Governing Through the Fog: Corporate Director Perspectives on Political Uncertainty
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The Institute provides publicly available, industry-leading research on global board governance. Today’s increasingly dynamic world presents a dizzying array of economic opportunities and challenges. As companies navigate that environment, high-quality governance is more important than ever to ensure effective oversight, protect and create jobs, and positively impact the economy. The Institute equips board directors and corporate leadership teams at organizations around the globe with the information to make forward-looking decisions that leave a meaningful mark on the world.

Diligent Institute was founded in 2018 to offer a global perspective on the complex and disruptive board governance topics that directors and leadership teams are tackling today. The Institute serves as the global governance research arm of Diligent Corporation, the pioneer in modern governance. Diligent® empowers leaders to turn governance into a competitive advantage through unparalleled insight and highly secure, integrated SaaS applications, helping organizations thrive and endure in today’s complex, global landscape.

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The pace of change in the business world is faster than ever, and corporate directors are constantly working to stay up to speed on the myriad of critical issues facing their companies: market pressures, reputational risk, financial disclosures, environmental social and governance factors, technological disruption, and much more. On top of this house of cards sits a heavy, often amorphous issue, threatening to tumble down at any moment: political uncertainty.

Today, the global political environment feels more volatile and uncertain than it has been for several decades, and many boards are unsure of how to understand and approach it. In recent research conducted by the Diligent Institute, directors were asked about the topics that are most demanding their attention. “Political uncertainty” rose to the top of a list of concerns that was mentioned most frequently by directors from around the world. Thus, Diligent Institute sought to tackle this thorny topic in order to answer three key questions:

1. What makes political uncertainty a different, harder issue to handle now than in the past?
2. Is managing political uncertainty different from managing other kinds of risk, and if so, how?
3. And finally, what should boards do about political uncertainty?

In order to answer these questions, the Diligent Institute conducted more than 20 interviews with high-profile non-executive directors from public/listed and private companies and C-suite professionals with significant board experience. Most of our respondents serve on three or more boards and/or have international experience.

Their candid insights and generous contributions for which we are very grateful, fueled and informed this report. Given the nature of the subject, the commentators are not identified by name or company, but only by the experience and industries they represent for context. All quotes called out and not in the text of the report were said by directors that we interviewed, but are unattributed entirely.

Interestingly, while the directors serve on boards of companies that operate across the globe, most of the subject matter they raised focused primarily on the political circumstances in the United States and the United Kingdom, and the way that the politics of these two nations spill over into surrounding regions and have global implications.

It is for that reason that this report focuses so heavily on those two political landscapes. Additionally, while some of the comments presented in this report are particular to the US or UK, the bulk of the report focuses on board responses to political uncertainty as a broad concept, and is therefore relevant to a global audience.
Companies have dealt with political uncertainty for as long as governments have influenced businesses. Yet, directors feel that something has shifted, and political uncertainty has risen to the top of a long list of areas of risk demanding increasing amounts of directors’ focus and time. To understand the challenge that political uncertainty poses for boards today, it’s important first to explore why the situation is more extreme and harder to manage now than in recent memory.

"LESS PREDICTABILITY" CREATES GREATER UNCERTAINTY

Many directors feel that a big piece of the puzzle fell into place in November 2016. For example, a director on several public boards, some of which are for companies that operate internationally, commented, “In the lead up to the US election, most boards wrongly assumed that the Democrats would win the vote, which was comforting, because you knew what the rules were. Then Trump got elected.” While the immediate aftermath of Donald J. Trump’s election to the presidency provided the US stock market a boost, many wondered what would come next.

A North American director who serves on power and energy infrastructure boards observed, “There was a reasonably acknowledged set of actors on the stage – Republicans, Democrats, lobbyists, industries – in a somewhat comfortable choreography working together and against each other, then you wake up and there’s been a thunderstorm on the stage and rearranged who the characters are. It just creates less predictability.”

Arguably, “less predictability” is why many supporters of Trump voted for him after all – they wanted a drastic alteration in the way politics and global systems operate, in who those systems favor and support, and in whose voices counted in influencing the systems.

Meanwhile, US voters weren’t the only ones feeling that way. Several months prior to the US election, the passage of the UK’s resolution to exit the European Union, otherwise known as Brexit, was similarly unexpected and buoyed by closely aligned forces. A director currently serving on four public boards reflected, “I think we should have had a better feeling that there was populist unhappiness. Around Brexit, we should have had more polling and more thoughtfulness. I think the business community was just sideswiped, because they tried to let people know the consequences, but they had no credibility with them – they were just ‘rich fat shareholders’ and not ‘regular people.’”

“I think we should’ve had a better feeling that there was populist unhappiness. Around Brexit, we should have had more polling and more thoughtfulness.”
RISING TIDE OF NATIONALISM UPENDS GLOBAL BUSINESS REALITIES

These two election results were seen by many directors as a deviation from the expected course of events. An experienced UK non-executive director elaborated, “Globalization and liberalization was seen as a one-way street – in the 1990s it seemed obvious that international global capitalism had won out and migration would become increasingly relatively free, that everyone would eventually converge on that model and it was just a question of the speed of conversion. A lot of business leaders believed in that one-way street.” These two incidents have been considered a kind of backlash against that progression.

A UK-based director narrowed down the point, “I think part of the backlash was not against globalism itself, but against the people who’ve taken the bulk of the population for granted, that same population that isn’t feeling the benefits. Backlash against globalism itself takes it a step too far.” One director argued that the election of Trump in the US and the vote for Brexit in the UK added fuel to the fire of populist movements elsewhere, in addition to drawing on similar sentiments: “Political uncertainty has gotten worse over the last three to four years. Part of the reason for that is that the US has shown that populism works, and that you can be a popular leader just by taking outrageous political swipes at things without any necessity of understanding or dealing with the consequences. That’s infecting other countries.”

“The deviation from, or reversal of, a trajectory towards increasing globalism and capitalism that Trump and Brexit represent explains in large part why the political landscape feels more uncertain than ever for companies and their boards of directors. This is true both because of the substance of the shift, and because the subversion of expectations made business leaders lose faith in predictive political tools. The models that business leaders and corporations have relied on for so long are being challenged, and that makes this moment of political uncertainty particularly upsetting and distressing to boards of directors.”

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SOCIAL MEDIA & POLITICAL AWARENESS DEMAND DIRECTORS’ IMMEDIATE ATTENTION

Potentially the most significant factor contributing to why political uncertainty has become so much harder for boards to manage is the dramatic increase in the speed of communication. One director explained: “When there was political uncertainty in years before, we didn’t have all this technology. The technology enables people to be more aware, allows people to send messages quickly, but also to communicate fake messages. There are obviously good things about the technology, but it also stirs the pot.”

The heightened “political awareness” among stakeholders and the rapidity of information transfer not only raise the profile of political issues, they also change the dynamic of company reactions to those issues. When companies are forced to react immediately, it puts additional pressure on boards, especially those boards that are used to a more deliberate pace. Additionally, social media has impacted the level of scrutiny that directors are under – which has dramatically increased in the past three years.

“The speed of communications means everything in understanding why political uncertainty is harder to manage now. The last time I remember really serious political uncertainty, the situation played out over the course of days, not hours. So social media, and the constant connectedness of everyone, means that everything gets crammed into a very short period of time and you don’t have long to respond.”

The speed of social media communication, heightened political awareness on the part of stakeholders, and increased level of scrutiny of directors – all compound when it comes to political issues, and boards now face increased pressure to react with a dramatically decreased amount of available reaction time. An independent director who has served on several US-based boards explained: “It’s zig-zagging US policy and it’s [the US] relationship with other countries. (Whether it’s trade with China or the relationship with Iran). The time frame within the zigzag construct is so short, and the range of options to be considered is really wide; it’s even more difficult to think through the impact on the company.”
TODAY’S BOARDS RECEIVE GREATER SCRUTINY, WITH PUBLIC COMMENTARY

The pervasive nature of politics is another contributing factor making political uncertainty a difficult topic for directors to handle. A director on several boards in the retail sector opined, “Political uncertainty has become harder to manage even in the last year or so because you can’t silo the political issues anymore – they impact so many other things. And any one of these issues can really impact companies on a global level.” The viral nature of political issues makes directors’ responses particularly risky. It also means that even more board conversations involve political dimensions, including discussions that previously might have been seen as strictly about financial performance or investment decisions.

“Boards have to operate right now in a time of great uncertainty, and political uncertainty is part of that. We know that this is the way it’s going to be, and nothing is making it feel like it’s going to get better anytime soon.”

The expectations placed on companies today play a role in how they react to political pressures. A director who has served on eight public boards in his career, several of which operate globally, explained, “Ten or even five years ago it was a simpler time – everything was less interconnected, and generally, right-wing government was good for business. But in the last five years, companies have stepped up their focus on ESG [Environmental, Social, and Governance] issues, so the impact of political instability and divisive governments is bigger because we’re in a different era. Businesses can’t say anymore ‘If I make a profit, then I don’t have to care about anything else.’”

Increased expectations around ESG issues are prompting boards to expand the list of topics they address in the boardroom. A director in the insurance sector describes the phenomenon: “We have a generation now that wants companies to do something different, [who] believes they should be ethical companies as well as companies that produce and sell goods and services. It isn’t just about maximizing profits, which came out of the shareholder value model. People want to open up the debate about different objectives and are explicitly getting investment managers involved in saying ‘prove that what you do has a social purpose as part of your business model.’”

All of this means that boards are increasingly tangled up in issues with political underpinnings, which makes boards and their businesses feel the impact of political uncertainty even more keenly.

“Life has become much more public for boards. CEOs and Chairmen in particular, but also some non-executive directors, are being held to account in public for their activities. If there is a disaster, even if it happens far away from the company’s corporate headquarters, there is no hiding from it. The chair and the CEO have to publicly say this is what happened and why it happened and here is what we’re doing to make it right. People are paying more attention. That’s different now.”
MORE POLITICAL EXTREMES, LESS CONSENSUS

Increasing polarization between liberalism and conservatism in politics has made it much harder for businesses to depend on a range of expected outcomes from any given election. As a director with ample global board experience remarked: “Political uncertainty is getting worse because we’re seeing far more dramatic left and right divisiveness everywhere; there are dramatic changes happening on both sides. That difference is not good for business.”

Boards are grappling not only with a wider range of possible election outcomes, given political moves towards the extremes, but also with the possibility that things can change drastically overnight when the party or individual in power changes. Polarization has increased to such an extent that a single change in government could pose existential risk to certain companies or business models.

A director on several US company boards remarked on the danger of polarization: “The diversity of regulatory possibilities has gotten a lot greater. For many years we were on a steady trajectory toward better controls over things like emissions, and you could generally see where we were going. The speed with which that happened would slow down sometimes, depending in the US on who was in office, but now, because there are such dramatically different opinions on each side of our government, there is risk that there could be major changes from one administration to the next.”

POLARIZATION AMPLIFIES POLITICAL UNCERTAINTY

In the US, political polarization is even more impactful because of the rise in power and prominence of the executive branch. A director who serves on two boards listed on US stock exchanges provided a view on the background for this transition: “In the US, I attribute the change to Obama, to some extent, because his willingness to rule through executive order has changed the dynamic of US politics. People don’t need to sit down and compromise with one another if you can simply issue an executive order.”

A director with decades of experience in the US energy sector elaborated on more recent developments: “It was Trump’s election that certainly sped up the change that’s taken place. It isn’t so much that the rules have been changed as the way that they’re enforced got changed. So if a new leader with a totally different view of things comes in, then they can do a lot to impact your business by just enforcing the existing rules differently. Trump’s thing is deregulation, and that’s how he’s done it.”

Legislative gridlock has often been mentioned by US presidential administrations as an excuse to exercise executive action, and with the deepening of the political divide, gridlock seems to be getting worse with no relief on the horizon. The executive branch’s ability and tendency to act without accompanying legislation or congressional approval increase uncertainty.
One director commented on a unique impact of political polarization boards are dealing with – whether or not a particular US state is an environment that will foster the growth of the business in the future. A director with 20 years of public company board experience in the US explained: “The states have become even more polarized and distinct on important policy issues. I worry if companies will want to come into [the state I operate in] and do business. I worry if our talented young people will want to stay here. For example, today people make decisions about where to live based on having good health care. These aren’t things you can take for granted. This contributes significantly to making the coasts more polarized from the center of the country.”

Other directors remarked on how the volatility in Washington, DC, has made related boardroom decisions harder to achieve. The CEO of a public utility provided this anecdote: “It’s gotten so crazy inside D.C. I’m there a lot because we are federally regulated, and I walk the halls and visit with folks on matters pertaining to the electric network. I get the sense that people don’t care anymore – my personal view is that it’s all about the next election for them. We cannot contribute to PACs [political action committees] or campaigns. Historically, when we visited leadership, they cared and wanted us to come visit. But now, if you’re not writing a check, it doesn’t matter. Earlier this year I heard in two specific cases that the minute I got up, the materials we left hits the trash can. It’s frustrating.”

“You can wake up in the morning and find that things are completely different from how they were yesterday.”
In conversations with directors from around the globe, the issue of doing business in the present political context kept rising to the surface as a main focus of directors’ concerns. Specifically, directors identified the policy decisions and style of US President Trump, and the uncertainty surrounding Brexit, as major factors. Below are the key themes that emerged from the conversations.

“The president claims to like chaos as a ruling principle. That’s just difficult for business.”

TRADE WARS

“There was a thought that there might be tariffs for goods in China, and then [the US] government comes out telling people that it’s a good thing. But the consumer is going to end up paying the extra because of the tariffs – the company can’t absorb the whole thing. Do they go manufacture elsewhere? Or raise the prices of other products just so that the product in question won’t go up in price by 20% or 50%? These are the kinds of issues that boards are facing now.”

“It used to be Republican orthodoxy that free trade was a good thing. But now we’re just picking fights with our allies – this is seen with Germany, France, and the UK. There are legitimate gripes with China with regard to trade, but [Trump] negotiates by bullying and it’s destructive on the world stage. It’s very unsettling, and unsettling is not good for the economy and the market.”

UNFILLED (OR UNDERFILLED) KEY POSITIONS IN GOVERNMENT

“In the electric power industry, this current administration was just very slow in filling commission vacancies, so the commission was in effect shut down for lack of quorum for more than a year. Nothing was happening, pleadings were sitting stagnant, and their hands were tied without a quorum. I know several other business leaders dealing with similar situations in other sectors; for example, working with federal housing authorities. Businesses were coming to a standstill.”

“There are so many unfilled senior positions and acting heads of departments who were never confirmed by the senate. It creates a historical amount of uncertainty. On top of that, we have a mercurial president who bounces from subject to subject, issues threats, then doesn’t carry them out (which is good), but it makes it hard for businesses to make decisions.”

“What does bother me is the group of scientists leaving the [Environmental Protection Agency] because the head of the EPA says that a certain amount of toxins in the water is okay. Similarly with the [Food and Drug Administration] and other agencies, the experts are being ignored or have to resign to try and make a point.”

LACK OF GOVERNMENT ACTION ON CRITICAL BUSINESS ISSUES

“The biggest issue of political uncertainty for us, frankly, is cybersecurity. The US is ignoring what I would call international crimes. The lack of a really concentrated governmental effort on stopping cyberattacks means that it takes up an inordinate amount of company resources day to day.”

“The opioid crisis is an example of devastating government inaction that impacts companies where I’m on the board. The impact of inaction in some key areas is just as important as the impact of the actions that are being taken in other areas for political benefit – the places where the government is acting right now aren’t being determined by the absolute need to solve an issue right now.”
While these interviews all occurred before Boris Johnson became the Prime Minister, the salient points raised by these directors are likely to remain big concerns for boards in the months to come. Since assuming office, Johnson has reaffirmed his commitment to exiting the European Union speedily.

PLANNING FOR THE WORST

“The main thing is to prepare for the worst but hope that it doesn’t happen. On Brexit, we had to make assumptions because we had to make concrete plans and start execution on the assumption that the worst case scenario would come true and it would be the world’s worst scenario. There was a hell of a lot of redundancy built in because you’re setting up structure to cope with how the world might turn out. But in that way, it’s not all that different from preparing for other kinds of uncertainty, where you put measures in place so that no matter what happens you can carry on. People just frequently forget the cost associated with all of that setup.”

“There isn’t a lot that you can predict, but what you want to do is continuously be sensitive to what’s transpiring. A lot of people have spent time thinking about Brexit, and initially, there was the doom and gloom prediction, and so while I don’t personally believe it’s going to be dark as those early days felt, I do think that scenario should still be within the band of discussion. Something could change or bubble up, and that calamitous scenario could end up back on the table. It’s important to constantly consider whether the band of outcomes that we’re discussing is wide enough so that we’re as prepared as we can be for a true range of possibilities.”

POLITICAL DISRUPTION FATIGUE

“One of my boards is a company based in the UK, and the biggest political uncertainty issue that it’s dealing with is Brexit. That’s been true now for two years and it’s been interesting to watch the conversation change. When it first happened, no one knew what it meant, but we had to plan anyways. We always have a board dinner the night before the meeting to try to talk. We’ve all read the material and discuss what the issues are and try to get aligned maybe before we go into the boardroom. To be honest, no one talked about Brexit this time, because people are just so fed up and don’t know what else to do or say.”

“In the UK, the number one issue with political uncertainty for boards has to be Brexit. Some firms already think that they’ve dealt with it because they set up offices in Europe. Some industries have done that very effectively. But there are other sectors where we don’t know what the answer might be, particularly those companies that are so tied to Europe for daily deliveries of cars, auto parts, food, flowers, etc. Hundreds of boats every day cross with full containers, and the future regulatory regime is just not at all obvious.”

GETTING READY FOR THE UNKNOWN

“Brexit has serious implications on UK based airline carriers. In order to keep operations ongoing, several topics needed to be reviewed, adjusted, and in some cases transferred to a new continental base. Changes were introduced to issuing/updates of pilot licenses and employment agreements of crew members. Besides, we work with local air traffic control authorities to ensure regulatory compliance. Even further, our finance and investor relation teams facilitated increase of share of European shareholders to 50 percent within the shareholder base. We’ve been operating the company as a Europe-based airline for a number of months, demonstrating good Brexit readiness. The full financial impact is still hard to forecast, as we do not know what Brexit scenario will occur.”
Is Political Uncertainty Different from Other Kinds of Risk?

Risk oversight is a core area of the board’s responsibility. While some boards use a designated committee for this function, and others treat it as a matter for the full board, there is broad agreement on the centrality of risk to the board’s role. Boards have highly sophisticated ways of evaluating the risks facing their organizations, using those evaluations to make critical decisions, and planning for contingencies if worst-case scenarios come true. In this context, the threat that political uncertainty poses to companies is simply another area of risk for boards to oversee. However, are the existing frameworks boards have in place for parsing and addressing risk sufficient for handling political uncertainty issues?

**A CONSISTENT APPROACH TO HANDLING THE RISK OF INCONSISTENCY**

Some directors argue that political risk can fit into a board’s standard risk management process. One director articulated it well: “My view is that none of those categories of risk are really different. Yes, the details are different, [but] the process that you go through to try to understand it, define what level of risk you want to take or are willing to accept, and then develop plans to mitigate the risk [is the same]. That process and structure applies to all risks, including political uncertainty.”

Another director agreed by saying: “I’m not too sure it is different from other forms of enterprise risk management. It’s all about planning and understanding your risk. Plan as if the worst is going to happen, and then hope to hell that it doesn’t.”

“From the perspective of enterprise risk management, political risk has risen at almost all of my companies to number one. Political risk is much less predictable, much less subject to management, and much more prevalent. It’s policy by tweet.”

However, other directors see significant differences between other areas of risk and political uncertainty. One director who has both public and private board experience commented that boards are less well-equipped to handle these kinds of issues: “Political risk management requires a narrower set of skills and experience that board members will probably be less likely to have themselves, depending on their background, and be more driven therefore to make sure that there is enough of that experience either on the management team or advisors.”
BOARDS HAVE FEW GOOD OPTIONS FOR HANDLING POLITICAL RISK

Directors also observed that political risk is unique because directors have substantially fewer options to respond to it. A director put it bluntly, “Political uncertainty is very different from other risk areas. For cyber risk, for example, you can throw people and money at the problem, and that will do something to make sure you’re protected. Political risk is by its nature intangible, and throwing money at it amounts to bribery.”

One director provided another example of this difference: “If political uncertainty has a huge impact on the potential market for the output of the capital you’re going to spend, then you’re going to be much more cautious about spending it than if the uncertainty is around availability of materials, or the building of a plant, or something like that. For those risks, you can plan; you can mitigate; you can model delays and determine the impact that they’ll have.”

“For most other risks around how you spend capital, there are many more tools available to mitigate the risk than with political uncertainty. For other risks, you can purchase insurance.”

The impact is even more pronounced for smaller companies, as one director explained, “Bigger companies have a lot more cushion and can look more long term. A smaller company doesn’t have the strength to make big investments with a 10 to 20 year time horizon – a smaller company needs to make an investment in something that will have a return in 1 to 2 years.”

“Anytime a business is making capital decisions and human capital decisions, in a world of less stability, it means a little less gas and a little more brake. To me, it’s a little like when you’re out in traffic, something happens on the other side of the road. First, pull your foot off the gas and look. One or two people tap the brakes. After that reaction, traffic isn’t as smooth anymore. Those are the dangers that political instability and volatility bring to the economic context. Companies don’t have the valve quite as wide open on deploying capital and hiring people.”
POLITICAL UNCERTAINTY RISK IS DIFFICULT TO MEASURE

Political uncertainty presents a different kind of risk because it’s a lot harder to measure. As discussed above, the pervasiveness of political uncertainty to bleed into a wide array of business decisions makes measuring its impact particularly challenging. As one director pointed out, “Political uncertainty is touching everything,” which makes it hard to track cause and effect cleanly. In managing risk, measurement is key to determining which approaches have the best outcomes.

Additionally, several directors pointed out that economic uncertainty and political uncertainty are closely tied together. For example, some directors, like this US-based one, voiced concerns that the existence of political uncertainty might impact the overall health of consumerism: “People are affected every day by political uncertainty and its impact as well as the impact of geopolitical issues on conscious and even unconscious minds is hard to measure but really significant. When people feel good, when people feel optimistic, they go shopping. I’ve been in consumer goods businesses for a long time, and I know the effect is real.”
CLARIFY THE BOARD’S ROLE IN POLITICAL RISK OVERSIGHT

As directorship becomes more demanding, it’s especially important to delineate the board’s role in managing political uncertainty risk as separate from management’s role. A US-based energy sector director noted, “We’re not management; we’re oversight of management. Our job is to give our input, understand the importance of it, understand how this will affect the business, and work with management on what that really means.” One director further explained why that understanding is so critical: “Board members have to be very conscious of political issues today, not just the managers. If you’re going to help advise managers, then you have to be aware of these challenges.”

One director provided this anecdote to contextualize the board’s role: “At one of my companies, we had a CEO that led all of this [around a political issue] and was very involved, but at the other, the company was a little late getting on board. I talked to [that CEO] and let him know what other companies were doing. One was way out in front, the other was playing catch up, and both ended up very involved at the end. That’s my job as a board member.”

“You want to make sure that your board is attuned to this, but also ensure you’ve developed the confidence in your local management and your senior management to let the decision be made on the ground. Obviously in a lot of these situations, you’re a long way from the source of the problem. Don’t pretend you have all the answers.”

An energy sector director described the relationship in terms of the typical process used when incorporating political uncertainty into decision-making at the board level: “The company does the leg work.

“The board has the full conversation, and they’ll either be happy with the quality of the background work that was done on political risk, or they’ll ask for more support.” A director from the insurance sector further clarified that political uncertainty is “not something that will be a standalone risk at every meeting, but time-to-time we do have [staff] from the team that handles political risk come and present to us.”

BUILD A BENCH OF IN-HOUSE POLITICAL EXPERTISE

Directors had a variety of specific suggestions around how to increase the board’s readiness to handle political risk issues. One approach is to have board members with a political background or political experience. This is particularly common for companies in specific industries where intense regulatory and political pressure are the norm – such as heavy industry, energy, banking, and pharma. One energy company director argued that certain companies need to go even further, pointing out that politically savvy board members are no replacement for professionals: “Having board members that are dialed in to the government is helpful, but unless that’s what they do for a living, you need an industry representative or your own governmental affairs group if you’re big enough – someone whose responsibility is to stay in touch with all of those things. For smaller companies, gaining this expertise can be tied into the legal function.”

Internal company political expertise can be critical to a board’s effective handling of political uncertainty, as the chair of a mining company board observed of a recent positive incident: “What made it a good conversation was a combination of having in the room the executive who runs the local operation and spends a lot of time there and a director who is incredibly well known among the local bureaucrats. That made us feel more comfortable with the political risk we were taking, having someone who’s lived in the environment for a long time and has truly local knowledge.”
Another option is to bring in external expertise. A director with UK board experience explained, “First thing, we hire someone from [the political party in power] and get them to work with and advise our board. Advisors peddle their wares based on their knowledge and contacts, so if you build up those relationships, nothing will come as too much of a surprise.”

One director warned that certain kinds of political experience and careers can be much more helpful than others, “As far as expertise, I would look at career folks, not the politicians. People with careers in, for example, the State department or the military, that led them to have a broad view and perspective that they’ve built over time. It’s not politically based, [as in] ‘I’m a Republican and therefore I think this,’ but instead it’s [having] years of experience watching the chess pieces move around the board. They can then lend credible insights into what has happened and contribute to identifying the range of possible outcomes, and provide suggestions as to how to think about responses to those outcomes.”

“Boards should expand the way that they think about which speakers would be helpful to directors trying to understand political uncertainty. A UK-based director made a suggestion from a common practice he’s observed: “A couple of boards I know have explicitly said for an offsite or ‘away day’ that they want external speakers to come in who have thought about how society is evolving and what the expectations are of companies in the future. These speakers will stay for a day or so to help us figure out how to get better at listening and sifting through and evaluating that kind of information.”

The same director made an even less conventional suggestion from past experience that might benefit some boards: “One company I worked at years ago would intentionally bring in almost difficult people, people who we knew were not that sympathetic to what we did, in order to shake us up a bit and make us uncomfortable. It was well worth doing to break the tendency of group think and mutual reinforcement. I think that would be a useful tactic around political uncertainty.”
DIVERSIFY BOARD COMPOSITION ON POLITICAL & DEMOGRAPHIC LINES

Board diversity has the power to enhance discussion on a wide variety of issues, and political uncertainty is one where gaps in diversity have arguably made themselves apparent in the recent past. The chair of two UK-based boards explained how Brexit may have influenced people’s opinions: “Boards are now saying to themselves there was a point to this whole ‘diversity’ thing. Board members are generally from the same class; there are exceptions but by and large, until recently, we were all male, fairly wealthy, fairly well-educated, with the same group of friends. And we all shared the same premise that capitalism is good and good for everyone. The thought is [now] that we should have had different voices forced into the boardroom.”

Conversations about political uncertainty and political risk make the case for board diversity especially clear. As a director on several public Canadian boards noted, when it comes to these issues, “If you think you can predict what’s going to happen and plan XYZ, then you’re fooling yourself. I’d spend more time building organizational flexibility and an ability to make decisions on the run.” One way to foster that ability is to have a board with the muscle to deal with these complex issues. An experienced US-based director explains how diversity is a critical component of that: “I think diversity of thought is important, having that sole voice raising a different perspective; and it’s equally important for the people around the table to be willing to hear those thoughts, even though they may ultimately decide whatever they decide. It makes for better decision-making because boards become more adept at having those conversations and considering multiple perspectives.”

IMPROVE BOARD EVALUATION, ONBOARDING, AND REFRESHMENT

Diverse perspectives and informed directors empower the most robust board conversations; and when it comes to political uncertainty, that’s essential. A director on multiple boards for companies with international operations pointed out that “part of your insurance for dealing with these big risks is the robust board level discussion you can have where people are coming at an issue from different places with different areas of expertise. There can be no dead weight on that board. That means when you do your review of the board every year, you can’t think about it as a [check the box] assignment. I feel like we’re going down the river in rapids and I want to be in the boat with the best people with the best experience.”

In addition to implementing a serious board evaluation and refreshment program, one director made the case for more work on the front end to get people up to speed faster: “You need a longer and more intensive onboarding process now because so much more is required of a board. The board only meets 4 to 5 times a year, and it takes time to build up the camaraderie and ability to contribute to the board beyond your specific expertise.”

“It can be helpful to pick an example of a challenging topic that the board has successfully talked through before, say if we approached this like when we were looking for a new CEO and evaluating candidates and different people had different opinions, here is the process that worked for us and transferring this over onto this topic.”

“I’m not in the nomination or election process sitting there and counting Ds and Rs, but I do believe political diversity is important. You want people who will be good at listening to all of the information and then doing their best to reach a fair and non-discriminatory decision in the best interest of the organization.”
LEVERAGE SOCIAL OUTINGS

One setting for discussions of political uncertainty was particularly controversial amongst the directors interviewed. There were opposing views about whether informal dinners are a useful or appropriate setting for political discussion. Several directors were strong advocates, with one who said, “You need to have the right context for the discussion. I don’t think that a formal meeting is the best way to have the kind of candor on the subject that you really need – it calls for retreats or conversation at a private dinner, not in a restaurant battling noise and afraid to make comments that can be overheard.” Another saw it less as an alternative to meeting discussions, but more as a positive social experience for cohesion. A director on the board of a global company explained, “This board I’m on has always had political discussions, generally over dinner, and it’s not only the Republicans versus the Democrats, but the Americans versus directors from the rest of the world on particular issues. We’ve always had these lively debates – that’s what makes the board gel. You find out where people are coming from and how their perspectives are influenced.”

However, to other directors, political discussions in informal settings and not focused around a specific material issue were likely to foster ill will within the group without much upside. As one director clearly stated, “Airing out political angst in a board context, even after a glass of wine or two, when I’m in the role of chair, that’s not helpful to me. Spewing forth too much about politics might risk the candor of board members who disagree. I am a little mindful, but our discussions haven’t really had a problem because of this.” Different boards definitely have different cultures and atmospheres, which strongly influences whether informal discussions of this nature can be helpful or harmful on a case by case basis.
WIELD POLITICAL INFLUENCE CAREFULLY

Companies have the option of being proactive, rather than reactive, when it comes to political uncertainty. Directors are frequently involved with oversight of lobbying activities, political donations, and leveraging connections to influence political processes. Sometimes this involves pushing for or against particular policies or candidates. Often, it involves trying to educate politicians about the impact of certain policies on different industries that directors operate in. Directors made several specific suggestions about influencing political affairs.

About the US in particular, a director on several boards in the energy sector said, “If you’re realistic, you’re not influencing the federal level, but you have a better chance at influencing state-level politics where you can get traction and it’s directly relevant to your business model. In the energy sector, most companies I know assume nothing will happen on the federal level for a while and focus on the state level instead. Plenty of Republican state legislatures have overseen renewables creating a lot of jobs in the state, and that’s why tax incentives keep getting renewed – red states are seeing wind jobs.”

FIND COMMON GROUND WITH UNCOMMON ALLIES

Another option is to work with competitors, organizations, or activists with whom you might otherwise be at odds whenever there is common agreement on a particular issue. One director wisely suggested, “If you’re a smaller player in the space, consider building a coalition, and consider using partners that you might not guess, in order to build the strength to respond. Think: ‘Isn’t there a chance we could partner with the enemy?’ Maybe not. But every so often, maybe… That’s politics.”

One director argued for a more bottom-up approach, explaining that employees can be strong advocates when their concerns are heard and taken seriously. That director told a story about when the company effectively helped defeat a piece of legislation: “If there is legislation out there that you oppose, then you have the right to go convince constituents that the bill is wrong. On one bill we disagreed with, we had town halls with the CEO speaking to these 23- and 24-year-old employees, and we let everyone get up and speak freely. In this instance, once the employees realized what the bill meant, they opposed it and helped us rally against it.”

“Don’t try to boil the ocean – focus on things you can actually accomplish with the resources you have and don’t kid yourself.”
In the past few years, political uncertainty has become more pronounced, harder to manage, less predictable, and more impactful to business than in the preceding few decades. The general volatility, pace of change, and interconnectedness of the business environment only makes those impacts and pressures more pronounced. In the face of increased public scrutiny and an increasingly demanding role, directors are front and center in the struggle with political uncertainty. At the moment, relief does not appear on the horizon for boards reeling from the resulting difficulties.

“\textit{We’re not doing a good job of looking at the long-term historical perspective over the last 100 to 200 years. We’ve had a period of such relative stability, but the reality of humanity is that there have been periods of history where unimaginable things that no one could’ve expected to happen, did happen. We can’t escape that possibility.}”

However, even though the level of political risk varies by type of company, by industry, and by country, there are some common lessons for all boards. All boards can benefit from having a deeper understanding of the political climate their organization is operating in, both personally and by utilizing the expertise of those with more political experience. It’s important for boards to cultivate a strong, diverse group of directors who will bring unique perspectives to bear on political discussions. It’s important to have management in place who directors trust to handle potential political issues. It’s important to ensure that the right information reaches the boardroom, whether that comes from management, the company, an advisor, or an individual director. It’s important to expand the way that directors think about political risk the same way that directors have had nuanced discussions around digital disruption, board culture, and ESG in recent years. It’s important to foster board agility and resilience for when the unthinkable still happens.

Finally, as one director said, “You’ve just got to be listening very, very closely.”
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