TALENT RETENTION

LAWSUIT

succession

profits

#Me Too

STOCK

THE NEW CORPORATE DILEMMA

by
Sheena Butler-Young

VICTIM'S RIGHTS

SHAREHOLDERS

boycotts

RIGHTS OF THE ACCUSED

silence

advocacy

TRANSPARENCY

social media

PHOTO: REX FEATURES

When Nike announced back-to-back executive departures last month and an internal company memo from CEO Mark Parker signaled a crackdown on alleged inappropriate workplace behavior, the reactions were plentiful — and diverse. ➻ There were those who applauded the company's apparent swift reaction to purported behavioral issues in its top ranks. Others questioned how the executive exits would disrupt the firm's succession planning and whether Nike's actions were too aggressive. ➻ Some thirsted for the gritty details surrounding the shake-up, while several reports sought to cast Nike as the latest reverberating corporate voice in the new movement against workplace misconduct. (Reports suggested the moves at Nike were made after female employees circulated an internal survey about their concerns there. The company has not alleged any misconduct on the part of the departed execs, brand president Trevor Edwards or Jayme Martin, VP and GM of global categories.) ➻ The athletic behemoth's situation is the latest example of the dilemma companies face in an era that sees corporate activism and social responsibility as sharing a strong link to profitability and brand value. Lululemon announced in February the abrupt resignation of CEO Laurent Potdevin, stating he fell short of the firm's standards of conduct as reports emerged he had a relationship with a female designer whom he oversaw. Similarly, Guess co-founder Paul Marciano in February stepped down from his post mere weeks after supermodel Kate Upton alleged the designer sexually harassed her.

"A brand is an outward exclamation of your beliefs and values as an organization — you put those [beliefs] out there as an organization to draw customers to you who share similar things," explained Deb Gabor, CEO of brand strategy consulting firm Sol Marketing. "Your brand can't exist without its customers, and that's where this friction comes from: A company [must weigh the impact] of a decision on customers, investors, employees and the corporation."

Rising Tide

Experts contend that for decades, ineffective human resources policies — coupled with social stigmas and victim blaming — have caused misconduct by top-level executives to be missed altogether or swept under the rug.

"Many companies have policies, but they may not have been properly implemented, so people haven't felt safe enough to complain [about harassment]," noted Linda Vogel, a strategic legal counsel focused on employment law and former chief legal counsel for Aerosoles.

But the pendulum has swung in a new direction, and many firms agree that they need more robust policies and that swift action is necessary when an allegation of misconduct is made against one of its executives.

"Companies now want to show and set a cultural environment that [indicates] that they are sensitive to [misconduct and behavioral] issues and are taking affirmative steps," explained Vogel.

Indeed, with social media fueling pervasive and prompt backlash and consumer boycotts becoming an expensive threat against firms, it often makes sense for brands to take public measures to remain in the good graces of certain customer demographics.

"Nike [for example] has aggressively gone after the women's market and has publicly acknowledged that women are an important audience to them — as are millennials," Gabor said, noting that the brand appears to have acted quickly in its recent shake-up. "When there are allegations of misconduct and there are executive departures at a company like Nike that values those two markets strongly, what you [are likely to] get is an internal discussion around [how the brand can] show women and millennials that it has beliefs and values that align with theirs."

Millennials and Generation Z have largely been responsible for forcing companies to engage in more social responsibility and activism — often voicing their intent to support only those companies that are on their side of certain political and civic issues.

In fact, the 2017 Earned Brand report from public relations firm Edelman found that 60 percent of millennials and 53 percent of Gen Z shop based on their beliefs.

"They will buy your brand,

NEXT STEPS

Sol Marketing CEO Deb Gabor offers four effective crisis communication tips for companies navigating internal scandal in a public forum.

1

Admit wrongdoing and take accountability

2

Show Regard for Humanity
"Acknowledge: 'We hurt people. People were emotionally, physically and mentally injured by whatever [transpired]. We care about our own, and any action we take is because we care about humanity.'"

3

State Your Plan
"Say publicly, 'We're undergoing a complete investigation. Here's when we will communicate back to you. Here's our promise to you as an organization.'"

4

Conduct the Investigation
"After you've conducted a thorough investigation, determine what you're going to share [publicly. Most importantly], make sure that throughout the entire process, you're constantly renewing your commitment to deliver on your promises [and identity] as a brand."

switch from it, avoid it and — at the extreme — boycott it over your stance on a controversial or social issue," the report noted.

Case in point: H&M faced a threat this year over an ad with arguably racially insensitive undertones, and so did Donna Karan after the designer made statements deemed supportive of disgraced Hollywood producer Harvey Weinstein. (Interestingly, Karan is no longer associated with the eponymous brand.)

Still, in their zeal to be first to address the court of public opinion, companies grappling with internal scandal must also be mindful of a competing obligation: due process for those accused of internal infractions.

"In their desire to show that they're being proactive and not ignoring [behavioral] issues, companies are sometimes taking extreme measures to avoid the bad publicity of not doing anything," Vogel said. "Terminations are sometimes warranted, but sometimes they are probably happening without a thorough investigation. [What's more], if the accused absolutely contends that no [misconduct has occurred], they can turn around and sue for defamation, loss of income and loss of reputation."

> "A company must weigh the impact of a decision on customers, investors employees and the corporation."
> Deb Gabor

Wall Street

Despite an increasing expectation from consumers of more corporate activism, publicly traded companies, in particular, must always contend with the shareholder gaze and the ever-volatile stock market.

A company that reveals everything publicly or puts its name behind certain controversial causes in hopes of pleasing external stakeholders could risk a stock sell-off should investors find management to be acting too aggressively or if the details of an internal scandal signal a broken HR policy.

Insiders suggested Nike's initial response to its alleged behavioral issues — swiftly rearranging its management but giving minimal details to the public — shows the athletic giant attempting to land in the sweet spot between a series of extremes (i.e., action versus inaction, silence versus transparency and advocacy.)

It seemed to work for the brand, as market watchers had very little too say of its executive departures after the announcements, opting to focus more on financial metrics and the firm's third-quarter performance.

The Way Forward

A bigger challenge is not necessarily how companies remedy one incident or series of incidences but how they define the way forward.

"What we haven't seen from Nike is the rest of story and [a statement that says]: 'Here is what we are going to do in the future to prevent this from happening again,'" Gabor said. "I'm curious about whether just removing [Edwards and Martin] from their posts will be enough." (It remains unknown to the public whether Nike's strategy for preventing behavioral misconduct will involve additional steps.)

What's more, some experts believe many of these difficulties are symptomatic of a larger — and entirely different — problem: a lack of diversity in upper management.

For businesses, a dearth of inclusivity in the top ranks can manifest itself in a number of harmful ways, ranging from tone-deaf external marketing to harassment of women and other groups, as well as internal policies that inadvertently impede the upward progression of minority executives.

"If they believe that there isn't an opportunity to advance, some of these talented women and other minority [leaders] will take their best-in-class training to other competitors or start their own successful companies, which can lead to a talent bleed," explained Kyle Rudy, SVP at executive placement firm Kirk Palmer Associates.

Similarly, Elza Ibroscheva, associate dean of communications at Webster University, said it is imperative that corporations learn to view inclusivity as a means of making their companies healthier and more successful.

"We need more female voices in the creative process — not because they're the token diversity hire but because their opinions really matter," Ibroscheva said, noting that minorities could play a significant role in identifying and correcting harmful stereotypes that can creative toxic corporate environments. ∎

Will a Finish Line and JD Sports Combo Threaten Foot Locker?

The deal, announced last week, could alter the playing field.

By Peter Verry

Now that JD Sports Fashion PLC said it will purchase Finish Line Inc., industry insiders believe the $558 million deal will result in a more formidable competitor for Foot Locker Inc. — and it could also give the overall marketplace a much-needed boost.

"Overseas, JD Sports and Foot Locker Europe are different — they look and feel different — and if they can apply those differences here and have that work, it would be good for everybody," explained Susquehanna Financial Group LLLP analyst Sam Poser. And Matt Powell, The NPD Group Inc.'s senior industry adviser for sports, explained to FN that sneaker buyers will reap the benefits as well. "It raises the level of competitiveness, and I think that's important for the consumer," Powell said.

The expert also believes the deal, which was announced last Monday, could help Finish Line rebound. He stated JD Sports' many retail banners — which include Size?, Scotts, Getthelabel.com and Chausport, in addition to the flagship chain — will give Finish Line diverse looks within the marketplace, something it can use to stay on-trend. "It's one of the reasons JD has been successful. Having that market intelligence will make Finish Line a better retailer as well," Powell said.

But Poser is skeptical on how, or if, JD Sports can improve Finish Line in North America.The analyst publicly stated late last year that he believed U.K.-based Sports Direct International PLC would take over Finish Line, a move that could have helped the Indianapolis-based firm strengthen its position in the athletic marketplace.

"Sports Direct would likely keep the Finish Line banner but create a mall-based DSW of athletic shoes, so to speak, and offer current, but not marquee, product at attractive prices," Poser wrote in a September 2017 note. "Sports Direct currently does a large amount of business with Nike, Adidas, Puma, UA, Skechers, Fila, K-Swiss and other key brands. Such a concept would likely create a strong niche that would not compete directly with Foot Locker."

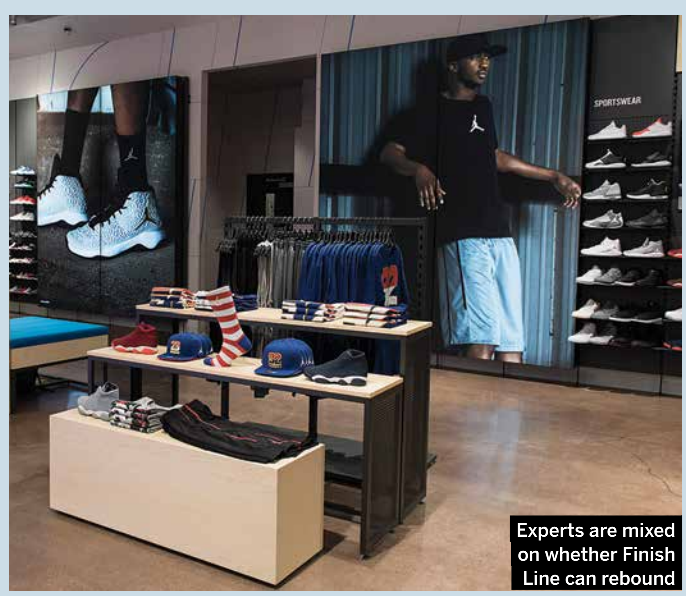
After the move, Poser downgraded Finish Line's stock to neutral, from positive, stating that the acquisition was the "right idea" but that JD Sports was the "wrong British retailer."

For his part, Powell said it may be too early to tell how the deal will play out for the market. "We really have to understand what JD's plans are — if they're going to change things [with Finish Line] at all, if they are going to roll out the renovated stores much more quickly," Powell said. "[And] they've indicated that they're going to open JD-branded stores here [in the U.S.] now as well. We need to understand what the mix is and what the differences are."

Under the terms of the deal, JD Sports plans to acquire all of the issued and outstanding Finish Line shares at a price of $13.50 apiece in cash.

"Finish Line has long admired JD and their commitment to serve customers with premium brands through a unique and innovative retail experience," Sam Sato, CEO of Finish Line, said in a statement. "We are thrilled to partner with them and look forward to realizing the impact we will have on the marketplace together."

A few days after the announcement, Finish Line revealed that it swung to a profit in the fourth quarter, but its same-store sales fell more than expected. ∎



Experts are mixed on whether Finish Line can rebound

PHOTO: COURTESY OF FINISH LINE