By Richard Donkin Thursday, 27 April 2006

The boycott threat

Campaigns against products are not new, but the most recent has concentrated corporate minds on how to avoid the worst effects.

Imagine turning up to work one morning and finding your business haemorrhaging £1 million a day as a result of political events beyond your control. This happened at Arla Foods, the Danish-Swedish maker of Lurpak butter, when it lost a £300 million export market in the Middle East in January due to the furore caused by cartoon caricatures of the Prophet Muhammad. Arla's initial response was to lay off 100 workers and place advertisements in Arab newspapers attempting to disassociate the company from the actions that had sparked the protests. But this proved ineffective. A market that had taken 40 years to build had been all but destroyed within five days.

The 12 cartoons had appeared originally in September in the best-selling Danish newspaper Jyllands-Posten, accompanying an editorial criticising self-censorship in the Danish media. But it was not until January when magazines in Norway and other European countries reprinted the cartoons that boycotts began to bite across the Islamic world. Violent protests led to attacks on Danish embassies and the clearing of Danish products from supermarket shelves.

The Saudi Arabian boycott, in particular, hit Danish businesses hard, threatening some Riyal1.3 billion-worth of exports. In Egypt, the supermarket chains, Metro and Seoudi, stopped selling Danish products and the Pharmacists’ Syndicate in Alexandria decided to boycott Danish pharmaceutical suppliers.

Mobile phone messages carrying boycott lists of Danish and Norwegian products were widely circulated.

Product boycotts are not new, but in this case it was organised, widespread, politicised and quite devastating in its impact. Anti-Nordic reaction swept through Islamic countries, sucking away trade in the downdraft.

How should businesses respond to boycotts? The lessons of the past 20 years suggest that companies can no longer view themselves as aloof from political events. For years companies have tried to ignore Peter Drucker's assertion, made more than half a century ago, that business enterprise had become the “constitutive institution of industrial society”. Today there is growing evidence that business and society have merged to the extent that political and cultural studies should be as much a part of the corporate learning curve as supply chain management.

The concept of the trade boycott has its origins in the anti-slave movement of the early 19th century when the National Negro Convention in the US encouraged a campaign against goods made by slaves. The term itself emerged decades later when tenant farmers in Ireland protested against rents demanded by Captain Charles Boycott, the land agent of Earl Erne.

When farmers were ejected from their land, others refused to work for Boycott and local businesses stopped trading with the estate. The Irish boycott proved effective since the earl was forced to bring in Protestant workers from outside the area to harvest his crops. Policing of the harvest cost more than the economic value of the crop.

In the intervening years, however, product boycotts have met with mixed success. While a customer boycott of South African apples on supermarket shelves in protest at apartheid drew some support in the 1980s, it is doubtful that these sporadic gestures within liberal middle-class European society did much to shorten Nelson Mandela's confinement on Robben Island.

Barclays Bank, on the other hand, decided to pull out of South Africa in 1986 after a student campaign in the UK halved the bank's share of student accounts.

South African apples were ubiquitous. To the politically ambivalent, they were pale green apples bearing a small country label not easily associated with the large signs declaring 'whites only beach' that could be found at the time in South African resorts. In the same way, sports footwear company Nike's simple tick-shaped logo said nothing about the working conditions in some of the factories in Asia where it sourced many of its products in the 1990s. But the Nike logo, more than any other in the branded-clothing business, became a rallying point for protest against international sweat-shop labour.

When Nike CEO Phil Knight stepped up to the rostrum at Stanford Business School in May 1997 to outline the company's branding strategy, he was jeered by picketing students. As Naomi Klein pointed out in her book, No Logo: "The Nike honeymoon had come to a grinding halt."
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It was Shell's experience in Nigeria that forced business leaders to confront the new lessons of
globalisation - that large multinational companies cannot divorce themselves from the political agenda in
the countries in which they operate. When Ken Saro-Wiwa, the dissident Nigerian poet and Nobel Peace
Prize nominee, highlighted the plight of the Ogoni people in the Niger Delta, he did so by comparing their
poverty with the riches of Shell, which, in half a century, had extracted some $30 billion of oil from Ogoni lands.

The Ogoni people, many without running water or electricity, could only stand by and watch the pipelines and refineries disfigure their landscape, transporting the oil from beneath their soil to the rich West, while oil profits supported a despotic Nigerian regime. Before his arrest, Saro-Wiwa rarely missed an opportunity to link the harshness of the Nigerian regime with Shell's profit motive, even after the company had withdrawn from Ogoni land. Standing before a military tribunal, he declared: "I and my colleagues are not the only ones on trial. Shell is here on trial."

His subsequent execution led to organised protests at Shell petrol stations throughout the West. In the New York Times, Nadine Gordimer, the Nobel-prize-winning novelist, wrote that buying Nigerian oil was "to buy oil in exchange for blood."

The Shell protest was a landmark in corporate-facing dissent since it helped to spark the Reclaim The Streets movement that focused not on the actions of a single company or regime, but on what it saw as a single system of multinationals whose profit-centred operations appeared to be ignoring basic social needs in poorer sections of society.

From another perspective, religious conservative groups such as the American Family Association have boycotted retail outlets in the US for using the word 'holiday' instead of 'Christmas', and more recently joined 43 other lobbying organisations to pressure Ford into ceasing its advertising in publications aimed at gay readers. The company subsequently came under pressure from gay rights groups for the withdrawal of ads for Jaguar and Land Rover, and thereafter reversed its decision. The American Family Association and 18 other groups then reinstated their boycott. This time Ford did not change its mind.

Companies have not been blind to these developments. Corporate and social responsibility has grown from a 1990s buzz phrase for a 'nice to have' section in the annual report to an increasingly sophisticated corporate approach that, in some businesses, is beginning to underpin the conscience of the company. But companies may need to stretch their thinking in future if they are to defend themselves from boycotts that use market-breaking principles to undermine corporate growth.

A declaration by Muslim activists that "if we keep boycotting Danish goods until next summer, they will lose at least EUR36 billion" is a sign that the organisers are beginning to understand the underlying principles of capitalism.

Max Keiser, founder of KarmaBanque, a web-based outfit that organises what it calls 'smart boycotts' on ethical grounds, believes that it might be possible to galvanise the hedge fund industry in to lowering the share prices of target companies. Last year he sought to establish a $100 million hedge fund that, he argued, would be capable of building the critical mass necessary to move a share price downwards.

"Once others in the market see what is happening, they will be driven by their desire to make money to do the same. Any gains from the fund would be invested in areas where a company has been carrying out unethical practices," he says. "The idea is that you are using capitalism itself to achieve your aims. It's about who gets to decide where resources are allocated. The Left thinks the answer is to change the system. The idea here, however, is not to destroy but to rebalance capitalism."

Keiser's issue is not with corporatism itself, but with what he calls a 'new feudalism' that is driving many corporate practices. And too many anti-corporate protestors, he says, have become stuck with the ideas of Karl Marx. "The person we need to understand is Adam Smith. There is nothing in the thinking of Adam Smith that is at odds with the interests of someone who wants to see a stable economy and social justice."

He has criticised Greenpeace for doing too little to leverage its financial reserves in pursuit of its corporate targets. "Greenpeace and other boycotts have harnessed the passion of protestors when it needs to concentrate more on economic efficiencies. In climate change, we've reached the end game and passion hasn't worked for 30 years. Advocating practices that cause top-line revenue depletion allows stock price to be the indicator of what is successful. Companies understand this because it means that they and their investors will need to factor 'dissent risk' into their businesses. That shifts the risk back to the company from where it came and companies will need to change or go out of business."

Drummond believes that the Danish boycott remains "the exception that proves the rule" since companies could do little to prevent it. "The general rule is that companies need to be adept at the way in which they deal with ethical contingency. Companies need to be more engaged in these wider issues. At its heart, ethics is about leadership."

ANATOMY OF A BOYCOTT

Danish industries are caught in the crossfire of a dispute between religious groups and the Danish newspaper Jyllands-Posten, which published cartoons of the Prophet Muhammed on 30 September 2005. The paper apologised for any offence caused, but refused to apologise for publishing the cartoons, citing its right to freedom of expression.

Since then, the Muslim world has taken the unprecedented step of boycotting almost all Danish industries, including investment, consultancies, service contracts, exports, transportation facilities and local production. Only Lego - one of Denmark's best-known brands internationally - has been unaffected because
it does not market its toys as being Danish and has a small market presence in the Middle East.

Unlike boycotts of US products, such as Coca-Cola and Ford, which soon faded, this boycott is ongoing because it is rooted in matters of religion.

The full extent of the impact on the Danish economy is unknown, but Dankse Bank estimates Danish goods worth Dkr10 billion ($1.6 billion) annually are threatened in 20 Muslim countries.

The boycott began in Saudi Arabia on 26 January when supermarkets urged customers not to buy Danish goods. Shoppers not only approved, they policed supermarket shelves and demanded the removal of Danish goods. The protest spread quickly from Saudi Arabia across the Middle East to Indonesia, the most populous Muslim country in the world. In Iran, the Confectioners' Union was so enraged it renamed Danish pastries ‘Roses of the Prophet Muhammad’.

Western stores doing business in the region have tried to limit the damage to their own reputations: the French-owned supermarket chain Carrefour stopped selling Danish goods, while several firms, including Swiss food multinational Nestle, placed advertisements in Saudi newspapers to counter rumours that their products were made in Denmark.

Europe's biggest dairy firm, Denmark-based Arla Foods, has been hit hardest, losing more than $1.35 million each day of the boycott. Its products, including its best-selling Lurpak butter, have been removed from shelves in Saudi Arabia, Kuwait, Qatar, Bahrain and the United Arab Emirates.

It has been forced to close its plant in Riyadh, lay off employees in Denmark and postpone its plan to double sales in the region by 2010. It has appealed to Muslim countries to reconsider the boycott through full-page advertisements in Arab daily newspapers.

The boycott is proving effective for several reasons:

- Its ferocity. It differs to political boycotts because it is fuelled by religious belief.
- Its organisers understand capitalism and how to attack it using market-breaking principles. Financial targeting sets in motion an inevitable downward cycle - share prices will drop and investors will withdraw, leaving companies at risk of going bust.
- Danish executives have been unable to redress the situation. The demand by the Confederation of Danish Industries that Jyllands-Posten acknowledge that its publication of the cartoons has had negative consequences for third parties has not redeemed Danish industry in Muslim eyes.
- A stand-off has been reached. The Danish government has refused to apologise on behalf of the newspaper, despite pleas from chief executives of Danish companies.
- It is unique. There are no tried and tested damage limitation strategies because the campaign is unprecedented. Marianne Castenskiold, spokeswoman for the Confederation of Danish Industries, says: “The situation is extremely difficult because so many countries are involved in the boycott. In Iran, for example, the president has severed all trade links with Denmark, while in Saudi Arabia companies have mounted the attack. And because it's so widespread, we don't know the full extent of what's happened.”

The Confederation's advice to firms is to continue negotiating and cooperating with countries, bearing in mind that each country will demand a different strategy. But Castenskiold's forecast is bleak: “We are trying to get in touch with chambers of commerce and businessmen in the Middle East, but no-one is prepared to talk. It's the first time this has ever happened and it's difficult for us to know how to handle it.”

David Seddon, professor of politics, school of development studies at the University of East Anglia, says: “In a world where cultural and religious sensitivities are heightened and have political implications, global companies will have to become aware of the risks, including those that are as a result of third party actions. It makes sense for companies to put in place proactive strategies and strategic alliances with their home government and media as the response needs to be unified. A ready-made taskforce would be helpful, for example.” If any lesson can be learned, it is that companies must have strategies in place to handle dissent not directly related to their own policies and to disassociate themselves from events beyond their control.

RULES OF ENGAGEMENT

- A potential boycott of a company's goods and services will have a short-term impact on sales and a long-term impact on a company's most precious asset - its reputation. It is often worth sacrificing short-term business in order to safeguard the long-term reputation.
- Be proactive, not reactive. If a boycott is imminent, then you've already lost control of the situation. The only option you have is damage limitation.
- Spotting a crisis while it is still an emerging issue gives you a wider range of options and more control. Put in place early warning systems that enable you to see potential boycotts over the horizon. Then develop strategies to cope with a range of possible outcomes.
- Early warning is not about knowing the future, but positioning your company for a range of possible futures. Develop a road map with a choice of routes - not just one road to redemption.
- By the time a crisis has hit, you should have a crisis committee and plan already in place. You should have rehearsed a realistic range of scenarios and stress-tested the crisis plan.

- Make sure the top management engages with the media. Don't hide behind corporate spokespeople. Journalists like to see the whites of a chief executive's eyes.

- Make friends with the media before a crisis hits. They are more likely to give you the benefit of the doubt. An interview with a journalist should be a dialogue, not a monologue. Assess your inventory of allies and opponents before a crisis hits.

- In a court of law, you're innocent until proven guilty. In the court of reputation, you're guilty until proven innocent. The media are prosecutor, judge and jury. The markets will carry out the sentence.

- 'No comment' is not an option with the media. Saying nothing creates a vacuum that someone else will fill.

- Be timely and truthful. Have something to tell journalists, even if it is: 'I don't know, but I will find out'.

- Understand the public's point of view - don't assume that they will share your view of the world. Your company may use state-of-the-art technology and have record profits, but the public will probably care only about your ethical trading position. Always remember that you have more customers than shareholders.

- Emotions and good pictures always outgun rhetoric in the media. Reputational perceptions are driven principally by emotions. That's why NGOs such as Greenpeace usually win the argument with multinational companies because they make people see rather than hear what is going on.

Source: Weber Shandwick Worldwide

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