

The US Election: Implications for Companies and Boards

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*This is the third of a three-part series looking at the global economy and uncertainty in 2016 and 2017. In the **first post**, the challenges of slow growth in developed and emerging markets was addressed. The **second post** explored how political entrepreneurs such as Donald Trump have exploited voter anger over limited economic opportunity and the perceived inability of institutions and elites to solve problems. **To dive deeper into election implications, join DJ Peterson and David Kistenbroker, Global Co-Head, White Collar and Securities Litigation, Dechert LLP, for a webinar on December 15, 2016. Members may register to attend [here](#).***

On November 8, American voters extended a series of striking political surprises and rebukes that in 2016 began with the June referendum on Brexit and in October Colombians' rejection of a peace deal with rebel forces. Looking forward, the success of Donald Trump raises questions about what will happen next in Europe when voters go to the polls in Italy, the Netherlands, France, and Germany in the coming months. Populism, nationalism, anti-globalism, and authoritarianism seem to be on the rise and time-honored principles and institutions are being weakened as a result.

In the corporate boardroom, disruption usually is thought of in terms of innovation, technology, and the competitive landscape—it is looked at as both opportunity and risk. And while board members are sometimes challenged to address economic disruption in business, political disruption is even more difficult to grasp and manage. Are board members asking the right questions? Are we creating the right scenarios?

Not surprisingly, NACD's member surveys, as a well as [discussions](#) at the 2016 NACD Global Board Leaders' Summit, reveal that a top concern of board members and corporate executives is how to navigate the tremendous economic and political uncertainty in the world today. A breakdown of broad-based consensus on free trade is a related concern.

Several megatrends driving the political disruption we are seeing include:

- diminishing economic opportunities for the middle and working class;
- a sense that urban elites—in government, the media, and business—are distant and not very concerned about the “average person”;
- social media, which tends to play up societal challenges and divides;
- and political entrepreneurs who look to capitalize on these trends of unrest.

This has played out on the trade issue. While lower barriers to international movement of goods and services help boost growth, the benefits are diffused throughout an economy while job losses often attributed to trade deals (wrongly or rightly) are concentrated in working class communities—making political mobilization easier. Social media, meanwhile, has helped reduce a complex policy issue to caricatures.

How might these trends impact long-term business and economic success in the United States in the coming years? Expectations are that the new Trump administration, together with the Republican-controlled Congress, will repeal a host of Obama-era laws and regulations, cut and simplify corporate taxes, and appoint business-friendly judges to the courts. These moves would be a boon for many sectors.

But Donald Trump’s populist appeal has also been derived from his willingness to blame countries for having unfair trade advantages; to publicly name and shame firms for sending manufacturing abroad; to criticize large mergers for concentrating economic power; and to target executives for opposing him. We don’t expect such appeals to end once Trump is power. He is likely to use such tactics from the bully pulpit of the presidency to bolster his position and “tell it like it is” personal brand.

Economic populism is one area where activists on the left are likely to be cheered by Donald Trump’s presidency. They certainly have been willing to name and shame companies for actions that they see as out of line with public interests.

This is where board oversight is important.

Directors can pressure test management’s assumptions about the political implications of their actions. Directors should urge management to consider what the political risk implication of the company’s actions are. For example, how will decisions about outsourcing operations, finding tax advantages overseas, or cutting job-training programs and hiring foreign workers be perceived? Will they land the company in the headlines?

Directors can ask management questions about strategy as well:

- How are we identifying trends and disruptions that may affect the business?
- Are we integrating political assessments into risk management—regarding, for example, currency, regulation, or supply chain strategy?
- Are political risks considered as part of our strategic planning processes?

- Are we considering a range of scenarios and market impacts for a country or an issue?
- How are we monitoring and reassessing developments? Do we have good information?

Focusing the board lens on the bigger picture, in today's populist, volatile political world, companies can no longer merely defend themselves against risks and criticize government policies and social activists. Rather, public-private cooperation is needed now more than ever.

At the 2016 NACD Global Board Leaders' Summit, participants heard about **conscious capitalism**—shorthand for the many ways companies can make money by doing good for societies they are embedded in. Many proactive business leaders are looking for opportunities to be a part of the solution to the challenges spurning the disruption—from raising hourly wages to hiring and training refugees, to investing in underserved communities and making healthier products. Fostering long-termism is another way that companies can contribute to this aspect of the movement.

Many such initiatives are the results of a CEO's passion and they often get relegated to the corporate social responsibility portfolio. It's not hard to name firms and executives that get kudos for one socially responsible initiative but come under withering criticism for major failings in other aspects of their business.

For conscious capitalism to be a meaningful response to recent geopolitical disruption, incentives and priorities must be changed throughout the organization. This is stimulating a rethinking of corporate governance—the core values, norms, and rules that drive corporate behavior. Directors can help ensure long-term, conscientious response to populist pressures on businesses by asking: What is our ultimate mission? What are we doing to help solve today's problems? How do we maintain and enhance our social and political license to operate?

DJ Peterson founded Longview Global Advisors in 2013. Longview Global Advisors is a consultancy that works with clients on a range of tasks that include strategic planning, market intelligence, thought leadership, and executive positioning. Business leaders and investors turn to Longview Global Advisors for a relevant worldview, and Peterson helps them monitor and make sense of the political, economic, and social trends they care about.