 8, 2018).
[4] *Ibid*.
[5] *Ibid*.
[6] *Ibid*.
[7] *Ibid*.
[8] *Id*. at 1.
[9] *PRWeek/Morning Consult: Time for brands to hold their tongues on (some) hot topics*, PRWeek, https://www.prweek.com/article/1671235/prweek-morning-consult-time-brands-hold-tongues-some-hot-topics (last visited April. 1, 2020).

stopped buying products as a result of a brand stance."[10] Even studies that indicate general public favorability for corporate social and political activism are careful to note that many issues are still risky ventures. A Morning Consult poll found that while both Democrat and Republican customers are more likely to buy products from companies that donate to charities that benefit veterans, the opposite is true on issues like the U.S.-Mexico Border, transgender bathroom use, and same-sex marriage.[11] For example, 59% of Republican customers said they were more likely to buy from brands that support the border wall, while 61% of Democrats indicated that they would be less likely to do so.[12]

While there may be general public support for corporate stands on less divisive issues, corporate activism can "easily lead to lost sales and a lack of stock investment."[13] One poll notes that the majority (54%) of customers "have stopped using the products of a company because of its public opinion on an issue."[14] Corporate social and political activism also risks alienating shareholders and reducing investment. "[Forty-eight percent] of investors have decided not to invest in a company because of its position on an issue and 38% have sold their shares" for the same reason[15]

This research suggests that companies should tread lightly when they are evaluating whether to take stands on contentious social or political issues. At the very least, they need to ensure that the issues they are engaging on are relevant to their business. A majority (51%) of respondents to the Aflac survey said that "large companies should take a stand on a social or political issue only if it directly relates to their industry, product, or services."[16] There are significant risks associated with corporate activism in spaces where they do not have a direct business interest. In order to accurately weigh the risks and benefits, and strike the proper balance, management needs to account for a wide range of values and perspectives. When corporations fail to promote viewpoint diversity internally, they make choices that marginalize their customers, and shareholders.

Ideological Diversity on Corporate Boards Improves Performance and Increases Firm Value

There is "robust evidence" that corporate boards comprised of ideologically diverse members contribute to "superior (firm) performance."[17] This diversity benefit holds even when tested in "various regression models that control for other important corporate governance variables."[18] One reason for this persistent performance boost is that when "outside directors maintain different views from

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[10] *Ibid.*
[11] *Consumers Want Brands to Get Political, but Companies Need to Tread Carefully*, Morning Consult, https://morningconsult.com/2018/02/06/consumers-want-brands-to-get-political-but-companies-need-to-tread-carefully/ (last visited April. 1, 2020).
[12] *Ibid.*
[13] Aflac CSR Survey, Consumers, Investors Hold Corporations' Feet to the Fire, 28-29 (2019), https://www.aflac.com/docs/about-aflac/csr-survey-assets/2019-aflac-csr-infographic-and-survey.pdf.
[14] *Id*. at 28.
[15] *Ibid.*
[16] *Id*. at 26.
[17] Kim, et. al., *supra* note 1, at 227.
[18] *Ibid*.

management, (they) provide more objective evaluation of managerial decisions and plans."[19] This gain is especially significant given the generally strong evidence that "personal political affiliation" impacts a broad range of business decisions, including "portfolio composition, stock market participation, analysts' forecasting behavior, corporate social responsibility, and corporate policy decisions."[20] To ensure that decisions reflect the best interests of shareholders, customers, and employees, companies must welcome a robust range of ideas and viewpoints.

Respecting viewpoint diversity also helps companies balance the potential risks and benefits of political activism to ensure that their actions appropriately align with the fiduciary interests of shareholders. When corporations take stands on controversial social and political issues, they run the risk of damaging their reputational integrity and bottom lines.[21] Moreover, insiders may face incentives to use a company's political resources, (PAC spending, government relations, etc…), to further political agendas that are contrary to the firm's interests as a whole.[22] Effectively balancing the costs and benefits of firm-wide political engagement, requires first assessing whether the issue is of material relevance to the company.[23] And second, ensuring that political engagement aligns with the long-term interests of shareholders. This is a difficult balance to strike and requires analyzing each case through the lens of a diverse range of social, political, and ideological perspectives at the c-suite and board levels.

Evidence suggests that viewpoint diverse boards more effectively monitor firm political activity and minimize potential misalignment between management and shareholder interests. [24] In contrast, boards that lack ideological diversity, are less likely to prevent management from using firm resources to support political or social agendas that may harm the company and alienate customers and shareholders. This divergence between management and shareholders occurs because "decisions (of a political nature) may be a product not merely of business judgement regarding what strategy will benefit the company's bottom line, but also of the directors' and executives' own political preferences and beliefs."[25] Corporate political activity "might often have consequences that are exogenous to the firm's performance, and directors' and executives' preferences with respect to such spending might be influenced by these consequences."[26]

> Suppose, for example, that the CEO of Company *X* happens to be a left-leaning Democrat who hopes to run one day for Congress in a left-leaning district in the Northeast, and the CEO of Company *Y* happens to be a conservative Republican who hopes to run one day for Congress in a conservative district in the South. We have no reason to expect that the shareholders of each company – or even a majority of the shareholders of each company – share their CEO's beliefs on political issues. Thus, to the extent that political speech decisions may be significantly influenced by such beliefs, the interests and preferences of one or both the CEOs may substantially diverge from those of each company's shareholders.[27]

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[19] *Ibid*.
[20] *Id*. at 229.
[21] *See Supra Footnote*, 3, 9, 11, 13.
[22] *See Infra Footnote*, 25.
[23] *See Infra Footnote*, 26.
[24] *Id*. at 226 - 227.
[25] Lucian Bebchuk, and Robert Jackson, *Corporate Political Speech: Who Decides?*, 124 Harvard Law Review 83, 90 (2010).
[26] *Ibid*.
[27] *Id*. at 91.

To prevent upper management from committing companies to actions or political causes that pose broad reputational and financial risks, boards should consider a wide range of backgrounds, values, and political ideologies. Unfortunately, this kind of balance is rare within major corporations. According to one study, the political ideologies of incoming directors on corporate boards often "are significantly aligned with that of existing directors, and particularly with outside directors."[28] A subsequent report found that "on the boards of the Fortune 10, every director with a political background served a Democratic White House."[29] Similar trends hold in Fortune 100 boardrooms, where 67% of directors with political backgrounds previously served in Democratic administrations.[30] These numbers are even higher in the financial and tech sectors where 83% and 82% of board members with political experience are former Democratic appointees and politicians.[31] This data implies that board membership tends to skew toward one side of the ideological spectrum and lacks the balance of a broad range of backgrounds, perspectives, and values.

This ideological homogeneity impedes boards' ability to hold management accountable. By contrast, "board ideological diversity" allows for more effective oversight of company-sponsored PACs and "can help firms construct efficient political strategies" that reflect the interests and values of the company and its shareholders.[32] Additionally, the "lower odds of sub-optimal management decisions with regards to corporate PAC contributions"[33] often contribute to improved "market valuation,"[34] since firms are less likely to use their political resources to engage in risky activities that undermine their reputations, or business interests. Ultimately, shareholders benefit when boards reflect a wide range of beliefs and values.

Despite strong evidence that viewpoint diversity promotes objective and balanced decision-making, many large corporations including AT&T,[35] Salesforce,[36] Amazon,[37] John Deere,[38] and Costco,[39] opposed recent shareholder proposals asking them to ensure viewpoint diversity on their boards. This signals a dangerous disregard for shareholder interests in at least two respects. First, it may indicate that corporate boards are unaware of their own "ideological blind spots." That is, they have become so one-sided with respect to the values and perspectives present, that they fail to recognize the need to consider views beyond the prevailing outlook of incumbent directors. Second, opposition to board viewpoint diversity means that companies are less prepared to mitigate the risks associated with operating in an increasingly polarized political environment where one wrong move can alienate customers, employees, and shareholders – and inflict significant reputational damage.

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28 Kim, et al., *supra* note 1, at 238.
29 *Political Risk Brief*, Baron Public Affairs, https://baronpa.com/prb/the-political-isolation-of-corporate-america/ (last visited April. 1, 2020).
30 *Ibid.*
31 *Ibid.*
32 Kim, et al., *supra* note 1, at 248.
33 *Id*. at 249.
34 *Id*. at 227.
35 *Covington Settlement Warns Corporations That Bias Can Cost Big Bucks*, National Center for Public Policy Research, https://nationalcenter.org/ncppr/2020/01/10/covington-settlement-warns-corporations-that-bias-can-cost-big-bucks/ (last visited April. 1, 2020).
36 Salesforce.com, Notice of the 2019 Annual Meeting and Proxy Statement 72-73 (2019), https://d18rn0p25nwr6d.cloudfront.net/CIK-0001108524/319f1758-64da-44bf-844d-8e71c7ebceff.pdf.
37 Amazon Inc., Notice of 2019 Annual Meeting of Shareholders 33-34 (2019), https://ir.aboutamazon.com/files/doc_financials/proxy/2019-Proxy-Statement.pdf.
38 John Deere & Co., Notice of 2020 Annual Meeting and Proxy Statement 83-84 (2020), https://materials.proxyvote.com/Approved/244199/20191231/NPS_414837.PDF.
39 Costco Wholesale Corp., Notice of Annual Meeting of Shareholders 25-27 (2020), https://investor.costco.com/static-files/de687eea-3ac1-487c-b1e2-537861ee0031.

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Viewpoint Diversity is a Key Element of Dynamic and Innovative Workplace Cultures

Corporations with "dominant political ideologies are likely to be inhospitable to those who think differently."[40] Revelations of major tech companies terminating employees who don't conform to progressive values has become common place and should worry shareholders.[41] Employees who hold minority views, whether conservative or liberal, in ideologically homogenous organizations often "face a hostile climate," where they "feel unwelcome and unwanted" and "experience alienation."[42] This marginalization often spurs employee departures and may affect companies' ability to attract and retain diverse talent. Research suggests that both conservative and liberal employees may depart firms where the internal culture is hostile to their values, with conservative employees slightly more likely to do so.[43] This talent drain suggests that companies should ensure viewpoint diversity to foster cultures where employees of various ideologies, backgrounds, and religions feel welcome and included.

In a fast-paced, dynamic business climate, a failure to respect viewpoint diversity can gravely affect companies. "Human capital is a vital resource for organizations, and in many cases a key source of competitive advantage."[44] Some studies have shown that the loss of a key employee can "diminish a firm's ability to retain clients and even to survive."[45] Ideologically homogenous cultures tend to undermine respect for different perspectives and can result in echo chambers that penalize those who bring diverse ideas and views to the table. Healthy, ideological give-and-take creates "productive tension" that can catalyze positive changes from within an organization.[46]

Emerging research into cognitive diversity and how it impacts team performance supports this. In their groundbreaking research, Alison Reynolds and David Lewis found "no correlation between…(gender and ethnic) diversity and (team) performance." [47] Instead, they posit that greater "differences in perspective(s) or information processing" within teams may increase their effectiveness in solving complex problems.[48] Another meta-analysis examining the impact of gender diversity on corporate board performance suggests that "if male and female board members are fairly similar in their values, experience, and knowledge, the addition of women to an all-male board may not increase the board's

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[40] Y. Sekou Bermiss And Rory McDonald, *Ideological Misfit? Political Affiliation and Employee Departure in the Private-Equity Industry*, 61(6) Academy of Management Journal 2182, 2185 (2018).
[41] *Google engineer claims he was bullied, fired for being a conservative,* New York Post.com, https://nypost.com/2019/08/01/google-engineer-claims-he-was-bullied-fired-for-being-a-conservative/ (last visited April. 1, 2020); *Dozens at Facebook Unite to Challenge Its 'Intolerant' Liberal Culture,* New York Times.com, https://www.nytimes.com/2018/08/28/technology/inside-facebook-employees-political-bias.html (last visited April. 1, 2020); *Google managers kept blacklists of conservative employees and one manager considered holding 'trails,' a new lawsuit alleges*, Business Insider.com, https://www.businessinsider.com/conservative-google-employees-are-blacklisted-lawsuit-alleges-2018-1 (last visited April. 1, 2020).
[42] Y. Sekou Bermiss And Rory McDonald, *Ideological Misfit? Political Affiliation and Employee Departure in the Private-Equity Industry*, 61(6) Academy of Management Journal 2182, 2185 (2018).
[43] *Id*. at 2200.
[44] *Id*. at 2184.
[45] *Ibid*.
[46] *Id*. at 2203.
[47] Alison Reynolds & David Lewis, *Teams Solve Problems Faster When They're More Cognitively Diverse*, Harvard Business Review (Mar. 30, 2017), https://hbr.org/2017/03/teams-solve-problems-faster-when-theyre-more-cognitively-diverse.
[48] *Ibid*.

cognitive variety."[49] Diversity of values, knowledge, and experience among board members and executives are what matter most to business performance.

One of the most significant internal barriers to fostering intellectually diverse cultures is the tendency for executives to "recruit in their own image."[50] "Colleagues gravitate toward people who think and express themselves in a similar way" leading to "functional bias" that stifles innovation and creativity.[51] For companies to remain competitive in the 21st Century, they must develop internal cultures that guard against "groupthink" and capitalize on the many benefits of robust viewpoint diversity and debate.

Conclusion

Viewpoint tolerance is an important element of diversity and significantly impacts a company's business affairs, charitable giving, political engagement, and workplace culture. Yet businesses often only pay lip service to viewpoint diversity, or use false proxies for it like gender, race, ethnicity, or other physical characteristics. Businesses should take meaningful steps to uncover internal echo-chambers hiding in plain sight. One-sided thinking can harm firm performance and shareholder value, but it often escapes detection at major companies. When prevailing biases create environments where differing viewpoints are not tolerated, management may not recognize the problem until it is too late. The self-perpetuating nature of viewpoint discrimination means that boards and management teams need to take steps to detect it and proactively ensure viewpoint diversity across the business enterprise.

[49] Katherine Klein, *Does Gender Diversity on Corporate Boards Really Boost Company Performance?*, Wharton School of Business, University of Pennsylvania, (May 18, 2017), https://knowledge.wharton.upenn.edu/article/will-gender-diversity-boards-really-boost-company-performance/.
[50] Reynolds & Lewis, *supra* note 27.
[51] *Ibid*.