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Directors Report Shift in Concerns Amid Uncertain Macro Conditions

By NACD Editors

Kathleen McAllister and Joseph Brusuelas

PHOTOS BY HAILEY ERICKSON

The United States' protectionist economic policies—designed to repatriate business supply chains—are not only failing to work as intended, they are resulting in severe economic consequences for American companies, according to Joe Brusuelas, chief economist at RSM US. To help directors better understand the effects of tax and trade policies, NACD in partnership with RSM recently convened a roundtable of directors in Houston.

"If you're on the board of a global company," Brusuelas said, "you need to begin thinking about the political risks around the demons that have been unleashed by tariffs."

To set the scene, Brusuelas recounted that the emergence and rapid growth of a global economy in recent decades has seen American companies move parts of their operations overseas to lower-cost manufacturing sites in Vietnam, Indonesia, Mexico, and elsewhere. "Since 1986, the United States government essentially turned over the macro management of the economy to the Central Bank. It did a pretty good job, but because of what happened over a decade ago [with the recession], we had to put in place significantly ultra-unorthodox policies. We've come to the end of the rope there.

"Going forward, in response to the wave of populism, you're going to see the rise of fiscal authority and the subordination of monetary policy to fiscal policy. The debt-to-GDP [gross domestic product] ratios in the United States are going to explode much like what you've seen in Europe and in Asia. As a board member, you need to begin looking at your financial conditions. Part and parcel of populism is the economic inequality that's driving these trade policies. To me, people have lost jobs. They've fallen behind," he said. And, capitalism is a perfect scapegoat for their malcontent, he added. No matter where one leans on the political spectrum, the current political administration won't last forever, and yet the societal shifts spurred by changing demographics and growing income inequality that brought it to power will remain.

When a 25 percent tariff was imposed on steel imports in March 2018, imports did indeed decrease—but so did domestic steel prices as production ramped up in anticipation of supply chain disruptions. One director asked whether a change in political power would usher in a rollback of tariffs. In Brusuelas's estimation, it depends on which candidates get their party's nominations and ultimately who wins the next presidential election. "If it's Joe Biden, the priority is going to be given to rebuild global relationships," he opined. "If it's Elizabeth Warren, it's a different deal when it comes to economics and trade. She's very close to Trump in terms of economics and trade policy." Specifically, Warren's trade plan, released in July 2019, espouses a protectionist bent similar to the current administration.

Attendees also considered that a change in administration would have implications for the energy industry. Combined with sustainability and carbon mitigation trends, this sector stands to be buffeted. One director noted Warren's campaign trail promise to ban fracking and new leases for offshore drilling and on publicly held lands. "Most of us in the room understand that's not sustainable," he said. "But I have kids and they have friends, and they think that this all sounds really good, so I don't want to minimize what Warren is saying because I think it sounds reasonable to many others." As a result, electrical power and emerging technologies that promise alternatives to fossil fuels will continue to alter the industry.

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>
> —JOE BRUSUELAS

Attendees discussed how business leadership needs to change to meet these and other challenges.

"Developing executive leadership becomes even more important," Brusuelas said. "In some cases, this may mean skipping over a generation of leadership in the company. I can see people who are really good CEOs, but they don't have the skill sets—they're intellectually not up to it. In the next 10 years, identifying internal talent is going to be one of the most important opportunities for boards."

Directors also expressed concerns about the impact of new technologies. "Digital innovation is a big risk for companies, but it's also actually an opportunity. How do you deal with that?" one asked. Another director responded: "Many boards are trying to hire younger people who potentially could understand those risks very well, and everybody's looking for potential board members from Silicon Valley."

Changing social values may affect a company's ability to source talent. One attendee described working with an intern whose background in geology led her to a position at an oil and gas company—but not without backlash from her millennial peers who viewed her decision to join the energy industry with some disdain.

Conversation then shifted to the issue of data privacy in light of the General Data Protection Regulation in Europe and California's recently enacted data privacy law. Here, the key question was how companies might create opportunities from data that they may not fully own. Considering that the analysis of data is essential for companies to more fully understand their consumers, customers, and the competition, the rise of these privacy guardrails could be highly restrictive.

"Have more of those discussions around what your company is doing today and what the next disruptor that can impact your business is," advised one director. "Press management [and] press the board to have that discussion about what digital disruptors are very real."

For most of his career, said another director, "the economic environment and regulation used to be the top two risks. Those aren't the top risks anymore, which is making me push my boards to look at enterprise risk management and sustainability. In my view, at every board meeting we need an update to the forecast because things are moving so quickly."

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