Corporate boards face many challenges, internal and external alike, but the political environment in which they operate stands to be one of the most complex. To effectively advise the company they’ve been tasked with championing, directors must stay on top of evolving market trends and be prepared to adjust their strategies accordingly.

But what if those trends change so quickly that it becomes impossible to predict what will happen next?

Arguably, this is the case with the current U.S. political climate. Much has happened since Donald J. Trump was sworn in as the 45th president of the United States, and right now, directors everywhere are working to ascertain what the shift means to them in the context of their role as members of the board.

The singularity of the situation at hand requires a customized strategy. To continue to succeed in the months and years to come, directors must be adaptable, creative, and above all else, ready for anything — however unexpected.
BUSINESS AS UNUSUAL

There’s no question that it’s a difficult time to be making critical business decisions. Since the election, the Dow Jones Industrial Average has risen by more than 2,500 points and reached record highs for 12 days straight, while the Standard & Poor’s 500 index reached a record high in late February, as Reuters reported. It’s a similar story with the Nasdaq and Russell 2000 indexes, according to CNBC. Although The Atlantic reported that investors were “terrified of a President Trump” prior to the election, Trump’s pro-growth economic policies have had a direct effect on the direction of the stock market.

At the same time, the Organisation for Economic Co-operation and Development (OECD) reported in its Global Interim Economic Outlook for March 2017 that while Global GDP growth is projected to “rebound modestly to 3.6 (percent global growth) by 2018,” there is “low trust in government, and that clouds the policy environment.”

People are saying they’re more stressed now than they have been in quite some time.

It’s not unreasonable to wonder whether the Trump administration’s trade policies, led by “anti-China economist” Peter Navarro, along with Trump’s immigration ban, could still have a negative effect on the economy. As Shawn Tully, an editor-at-large with Fortune magazine, wrote in a piece titled “The Promise and Peril of the Trump Economy”: “Put simply, America has never witnessed such a contradictory mix of free-market and anti-growth policies in the White House. Or a President who operates in such an unorthodox and unpredictable way.”

This uncertainty takes a toll on the business world and the general population, as evidenced by the results of the American Psychological Association (APA)’s annual nationwide “Stress in America” poll. For 10 years, the APA has surveyed Americans “to examine the state of stress across the country and understand its impact.” The most recent results show that two-thirds of all Americans now exhibit record-high levels of anxiety about the future of the country.

“People are saying they’re more stressed now than they have been in quite some time,” Lynn Bufka, associate executive director for practice, research and policy with the APA, tells USA Today. The APA reports that 62 percent of respondents in urban areas say the outcome of the election is a very or somewhat significant source of stress. Regardless of location, 72 percent of Democrats felt this way, while 59 percent of Republicans said they are worried about “the future of the nation.”

Overall, 57 percent of Americans are stressed about the current political climate, and 66 percent worry about the country’s future.

Political Issues Stressing Americans

| % reporting very/somewhat significant source of stress |
|-----------------|-----------------|-----------------|
| Current Political Climate | Future of our Nation | Election Outcome |
| 57% | 66% | 49% |

Results from January survey (Source: The American Psychological Association)

POLITICS AND ITS PLACE ON THE BOARD

Politics has always influenced the way corporations and their boards operate. Just consider the study that was released last year by University of Washington Foster School of Business. Assistant professor Abhinav Gupta found that conservative boards pay their CEOs more than liberal boards do. Conservative-leaning boards are more likely to tie pay to performance, the study finds, raising pay

to reflect strong earnings and stock returns as well as penalizing CEOs when the company’s performance isn’t as favorable as the board feels it should be.

If political ideology can affect the board’s perspective on running a business, it stands to reason that a turbulent political climate will impact the way board members function as well. As the Harvard Business Review reports\(^\text{11}\), a survey of more than 4,000 global business directors that was conducted in 2015 found that 65 percent of directors regard the economy as the political issue they care about most. Corporate tax rates and political instability rank 22 percent and 18 percent, respectively.

The study also shows that directors are generally pessimistic about the state of the economy over the next three years. “Why does all this matter?” ask Boris Groysberg and J. Yo-Jud Cheng, authors of the HBR article. “Because board members are likely to factor in their pessimism as they advise their companies on firm strategies, merger and acquisition activity, resource allocations, and expenditures in the coming year.”

To complicate matters further, consumers’ political affiliations have resulted in economic protests that impact companies of all kinds. As Business Insider recently noted\(^\text{12}\), L.L. Bean was among the companies added to the #GrabYourWallet boycott campaign after the granddaughter of the company’s founder, who is also an L.L. Bean board member, made a large donation to a pro-Trump political action committee. Business Insider also reports\(^\text{13}\) that companies including Nordstrom, Uber and Macy’s have severed ties with Trump and various Trump brands in an effort to remove themselves from boycott lists.

All of this puts corporate directors in a difficult position. Factors like the economy, the Zeitgeist and consumer trends affect corporate strategy. When the economy is in a state of flux as policies — such as Trump’s immigration order and travel ban, which was recently revised\(^\text{14}\) — continue to change, it isn’t easy for boards to deliver on what’s expected of them. What happens to a company’s relationship with existing global allies, for example, if Trump’s “America First” maxim\(^\text{15}\) alienates China and Mexico? How can directors vote on a potential international expansion as part of an evolving corporate strategy without knowing whether or not Trump will impose a 35 percent tariff\(^\text{16}\) on businesses that open a factory abroad?

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### The Political Issues Board Directors Care Most About

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<th>Percentage of directors who say the issue is important(^\text{11})</th>
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BATTLE UNCERTAINTY WITH FLEXIBILITY AND POLITICAL DIVERSITY

Directors are expected to make educated business decisions designed to grow a company, and those decisions have to stand up against any investment and economic climate, including ones that may seem enigmatic. Whether faced with an unpredictable political climate or politically fueled differences of opinion within the board itself, directors’ best strategy is flexibility.

When volatility, uncertainty, complexity and ambiguity reign, companies must be ready to pivot quickly and respond with the best interests of the company in mind. In other words, directors must come to the table with an open mind, ready to tackle every possible scenario.

It’s tempting for directors to take a fixed approach to board decision-making. Unless they know with certainty how to resolve an issue, or feel they can accurately predict how their fellow directors will react to an idea, they are sometimes reluctant to move forward. But strong corporate governance requires that directors adapt to change, inside and outside of the company. As turbulent as today’s political climate may be, there are always challenges beyond a board’s control, and knowing how to face them is crucial to ongoing success.

Consider the outlook of the U.S. Securities and Exchange Commission, which analyzed the work that directors do and shared several principles “critical” to corporate governance. According to Luis A. Aguilar, former SEC commissioner, “In today’s volatile world, how a company prepares for and responds to major disruptive events — sometimes referred to as ‘resiliency’ — has become increasingly critical to the protection and growth of a company’s assets.”

The current political climate aside, politics will always have a place in the boardroom. As Boris Groysberg and J. Yo-Jud Cheng discovered in their survey, political affiliation can have a strong influence on board members’ decisions. For instance, while both Republican and Democrat directors consider strategy to be the skill most needed by directors, Republicans value financial/audit expertise and industry knowledge. Democrats, meanwhile, prioritize risk management and technology skills.

“Political affiliation is another form of board diversity — one that is rarely discussed, but could have profound implications on how corporate boards function and set priorities,” Groysberg and Cheng write. While they add that “having directors with a range of political philosophies can invigorate board discussion and ensure that a wide array of issues and solutions reach the boardroom,” directors must know that politics can — and likely will — influence both decision-making and board dynamics.

EMBRACE CREATIVITY

Directors should be encouraged to start conversations with “What if?” and to think creatively, both in order to maximize board members’ expertise and to reduce the possibility of complacency.

The common practice of presenting solutions finalized long ago without giving thought to how they fit into the evolving political atmosphere fails to take full advantage of a board’s inherent creativity, born of the combined expertise and experience of diverse directors. What these professionals know about market trends, the competitive landscape, demographic shifts and more gives a board the power to assess and effectively tackle the issues that matter most — no matter what kinds of changes may be in store.

In a way, the current political climate presents a valuable opportunity for boards to change the way they make decisions. As part of a series on leadership and management, Canadian newspaper The Globe and Mail offers two questions designed to promote creativity: “How do we get there?” and “What do we have to do differently?” Regardless of the problem at hand, these questions can help organizations create innovative solutions that also differentiate the company from the competition.

“Creativity is driven by declaring a goal without knowing exactly how it will be achieved and doing the hard entrepreneurial work to figure it out,” Roy Osing, former executive vice-president of Telus, writes. “It’s about having the intestinal fortitude to enter uncharted waters, pointing your ship in the direction you want to go, and navigating — creating — as you go.”

A flexible and creative board is resilient and prepared to deal with all external challenges. To build and grow a company in unpredictable times, versatility and judicious decision-making are key. The most successful companies will wholeheartedly embrace these strategies.


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