Teneo

Vision

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Where Is The World Going? How Do We Get There First?

Editor | James Hoge

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Foreword

Declan Kelly, Chairman & CEO, Teneo

Recession or not is front of mind for every CEO with whom I speak. The data is mixed. And hard to read. And prediction is tricky, according to one Nobel prize-winning economist, “the stock market has predicted nine out of last five recessions.”

The U.S. is in its 11th consecutive year of growth. In that time, the U.S. stock market had the longest bull run in history. Employment remains strong, as does consumer confidence. By contrast, the inverted yield curve we saw in the summer has historically been a strong predictor of recession.

About three-quarters of U.S. economists expect a recession by 2021. Half of U.S. CFOs expect it by the second quarter of 2020. By contrast, another Nobel prize-winning economist sees a less than 50 percent chance in 2020. Central banks around the world remain cautious and the Fed itself has no clear consensus. Most CEOs in place today have never steered a company through a recession. So, the ones I speak to are thinking hard about their responses.

Ultimately, the U.S. economy depends on the confidence of the U.S. consumer, which remains high. Consumer spending is two-thirds of the economy. It’s easy to envisage that confidence coming under pressure in 2020. If the U.S.-China trade conflict gets worse. If the U.S. opens a second trade front against Europe. A bitterly fought Presidential election. Middle East tensions produce an oil shock. The knock-on impact of a disorderly Brexit.

Against this uncertain backdrop, what can companies do to prepare? Research from previous recessions shows that around a fifth of public companies get hit badly, while a tenth prosper and outperform. Several recession-beating themes are evident from the literature, including reducing debt, balance-sheet optimization, and improving efficiency. The literature also shows that companies that prepare for recession tend to outperform their peers, maintaining or even improving margins, despite challenging market conditions.

Any recession will magnify the impact of technology, which is continuing to restructure most if not all industries. The speed of digital disruption is likely to increase in a downturn as consumers reward companies that make their lives easier, better or less costly.

Any downturn will also expose underperforming companies and management teams; we can expect activist investors to increase their scrutiny. Again, this year, Teneo advised companies worth more than a trillion dollars in activist situations. And in a downturn, passive investors will surely feel more pressure to pull the levers they have to improve performance, with more intense scrutiny of corporate governance.

We have also seen an increase in other types of activism. Employees are increasingly willing to question their employers' decisions on who they do business with or on their approach to climate change, for example. And CEOs themselves are increasingly taking public positions on subjects that historically would have been left alone.

In this book, you will find in-depth and expert thinking across all these subjects.

If there is a common theme to be found, it is around the purpose of a corporation. We saw the Business Roundtable revise its principles of corporate governance, widening the commitment to stakeholders beyond shareholders. That stakeholders matter comes as no surprise to the CEOs I work with. On one level, they spend their day trying to simultaneously respond to stakeholder demands and add value for shareholders, while also managing the trade-offs between them.

I believe passionately in the power of business to make a difference. As one leading U.S. CEO put it, "the business of business is improving the state of the world." The question is how best to do that; each company has to decide.

Part of the answer for Teneo is partnering with Global Citizen on Global Goal Live, to deliver meaningful change for the world's poorest countries by securing the commitments needed to make the United Nations Sustainable Development Goals a reality. It is a privilege for Teneo to be leading the private-sector response, working with some of the most respected companies in the world to end extreme poverty, tackle climate change, and reduce inequality.

Thank you to the CEOs who are making this a reality. And thank you to all the CEOs we work with every day. It is our great privilege.

Thanks also to Jim Hoge for his excellent work editing this book and thank you to the Teneo experts from around the world for sharing their insights. Also thanks to Steve Meahl, Ali Penaro, Solomon Chaison, Devin Mullin and Alexandra Rogan for making it all happen.

Declan Kelly
Chairman & CEO, Teneo

Executive Summaries

GLOBAL OUTLOOK

At the Center of the Global Order: The United States and China

Kevin Kajiwara, Co-President, Political Risk Advisory

The 21st century will be dominated by four major trends, and myriad sub and derivative trends, that corporate decision-makers and investors will have to successfully navigate in order to thrive and perhaps survive. The rise of China and the nature of its relations with the United States; climate change; the technological revolution and the impact it will have on societies and the nature of 'work;' and the role of the United States – as the defender of the norms and rules that it designed and benefited from in the post-war era: these are the tectonic issues of our time and they are already profoundly impacting the operating environment.

The Implications of European Populism

The Rt. Hon Lord Hague of Richmond, Teneo Senior Advisor

Populist political movements continue to rise, even drawing advocates whose own economic interests are ill-served. The motivation behind populism in varied countries is a feeling that the centrist politicians of left and right are all the same and a belief that those same leaders have rendered themselves powerless to shield people from the worst effects of global change. The result is a wide spread feeling that crucial issues are not being addressed, particularly immigration and cultural change. In most European democracies, the long duopoly of moderate conservative and social democratic parties has come to an end. If centrist politics are to endure, it will take new ideas, fresh approaches and reform.

Perspectives from the C-Suite

Ursula Burns, Senior Advisor

Patricia F. Russo, Senior Advisor

With the roles of both CEO and Chairman on their resumes, Ursula Burns and Pat Russo have seen it all. Here they reflect on lessons learned. They think today's boards have become more strategic, more open and more attuned to board refreshment. Directors also are more attentive to different kinds of activism and to political pressures, originating externally and among employees. Both decry the slow pace of achieving diversity and inclusion of women and minorities on boards and in top management roles. What keeps them awake at night? Both cite geopolitical uncertainty and tariff battles with China and others. As for the economy, they predict the long bull market now coming to an end.

MARKETS

Preserving Market Value in a Recession

Gordon McCoun, Senior Advisor

The market is showing incipient signs of weakening fundamentals. While there might be no immediate threat of a recession or crack in the equity market, we are living on borrowed time. Because of the elevated levels of corporate indebtedness, high equity valuations, investor complacency and increased proportion of formulaic-managed assets, instability could come quickly and violently. When the cycle does turn, management teams must have prepared their firms to withstand the hostile economic environment. It is never too early to start planning.

The New Security Risk Management Paradigm

Courtney Adante, COO, Risk Advisory

Jonathan Wackrow, Managing Director

The threat landscape is evolving at a pace never seen before. Yet many organizations are still operating under a traditional, outmoded security structure. Threats have multiplied as part of social media's phenomenal growth. It is now a major source of news, commentary and advocacy. It has also expanded opportunities for crime, reputational attacks and fake news. A growing challenge is “insider threats” to proprietary information and damaging revelations. Businesses are best served by centralizing physical and information technology under the leadership of a Chief Security Officer. The spectrum of security issues that endanger businesses make obsolete the model of “guards, guns and gates.” Companies need to establish a corporate culture of awareness, regular training, and plans in place. Collectively, proper security awareness and governance will prepare an organization to address a multitude of emerging and future threats.

The New Era of Corporate Activism

Daniel I. Tarman, Senior Managing Director
Alexandra Rogan, Managing Director
Faten Alqaseer, Senior Vice President

Today there is an increasing awareness of the need to align purpose, long term business strategy, and the interests of shareholders. A confluence of macro—economic and political factors, changes in the demographics of the work force, and increasing influence of corporations as societal institutions has received increased attention. In 2019, the Business Roundtable underscored this expansive view by revising its principles of corporate governance, widening the commitment to stakeholders just beyond the shareholder. For their part, CEOs must take on an expanded role, balancing varied stakeholder concerns that require interaction with government officials, public interest officials and the media, all the while managing the corporation for resiliency, opportunities and vulnerabilities.

Expanding the Report Card for Companies

Matt Filosa, Managing Director

The ESG performance of companies has come into sharp focus, driven by both investor and social pressure, as well as by the competitive nature of the fund management business. No public company can ignore the global trends in ESG investing and ESG Ratings. Like it or not, your company will be rated on ESG performance and investors will be using those ratings to help inform buy/sell decisions, as well as proxy voting decisions.

Challenging the Current Board Structure

Megan Shattuck, President, Talent Advisory
Dr. Martha Carter, Senior Managing Director and Head of Governance Advisory
Patricia Lenkov, Senior Managing Director

The debate on corporate board structure and resources has been stimulated by the continuing evolution of activism, particularly employee activism, which is on the rise. In this environment, the purpose of boards, their structure and the nature of directors are live items, not abstractions. In general, reform of boards is moving in the right direction. Recent data indicates 98% of the S&P 500 companies perform some form of board evaluation. But the pace of diversifying boards and broadening their accountability is slow.

What's Next for the Internet?

Mark Wainwright, Associate Director

The internet is now thirty years old and its future direction is much in question. Many people think it is on the wrong track, one that badly manages the sheer volume of people and content. Too many algorithms have trouble distinguishing between responsible and dark content. The next wave of changes are already in train as tech and social media companies respond to external threats. In the future, messaging apps will multiply and will require smarter, more targeted efforts from businesses to reach customers. More artisanal communities will present business opportunities by partnering with relevant companies. Also coming is more attention to heterogeneity.

CEOs and the New Media World

Seth Martin, Senior Managing Director
David Lurie, Senior Vice President

The traditional media of newspapers, magazines and broadcast stations is being transformed by new channels of communication and new forms of reporting, driven by technologies that are now taking us far beyond the transformations of the internet era. In short, the media is being democratized and, as a result, CEOs and their organizations face fresh risks and opportunities. New technologies have widened the aperture of what it means to be a news producer, to include still-evolving digital hubs of influence.

POLITICS

U.S. China Trade War: Light at the End of the Tunnel?

Paul Haenle, Senior Advisor
Mike Cooper, Consultant

Despite the widespread notion that trade negotiations between China and the United States are stalemated, there are some grounds for cautious optimism that a partial resolution is achievable, one that would benefit multinational companies. Both countries need to cease the tariff sorties and clear the way for ongoing dialog about the big, serious challenges each faces, including rising restlessness at home and nervousness abroad. The parties appeared close to an agreement last year but fell back under pressure from hard-edged critics in both countries. The trade war has created a complex set of geopolitical challenges for companies operating in China. In order to avoid getting caught in the crossfire between the two countries, multinational companies should maintain close coordination with their government affairs teams on the ground and should carefully evaluate their existing partnerships in China.

Asia at a Crossroads: Rising Powers Contest U.S. Dominance

Gabriel Wildau, Senior Vice President
Bob Herrera-Lim, Managing Director
Tobias Harris, Senior Vice President

A landmark shift in the balance of power in Asia is underway. At its core is the diminishing dominance of the United States. While China and other Asian nations rise, the U.S. is reducing its commitments such as leadership of the Trans-Pacific Partnership. Along with economic growth, there is underway an expansion of military capabilities in friendly and not so friendly states. Security concerns, provoked by China's assertiveness and America's reluctance, have given birth to a proto-NATO organization of Japan, India and Australia. Three scenarios come to mind when looking ahead to 2030 — gradual supplanting of the U.S.; its spirited re-engagement; or stalemate among the regional players. Most important, if the U.S. wants continued influence will be to get its own house in order. The same applies to China with its mounting domestic problems.

Balancing Act: Russia and OPEC

Otilia Dhand, Senior Vice President

Under U.S. sanctions for five years, Russia is developing counterweights, including a strategic alliance with China and an influential voice in OPEC energy deliberations. It is also supporting the beleaguered Maduro regime in Venezuela, the Islamic rulers of oil-rich Iran and the Crown Prince of Saudi Arabia. This energy dimension to Russia's geostrategic maneuvering requires balancing domestic economic constraints. A key question is whether Russia's foreign policy is becoming overstretched. The government forecasts relatively modest GDP growth at only +2%. Going forward, so long as sanctions are in place, Russia will seek to deepen its strategic ties away from the West.

Europe's Domestic Politics Driving Global Confrontations

Wolfango Piccoli, Co-President, Political Risk Advisory

The talk of 'leaderless Europe' is obscuring what its really going on, namely a shift in the political coalitions that are carrying the European project. This has entailed a period of volatility while the new contours take shape, most notably the strengthening of the Green-Liberal camp and the increased polarization of nationalist populism. At stake is the integrity of the single market and the euro. Already we are seeing a redefinition of economic, and regulatory policies. Refined welfare policies focus on training people for a changing economy. Also, a recognition that climate change is already a crisis is driving the political coalitions to double down on mitigation. Internationally, Europe favors multilateral over bilateral agreements for safety and prosperity.

Europe in the World: From Soft Power to Rule-Maker

Jacob Lund Nielsen, CEO, Strategy & Communications, Brussels
Poul Skytte Christoffersen, Senior Advisor

Where the United States steps back from trade relations around the globe, Europe is stepping in. The new assertiveness of the European Union is also visible in the spread of its norms and standards for doing business. Other countries are buying in, even though EU standards are high. For the future, the EU has an ambitious agenda that includes further extension of its standards: a digital industrial policy, fresh attention to human rights and environmental issues and priority to sustainability. As for a possible post-Brexit negotiation, EU members are steadfast against offering the UK special breaks.

Global Outlook

At the Center of the Global Order: The United States and China

Kevin Kajiwara, Co-President, Risk Advisory

The 21st century will be dominated by four major trends (and myriad sub and derivative trends) that corporate decision-makers and investors will have to successfully navigate in order to thrive and perhaps survive. The rise of China and the nature of its relations with the United States; climate change; the technological revolution and the impact it will have on societies and the nature of 'work;' and the role of the United States – as the defender of the norms and rules that it designed and benefited from in the post-war era: these are the tectonic issues of our time and they are already profoundly impacting the operating environment.

While each of these trends warrants a book, let alone a single chapter, the latter three are relatively slow-moving, and their trajectories will ultimately very much reflect the aggregate action of actors from nation states to individual citizens. It is China's emergence as the world's largest economy (on a purchasing power basis) and the evolution of its relations with the U.S. – the single most important bilateral relationship of the century, that is playing out in 'real time.' In this process, national-level decisions and objectives are having a profound impact on the global economy, the post-war geopolitical alignment landscape and the role of the U.S. as the global hegemon.

While locked in a trade dispute, both economies face building (and related) economic headwinds and the leaders, Donald Trump and Xi Jinping, each face domestic pressures to 'win' – though it is unclear that the two sides are even playing in the same game. But it is nothing less than technological superiority and economic self-determination that is at stake, and the ramifications for countries, companies and citizens are profound.

Complicating the picture is the U.S. presidential election in November 2020 and the rapidly developing impeachment process. While there are indications of coming economic weakness, U.S. headline data has remained remarkably resilient in 2019 and economists are split on whether or not a recession looms, and if the onset would be timed to impact the election. While Mr. Trump fronts an unarguably *sui generis* presidency, it is also true that the 'power of incumbency' effect is strong in the American system. The Democrats are going through the arduous process of finding their candidate to stand against Trump in the general election. It is tempting to think of the country polarizing into "anyone but Trump" and "MAGA" camps, but Trump's approval ratings inched up over the summer to the highest levels of his term. There are mixed data messages – his job approval ratings have never been above 50%, but his personal favorability rating has increased by about ten percentage points since he was elected. This election promises to be as partisan and, frankly, nasty as any we've seen. As such, and particularly considering moderating economic data, and the need to distract from the impeachment narrative, having China as *bete noire* may serve the President's narrative. Furthermore, taking a strong line on Beijing (and not signing on to an agreement that while addressing the trade balance, fails to address the structural issues the U.S. has with China) deprives the Democrats of one avenue of attack against the incumbent.

Trade Talk Jockeying

Earlier in 2019, it appeared that the U.S. and China were headed toward an agreement… until it abruptly fell apart. In the event, the wording of the lengthy draft document stipulated a heavily imbalanced set of actions on the part of China, without corresponding concessions on the part of the U.S. Ultimately, this was untenable for Xi Jinping. There is a tendency in the American media to portray Xi as a nearly omnipotent leader, especially now that China has eliminated term limits and he faces the possibility of an 'endless presidency.' The reality of course, is more nuanced. China's elite is more factional than simplified reporting suggests and Xi needs to justify the mandate with which he's been entrusted. Therefore, he is no more able to deliver a flawed deal than Trump is. But it is also possible that China waited too long to reach an agreement – and this led to a moving of the goalposts. In essence, Trump doesn't actually have many articulated grievances with China, other than trade. And the trade deficit is a number that can be 'fixed.' Trump doesn't take an interest in China's internal affairs (such as the treatment of the Uighurs in Xinjiang) or Taiwan and he doesn't engage in a philosophical debate over the merits of representative democracy over Communist Party rule. Trump's focus has been near single-mindedly on trade and his preferred instrument for action is tariffs, with a resultant clear impact on multinational corporations, even purely domestic ones.

It is certainly the case that China has taken advantage of and prospered under the system of globalization promoted and defended by the U.S. Between China's accession to the WTO and 2016, the country's GDP grew from $1.3 trillion to $11.2 trillion, a near nine-fold increase. As such, its share of global GDP quadruped to near 16%, and it has accounted for roughly one third of global growth since 2012. China became the world's largest exporter in 2009 (displacing Germany) and between 2000 and 2017, it went from producing about a quarter of America's manufacturing output to generating more than the U.S. and Japan combined. While much is made of recent headline data showing Chinese growth slowing to the lowest level since 1990, the reality is that the economy has been in a structural slowdown for a decade. While it is difficult to detail precisely what Chinese growth is, it is still roughly double the U.S. growth rate and essentially equivalent to growing by the size of the Australian economy. At the same time, global cross-border investment, trade, bank loans and supply chains have been diminishing relative to global GDP – exacerbated no doubt by Sino-American tension, but frankly underway since the financial crisis.

The Tariff Battles

U.S.-imposed tariffs have had an impact, and the trade balance with China has indeed narrowed. However, it is worth noting that the U.S. deficit in goods trade with the world overall has continued to widen, meaning tariffs have served to shift the point of origin of goods, whereas the overall trade balance is determined by the U.S. savings and investment balance. Of course, considering the trade balance alone distorts the full picture of the economic relationship between the two countries. The U.S. is increasingly evolving to a services-based economy – and therein it has a surplus with not just China, but the world. Furthermore, revenues and profits made by subsidiaries of U.S. companies and their affiliates aren't counted either. Nevertheless, there are costs. The IMF has estimated that tariffs imposed by the U.S. and China will cut global growth by 0.5% – that may not sound significant, but it equates to about $450 billion, which is bigger than the South African economy.

Through July 2019, tariffs on Chinese imports have raised about $21 billion. However, the administration has already committed to aid farmers hurt by the trade war to the tune of $28 billion. Even so, farm bankruptcy filings are up 13% through June 2019, year-on-year. This following the decline in farm product exports to China from $24 billion in 2014 to $9 billion in 2018. While some observers may be incredulous that 70% of farmers still backed Trump in August, it is notable that the support was 79% as recently as July 2019.

For its part, China has retaliated, and it should be noted that its moves have essentially been proportional and responsive rather than pre-emptive and escalatory. Having said that, China has definitely targeted industries with jobs that are concentrated in districts that voted for Trump. This highlights one of the risks of engaging in a trade war with an autocracy – it can and will focus its punishment on its adversary's politically sensitive pressure points, even at the expense of its own consumers and economy, whereas democratic government must consider the ballot box ramifications of weaponizing trade tools.

Due to the trade imbalance, the U.S. has more to tariff than does China. But Beijing has numerous weapons in its arsenal with which to fight this battle. It can restrict U.S. access to rare earths metals, it can (slowly) diversify its holdings of U.S. Treasuries, it can further loosen in-country IP protections. And, it can use tourism as a weapon. China is the biggest source of tourists in the world, spending over $250 billion last year (vs. less than $150 billion by Americans). Indeed, Chinese spending in the U.S. is now America's biggest 'export' to China. There is certainly a precedent: following the deployment of the THAAD missile defense system in South Korea in 2017, Chinese tourism to South Korea fell by 50% – jeopardizing the Olympic Games attendance and therefore revenues. A 50% reduction in travel to the U.S. could mean an $18 billion hit to the American travel industry.

Technology Competition

All of the above is important to markets and to the global economy in the near term. But the reality is that as complex and dislocating as the trade war is, it is one battle in the bigger war. China has an articulated objective of technological dominance and regional hegemony, while the U.S. wants to remain the technological superpower. It is this strategic competition that will dominate the geopolitical and geo-economic narrative for the foreseeable future. It is also why there is bi-partisan support for a hard line on China (as evidenced by not one of ten Democratic presidential candidates indicating in a debate that they would roll back the Trump-initiated tariffs). This battle represents the single biggest threat to the U.S.-built (and heretofore protected) global order. So, while the trade balance can be solved with relative ease, the bigger challenges lie ahead.

It is important to remember that China is actually not trying to remake the global order in a wholesale fashion; it is seeking to revise rather than replace key elements of the international system. China is a big country and the ruling elite need to provide their citizens with a pathway to better lives. China's population in aggregate has about a quarter of the standard of living of the rich Western countries. If that standard of living were to increase to just half, China's economy will be larger than the U.S. and EU combined. But 'getting rich' doesn't happen in a vacuum – the subjugation of China by smaller European powers in the past is seen as justifying the leaders' need to be militarily and technologically strong as well. And Xi, knowing that China is facing an acute demographic cliff (due to the legacy of the one-child policy) later this century, must harness his country's formidable human capital now.

The period between the end of World War II and the series of compounding shocks of foreign policy overreach (characterized by the Iraq war), the western financial crisis, and inequality in the U.S. reaching levels not seen since the eve of the Great Depression, that led to a crisis of confidence in the U.S. role in the world, saw the U.S. emerge as the greatest military, economic and 'soft' power the world had ever seen. A new sense of vulnerability has led to a National Security Strategy that no longer attempts to guide China to make 'the right strategic choices for its people, while we hedge against other possibilities" (2006), but rather views Chinese power as malign and treats Chinese capabilities and intentions as the same thing, rather than assuming that an economic power that is becoming the largest in the world would understandably want to protect its position.

Replacing the U.S.?

"China seeks to displace the U.S. in the Indo-Pacific region, expand the reaches of its state-driven economic model and reorder the region in its favor," (National Security Strategy 2017). On the other hand, for a country that is highly dependent on imported raw materials and remains a primarily export-driven economy, it makes sense that it no longer wants to outsource the security of its supply chain to the U.S. Navy, as it has effectively done.

The assumption coming out of the Cold War was that the collapse of the Soviet Union proved that autocracies couldn't thrive economically. Therefore, China would either have to become a democracy (of some sort) or fail economically. But China has done neither. And rather than "The End of History," the world has seen some eighteen democracies disappear since 2000. The Communist Party view has been, particularly since Tiananmen Square, that prosperity is a function of stability rather than democracy. It is this conviction that also drives China's control over the internet, social media and personal data. The Great Firewall of China is not only the greatest non-tariff trade barrier in the world (allowing for the rise of domestic tech giants that don't really have to compete with America's most innovative companies such as Google and Facebook), but it enables even greater political control.

Trade wars, American resistance and the need to control the tiller on the economy are driving China's ambition to further its indigenous innovation. China spends more on importing semiconductors than it does on importing oil. But the move to 5G, the Internet of Things (IoT) and Artificial Intelligence is creating an opportunity for China to make a giant leap. In 2018, China filed almost as many patents as the U.S. did, and fully 10% of those were by Huawei – a company that employs 80,000 people in R&D alone. The U.S. government and many U.S. companies are adamant that Chinese telecom equipment and software suppliers in general – and Huawei in particular – constitute a strategic threat to the U.S. ‘ecosystem.’ The fear is that whoever controls the networks, ultimately controls the information flow. There are concerns that ‘back doors’ are built into the systems and that China, employing its 2017 National Intelligence Law compelling companies to cooperate with the government, wherever they operate, could even shut networks down.

But there are near-term questions about whether the U.S. administration is actually committed to this fight and if its primary concern is with national security on this front. The President has undercut the Department of Justice by suggesting that charges against Huawei CFO (and daughter of the company’s founder) Meng Wanzhou could be dropped as part of a trade deal. The precedent being the easing of penalties on ZTE after a personal appeal to the president by Xi himself. In other words, the signaling is confusing.

For multinational corporations, the stakes are high. The administration’s hostility to globalization by definition targets the phenomenon’s greatest economic actor – the MNC – as much it does China itself. And herein lies the rub: the Administration and other China hawks believe the U.S. and China should be economically and politically decoupled. They want to unlink global supply chains and envision a less open and more protected economic operating environment. This will lead to further insecurity on the part of allies and doubts about the viability of international institutions. But for the President himself, trade is demonstrably paramount, and it is fair to say the world is unlikely to see another president so economically focused. As *Financial Times* columnist, Janan Ganesh, puts it, “until now, it has been soothing to regard Trump as the storm before the calm. He would disrupt U.S.-China relations and future leaders would mend them again. But the opposite could be true.” So, the election matters for China-U.S. relations. And the multinational corporation must be vigilant and on-point to defend against becoming collateral damage in this epochal battle.

The Implications of European Populism: Here to Stay

The Rt. Hon. The Lord Hague of Richmond, Senior Advisor

A few months, ago a middle-aged voter in rural Wales told me why he had voted to leave the European Union in the referendum in 2016. “I found out,” he said solemnly, “that they were going to abolish the Queen.”

While there were many misconceptions on both sides of the UK referendum debate, this was a new one to me and I asked him where he discovered this alleged information.

“Oh, I heard about it on Facebook. Do you think it was true?”

Well, no, I had to explain – in my time as Foreign Secretary I came across many things I didn’t like about the EU, but I could assure him that they had no plans to do away with any of the crowned heads of state around Europe. He went away perhaps a little reassured, but his vote had already formed part of the majority for Leave.

This voter embodied much of what we know about the rise of populist movements and parties in recent years. First of all, he had voted as he did irrespective of his own economic interest. He had a small livestock farm, and much of the produce from his own and his neighbours land would be destined for European markets.

Secondly, he saw himself very much as defending the country and its established ways of doing things. Although he voted to do something very radical, his view was that it was necessary in order to preserve national sovereignty and traditions.

Thirdly, he readily believed that a conspiracy could be afoot – one that was not discussed in the mainstream media or in parliament but that could nevertheless be going on while the public was being deliberately misled. He was trying to inform himself about events and no longer trusted long-established channels of news and information.

Fourth, his participation in social media had led him to hear views that he would not have encountered even a few years earlier. Furthermore, he heard no challenge to those views, and until he bumped into me, had met no one he felt he could ask about their veracity.

Fifth, he had made up his own mind, without feeling any need to follow the urgings of any Prime Minister, party leader or Members of Parliament. Whatever sources of information he relied on to help him decide how to vote, acknowledged experts were not among them. For him, deference to the opinion of someone who is meant to know better was over.

Although we should never extrapolate too much from meeting one individual, I have often thought about this man because he so well illustrates these five factors present in populism, and indeed helps to dispel some misunderstandings about it. He was not thoughtless, marginalised, badly off or unhappy with life. It was just that the way he heard and thought about the world had changed in ways that are quite subtle, yet becoming entrenched, and not easily reversed. He is further evidence, in my eyes, that populism in politics everywhere is here to stay.

Populism played little role in European politics between the end of the Second World War and the turn of the century. If we accept its broad definition as being movements based on representing ‘the people’ against a supposedly corrupt or out-of-touch elite, usually based around a charismatic leader, only the right-wing populist Poujadist movement in France in the 1950s represented a serious eruption of it in the post-war decades.

Globalisation: The Enemy

The first two decades of this century have clearly brought a dramatic change. Electoral support for various forms of populism – usually anti-immigration, predominantly defending national traditions and sovereignty, and always opposed to neo-liberal acceptance of globalisation – has surged.

In 1998, only two European countries, with a total population of 12 million, could be said to have populist leaders included in government. By 2019, nine countries, with a combined population of 170 million, were in that situation. Populists were governing Italy, Poland, Hungary, and until recently, Greece. They were part of the government in Austria. The huge votes, relative to previous habits, for right wing populists in Germany and Sweden, showed how much support they could win even in prosperous and stable societies. And of course, the British people went so far as to overturn the entire establishment view of where their national interest lay.

The wide prevalence of this trend is one clear indicator that it is no flash in the pan. So is the fact, now obvious in retrospect, that this has been building up for a considerable time. It was in 2002 that the elder Le Pen shocked Europe by coming second in the French presidential election, and from 2004 that the UK Independence Party started to gather strength.

We can now see common factors behind the rise of populism in varied countries. These include a widespread feeling that crucial issues are not being addressed by elites, particularly immigration and cultural change that challenges the identity of local populations; a media structure much more open to challenges to establishment views; a feeling that centrist politicians of left and right are 'all the same;' and a belief that those same leaders have rendered themselves powerless to shield people from the worst effects of global change. Like the Welsh farmer, millions of people have lost faith and trust in many of the principal institutions of their society.

Undemocratic Liberalism

In the excellent analysis by Mudde and Kaltwasser, [Populism: A Very Short Introduction] populism is a "critique of the establishment and adulation of the common people," best understood as "an illiberal democratic response to undemocratic liberalism." They rightly point out that the resulting political movements are "moralistic rather than programmatic," based on standing up for a particular culture, identity and nation rather than implementing a fixed or comprehensive set of policies.

Other commentators have perceptively drawn attention to the role of education in producing a new cultural divide and revolt, an unanticipated side effect of widespread university attendance. Eatwell and Goodwin [National Populism: The Revolt Against Liberal Democracy] have pointed out that while 80% of British voters aged under 34 with a degree voted to remain in the EU, only 37% of their counterparts without a degree did the same. In 2017, French President Macron defeated Marine Le Pen with 83% of the vote among the most highly educated, but only 54% among the least educated.

In ‘The Road to Somewhere,’ David Goodhart has also drawn attention to the effect in Britain of around half of young people going to higher education: the other half feel particularly excluded from opportunities, trapped ‘somewhere’ while their contemporaries can apparently live and work anywhere. Not only do university students experience a different set of attitudes and greater variety of friendships and generally more liberal ideas, but many never return to the less prosperous areas from which they came. The result is the ever-greater clustering of high achievers in metropolitan cities, while the provincial towns and villages they leave behind can see the next generation departing and different cultures arriving instead.

My own personal experience confirms the major impact of education and mobility on openness to populist ideas. I was born and raised in South Yorkshire, a centre of coal and steel in the twentieth century. My contemporaries who moved, like me, through university to London to make their careers, voted almost without exception to remain in the EU, while our old friends who stayed put voted heavily to leave it.

Even as our understanding of factors driving populism expands, our ability to predict its political strength is still limited. This is partly because it usually requires an effective single leader to mobilise it – Wilders, Farage, Salvini, or Le Pen – and sometimes a ‘host’ party to create a coalition with other voters, like Fidesz in Hungary or the Law and Justice Party in Poland. Once successful in elections, populism is sometimes damaged by being included in government – witness the scandals that have hit the Freedom Party in Austria and the loss of support for the Five Star movement since it took power in Italy.

There is therefore no statistical model or regression analysis that will provide a prediction of populist electoral success amidst so many random factors. All we can say with confidence is that, in most European democracies, the long duopoly of moderate conservative and social democratic parties has come to an end and will not be returning, except where one or both of those parties themselves become the vehicle of populist politics. This has to some extent happened in Britain, with the Conservative Party becoming the prime vehicle for Brexit at any price, and the Labour Party led by a populist of the left.

The effect of the populist upsurge on established parties and their policies is likely to have as great an impact as electoral victories for entirely new forces, because it is changing the way mainstream politicians define their policies. For instance, the Liberal Prime Minister of the Netherlands, Mark Rutte, staved off an expected populist advance at the last election with a sharp move to more restrictive attitudes to immigration and to defending Dutch identity.

Socialism Anew

Tighter immigration policies are one obvious attempted answer to try to placate angry voters, but the broader impact is likely to be on the approach of established parties to economic and technological change. They will be far more conscious than in recent years of the need to show that national economic policies support provincial towns and distant regions. Most of them are likely to accept and promote a critique of globalised capitalism, with a new emphasis on its reform.

Moves by European nations, including Britain and France, to tax big tech companies in new ways are just an early sign of what is to come. New ideas might include taxing the use of technology by companies in a different way; levying higher taxes in large, metropolitan cities; requiring companies to extend employee shareholding or provide education beyond the needs of their jobs; aggressive increases in minimum wages; restrictions on executive pay or wider use of wealth taxes.

If this sounds like economics moving to the left, that is a correct reading – for the pressure from populists is coming from a direction more normally associated with the left. This might seem paradoxical, given that most of the populist success has been in the form of parties seen as nationalist right. Yet this confusion only serves to show how outdated our old left/right spectrum of political analysis has become. Many voters combine culturally conservative and nationalistic attitudes with support for more socialistic economics, and that combination is reflected in the new parties they support.

In David Goodhart's words, "Populism is the new Socialism. Almost all European populist parties now have an overwhelmingly working-class voter base and most have policies towards economics and globalisation that have more in common with the left than the right or might be described as statist or protectionist."

While established parties try to adapt to their new situation and appease the voters they are losing, the steady trend towards stronger populist parties continues. After the moderate right returned to power in Greece in July 2019, and the wave of populism failed to meet the highest expectations set for it in the EU elections of May, some people might hope that a turning point has been reached.

An objective analysis nevertheless suggests that, overall, nationalistic populists are still on an upward trend in Europe. True, they fell back in Germany, Spain, Denmark and the Netherlands. But in Italy, they enjoyed unprecedented success. In Hungary, they routed the opposition. In Poland, they overcame a united platform of moderates. In France, the National Rally came in ahead of President Macron's party, and in Britain, the Brexit Party outpolled the Conservative and Labour parties put together.

In addition to fueling a trend towards more socialistic economics and looser fiscal policies, these continued advances are likely to have one other effect of geopolitical importance: the undermining of common positions among European nations. Britain's intended departure from the EU is clearly a major blow to European unity, but it is one among many. In the last year, relations between France and Italy became so vituperative that at one stage the French ambassador was withdrawn from Rome, an event unknown since 1940.

The EU is now far less likely to be able to agree on fresh, major steps towards closer integration, leaving it becalmed in the face of new challenges and in an awkward state of maintaining a partially-built Eurozone. If one accepts that a monetary union relies in the long term on a fiscal and political union to underpin it, the euro will now proceed towards any future crisis without such underpinning. A divided EU is more vulnerable to the exploitation of its disagreements by foreign powers. Moscow, Beijing, and a Washington itself presided over by a populist President will have greater opportunities to pries open European unity on issues of concern to them. Hence China has pushed its closeness to Greece, Russia has reinforced links with Hungary and Italy, and the U.S. has celebrated the arrival of a British Prime Minister more committed to leaving the EU at any price.

On the highest level of global strategy, these developments will leave Europe as a whole less able to assert itself independently. If the world is moving to a race between the U.S. and China for technological, military and commercial leadership, Europe will have little chance of becoming a third player in its own right. And if the coming population explosion of Africa and the Middle East produces a vast outflow of people rather than booming cities of their own, Europe is more likely to be overcome by the consequences than to manage them.

The traditional moderation and consensus building of European politics is not yet sunk. It will produce new leaders, like Macron, who champion an alternative to nationalistic populism and maintain a vision of continental integration. But if they are to recover the initiative in any sustained way, they will need fresh ideas and philosophies that allow them to win back support from huge swathes of voters who have lost trust in institutions and fear also now losing their identity. If there is a long-term answer to the march of European populism, no one has formulated it yet.

Perspectives from the C-Suite

Ursula Burns, Teneo Senior Advisor
Pat Russo, Teneo Senior Advisor
Interview conducted by Kevin Kajiwara, Co-President, Political Risk Advisory

Teneo's Kevin Kajiwara sits down with Teneo Senior Advisor and current Chairman and CEO of VEON, Ursula Burns and Teneo Senior Advisor and current Chairman of Hewlett-Packard Enterprise, Pat Russo, to discuss life in the C-Suite, diversity, and the changing role of boards within a company.

Kevin Kajiwara (KK): The world is experiencing momentous change geopolitically, economically, socially, and technologically. How do you both, sitting on top boards and having spent years in C-suites, see the evolution of management and the evolution of boards (basically, the evolution of governance) to meet these challenges?

Pat Russo (PR): Over the course of my career, I have seen a significant change as boards have evolved, with a new normal around governance. Clearly boards have become more engaged, not in managing the company, but governing driven by a number of circumstances. Some has been greater scrutiny on how boards do their jobs by investors, advisory firms and the government. And there is a great deal of technological disruption that is going on in a number of industries where careful strategic navigation is required. That is certainly the case in pretty much every company I am associated with. So, I see a lot more involvement, engagement, and a lot more openness around the boardroom. And I see board refreshment happening at a more rapid rate.

KK: Ursula, same set of questions. How has the role of the board changed? And how have the expectations of boards changed? How are boards keeping up with these changes?

Ursula Burns (UB): The answer to that is different than what it was 10 years ago, or 15 years ago, when I went on my first board. Today, boards have become more strategic. They think about strategy, they think about succession, they think about political pressures, they think about overall risk in a more mature way than they did before. But in some ways, boards have become too detail-oriented; so there has to be a balance.

And it is important that we fully know the management teams that we put in place. We have to know who they are, what experiences they have, and whether we can count on them to do their jobs. That leaves space for us to address the complex elements of governance in a time of geopolitical risk.

KK: Focusing on activist investing, how has the role of boards engaging with activist investors changed? What do you think are the responsibilities of the board in these instances?

PR: A change from the past is the level of shareholder engagement. When I was a CEO, I wasn't anxious to have my board talking to investors. But now, there is a lot more interest by investors in talking about issues of governance, executive compensation and strategy. Boards have to find a way to hear from investors. It doesn't necessarily have to be without management, but boards have to find a way to hear "is something going on?" That includes listening to activist investors and hearing out their ideas.

One of the things I learned over the course of my career is the do's and don'ts of outside advisors. When you have multiple advisors in a situation where you need to be quick and responsive, you can actually be slowed down.

UB: I agree and would add a word on the importance of CEOs and board members achieving a broad perspective on the challenge. Perspective is everything. For example, it is easier for me to govern, and to be the CEO of VEON than it was at Xerox. I loved Xerox and after 30 years, I found it difficult to close that part of my life. As for the gunslinger CEOs, they are hired into a company that they may have never heard of. If you are fixated on financial issues as the only problem, you can destroy a lot of history, culture, relationships and the general community of things that may have nothing to do with the immediate bottom line. You need to have someone who watches you and can tell you to "slow down a bit." Being careful with a company's history makes the job of a new CEO more difficult but I think also more rewarding.

KK: Pat, you led Lucent, through the merger that ultimately led to Alcatel-Lucent. Take us through that process and how you maintained the proper focus for yourself and for shareholders.

PR: I became Lucent's CEO the year of the telecommunications crash that wiped out $1.3 trillion of market value in the telecoms industry space by year's end. In the first quarter of my tenure, the revenue started dropping like a rock. Spending was cut in half, most of our customers went bankrupt except for the big service providers like AT&T, Verizon, BT and the like. We were running out of money. Our stock dropped to $0.57. We were about to be delisted from the stock exchange, and I could go on and on.

And so, you realize in a crisis like that, which was largely market-imposed, that you have to focus on the things you can control. And in a situation like that, perfect is the enemy of the good. For me, I had to distinguish between what was managing and what was leading. Managing was getting a plan in place quickly to drive costs out of the business as fast as we could. We stopped washing windows. We didn't cut the grass. We unscrewed every third light. We turned the heat down, the air up. We just basically said, "This is all about survival."

The leadership aspect was how do you keep peoples' heads in the game? How do you keep people focused? How honest should you be about the severity of the crisis? Who are you showing up as, as the leader of an organization?

And so, we got through that. Fortunately, I had a terrific CFO. I think every CEO in a crisis needs somebody by their side that they can vent to and fret with. And there were many nights when we'd sit in my office and I'd say, "Well, what else could happen to us?" I had three firms tell me the only choice we had was bankruptcy. I said, "That will be over my dead body. We have 125,000 retirees and 95,000 additional dependents. They're counting on us."

Long story short, we got the business back to break-even and then to profitability. I said to our board: "This industry structure is not sustainable. There are too many companies competing for shrinking capital. We either have to get bigger and become more relevant or we'll be gone." And we took the first step with a cross-border merger, that was not without its own challenges; I ended up running that company out of Paris for a couple of years.

KK: In the technology sphere the concentration of market power by five companies is generating calls for new regulations, including calls for antitrust action. What are your views on the evolving market power structure and what should be done about it?

UB: I am not certain about how to fix the problem, but I know that the way we're doing it now is not the right way. So, we need universities and consultancies to sit around a table and create fresh approaches.

PR: We have to be clear about what is the issue. Is it a privacy issue? Is it a "You ought to be in control of all your data" issue? What is it?

One issue that may become more prominent is industrial policy. We are suffering from not having an industrial policy in this country for a long time. And China has been very long-term, focused, and very clear about how they're going to evolve their economy and where they want to play, and where they want to dominate. We have been fortunate that our market system and its innovations have resulted in leadership rankings. But make no mistake, China thinks about industrial policy differently.

KK: Do you think increasing competitiveness with China will prompt industrial policy and align corporate action in the United States?

UB: I hope so. I think that the current geopolitical environment is not a safe place for politicians to be, and it's not a safe place for companies to be either.

KK: Both of you broke through the glass ceiling in spectacular fashion. But I'm wondering, now that you're on the other side, you are looking…

UB: Are we on the other side now?

KK: You are definitely on the other side!

UB: Okay, good. I'm glad. I was going to kind of keep looking for it.

KK: As you look at a lot of policies and things that are being put in place to increase diversity on boards, in the C-suite, and just the pipeline of talent that is coming up, what's really working and what isn't? We pat ourselves on the back that we've got more women CEOs in Fortune 500 companies than ever, but it's less than 7%, and 25% of seats, maybe, on the boards. Most of it's the two of you.

UB: We account for 50% of the 25%.

KK: What are we doing right, and what is lagging? And what's not working?

PR: To diversity, I want to add inclusion. Because to the question of what's working, I think we are making some progress. I look at the companies I'm associated with, and clearly there are more diverse people in the pipeline, more diverse people coming into the companies. One of the things I think needs real attention in addition to recruitment is inclusion and retention. How do you keep the people you bring in, because they are by definition in a minority? And one of the things that inclusion is about is how do you make sure people feel comfortable? How do you make sure they feel included? And that just doesn't happen naturally. There has to be some things that are proactive, that are thought through, that are managed so that diversity and inclusion really is diversity and inclusion. So, I think there's a lot more work to do, but I do see evidence of progress.

And the only other thing I'll say is I've seen the most progress when people's pay inside a company is tied to the work they're doing around talent management and becoming a more diverse workforce. When companies say: "We're going to measure you and pay you, as part of your compensation, on how effective you are at creating a diverse environment." I have seen that produce different better results faster. And there is no question (as we all hopefully know) that you have much better discussions and debates with better business outcomes when you have diverse thinking around the table.

UB: I agree that there's progress. But I think we should be embarrassed at the pace; it is slow.

PR: That's fair.

UB: It's really slow and it's also kind of odd in many ways, right? I do understand that you have to give birth to people, train them; I get that. Therefore, at the beginning, progress would be slow because women and minorities, under-represented minorities in particular, did not have the right training or background to be on track to be in the leadership suite of companies. But that's no longer the case; for example, at Columbia University (which I'm very close to) 50% of the people who enter the engineering schools are women. And more than 50% of the people who graduate are women. So, we can no longer say: "Okay, we're not really creating these people."

PR: I agree – there can't be an excuse that there is not a pipeline.

UB: So now it's about, I think, the playing field. The playing field, the rules, the referees, are all men. And they've been playing the game for a very long time. So, part of what they do is kind of in their DNA. You can't even feel it. You can't identify it uniquely, but it is clearly there.

And we enter, women and under-represented minorities enter, and it looks like, "Fine, everything is the same," right? I understand the playing field, I understand the rules, we all have the same offices, but somewhere in the activities and judging in these companies--all of them--we actually have a different set of rules, different field rules and referees, for women and for under-represented minorities, than for men.

The best way to speed this up is to start putting different types of qualified people into board seats. Every U.S. company that I'm on (and Nestle, which is not in the U.S.) have at least 50% of the board is women or minority. Go down to the management rank and the number falls. We may have to get to the point of imposing a number and doing so immediately.

KK: What are the issues that are really keeping you awake at night now? Is it the China-U.S. trade relationship? Is it the U.S. position in the world? Brexit? Of all of the above, what's really keeping you up? And are your companies preparing for a significant economic downturn, within, say, the next 12 to 18 months?

UB: What keeps me up? Geopolitical uncertainty. And I don't mean from a war perspective. I mean the entire landscape around trade, movement of people, and talent and goods; populism is defining a lot of what we're going to set as policy in the future. Populism may get some people elected but it may not be a good foundation to be on.

Secondly, the environment and climate are big issues for humans, specifically for companies. Americans should do something more, as we are the holders of the vast majority of the capital in the world.

KK: And what is your outlook for the economy?

UB: Every single company is actively is planning for a significant downturn in the short to medium term. The economic expansion has gone on too long. We would love it to go on. What I mean is that hyper-profitability, growing profitability, interest rates that are ridiculously low. And money being not as valued as it was before. So, risk is not taken because you can just sit on it. This current environment has to change, and we are planning on it.

PR: From a board perspective, I would say that the geopolitical risk, the tariff and trade issues, the China negotiations, all create a wait-and-see environment. Some of the regulatory questions, in the pharma industry, for example, create a level of uncertainty that can be distracting…and cause delays in investment decisions because you want to see how things are going to turn out. I don't think that's good for business. So, as I think about the practical impact of the uncertainty, it's really about, 'What does the CEO do?' and 'What does the board support?'

We do scenario planning on all the boards on which I sit. There is no projection right now of a severe recession. You can see a little bit of slowing. But I think there's an expectation that if this uncertainty continues, there will be somewhat of a self-fulfilling prophecy that will in fact create more downside than anybody would like to see.

Markets

Preserving Market Value in a Recession: One Likely Sooner Rather Than Later

Gordon McCoun, Senior Advisor

We are in the midst of two concurrent and unprecedented business events. The current economic cycle is the longest in U.S. history, at over ten years, and we are enjoying the longest bull market in history that has seen the S&P 500 rise from 676 in March of 2009 to a recent high in July 2019 of 3025. However, economic cycles do not go on forever, and we are approaching an inflection point; the question is not whether there will be a downturn, but when.

It is no secret that economic downturns are usually accompanied by declines and pronounced volatility in the financial markets. This time, we approach the inflection point of the economy with a stock market at near-record levels, well above its long-term trendline, and sporting valuations seen on only a few occasions, all of which are potentially destabilizing to equity values. The reversion to more typical valuations could be magnified by record corporate and public debt levels, structural changes in how investments are managed, plus the large number of investors and executives who have never experienced hostile market and operating conditions.

This paper presents the current environment in a long-term context, provides a preview of what to expect when the cycle turns, and provides high-level recommendations on how to contend with the changed business and financial environment that will result.

The key is to begin now, while business conditions are reasonably solid and financial markets remain favorable, to develop mitigation strategies for the inevitable next downturn to help bolster a firm’s reputation and ease the downward pressure on valuation and market capitalization.

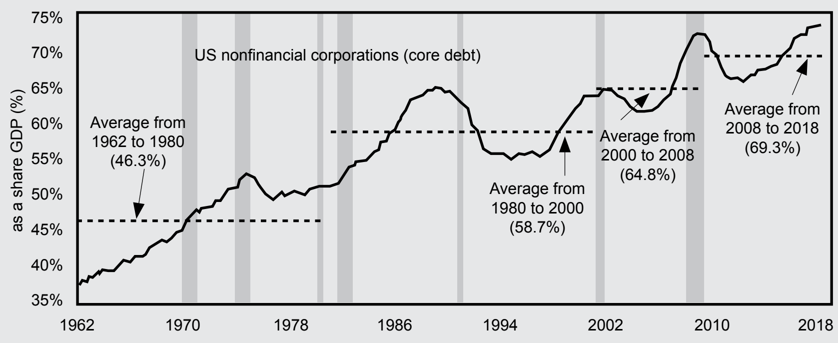
The Debt Overhang

Business conditions are, at the moment, fairly robust, but there are incipient signs of weakening fundamentals.

- Global Manufacturing PMIs, including the headline ISM Manufacturing, have turned down below levels that indicate economic contraction.
- Wall Street banks are cutting their 2020 GDP forecasts.
- Demand for freight transportation is weakening across many transport modes, both domestically and non-U.S.
- Yield curves across multiple durations have inverted, which typically signal weak economic conditions, albeit with some time lag.

Despite being in the late stages of the cycle, U.S. corporations are financially over-extended, carrying record levels of debt.

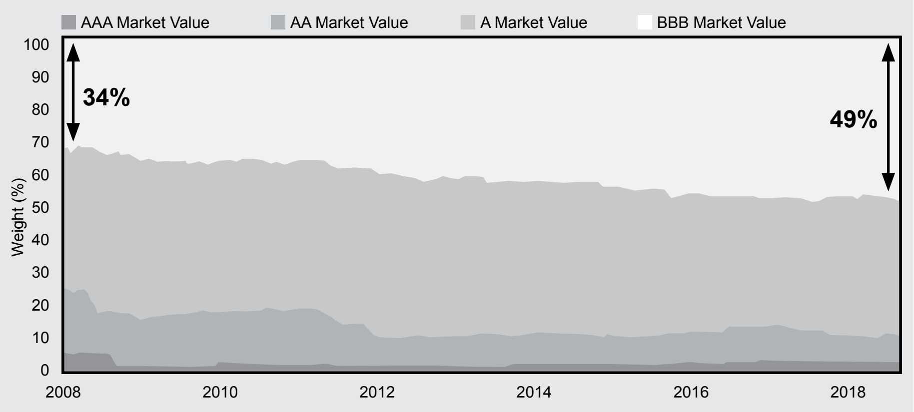
Postcrisis debt levels set fresh peaks



Source: HSBC, BIS total credit statistics

U.S. nonfinancial corporate debt as share of GDP

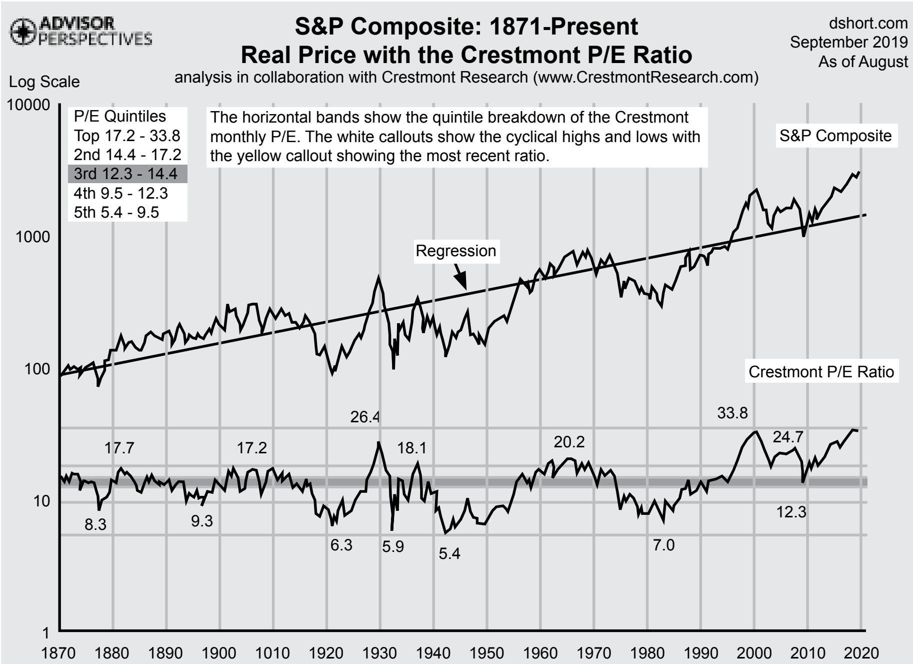
In addition to the amount of corporate debt, the quality of the overall bond market has eroded significantly, becoming skewed toward the lower end of the quality spectrum. The lowest rated tier of the investment grade bond market, BBB, now exceeds 50% of the IG index, and investor protections on recent bond issues are weak. A slowdown in the economy would most likely pressure business profits and challenge the creditworthiness of those companies with high leverage, leading to downgrades and possible defaults.



The amount of BBB-rated debt is more than twice the size of the high-yield bond market. There might not be enough capital in the HY market to absorb meaningful amounts of downgraded BBB debt as it is sold off by funds that are required to hold IG credits.

The high leverage in the corporate sector is not lost on investors. Concern today about leverage exceeds that that at the top of the Global Credit Crisis in 2008/2009, according to a recent BofA Merrill Lynch Global Fund Manager Survey.

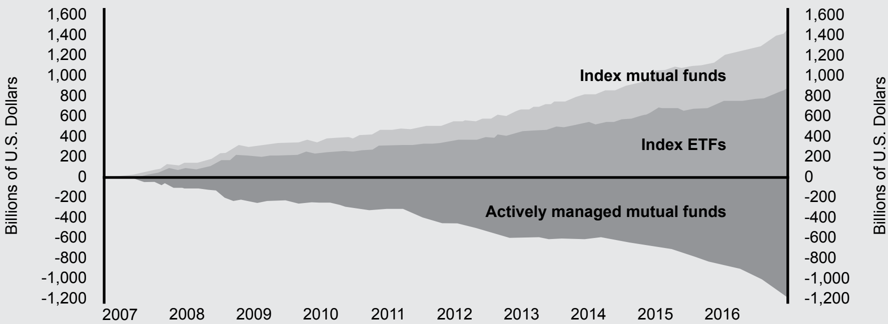
With the S&P 500 currently near an all-time high, it is well above the long-term trend line and it carries a valuation exceeded only during the “dot.com” frenzy. Investors remain complacent about the risks, as evidenced by the VIX being only slightly above the all-time low.



Valuations do not necessarily cause bear markets; recessions and earnings shortfalls do. But valuation determines how bad the fall is going to be. The higher the valuation, the wider the gap is to revert back to normal. And when markets turn, they tend to frequently overshoot their long-term fair values, so an overextended market simply has farther to fall.

In addition, when investor sentiment turns negative, market volatility could be exacerbated by structural changes in the financial community. During the past decade, trillions of dollars of investable funds have shifted from active to passive managers, such as index funds and exchange-traded funds (ETFs), who have become large holders of large capitalization companies. Further, the unprecedented duration of the current market cycle means that there are many people in the financial industry who have never experienced a recession or bear market.

Exhibit 1: Flows from Active to Passive Funds in U.S. Equities



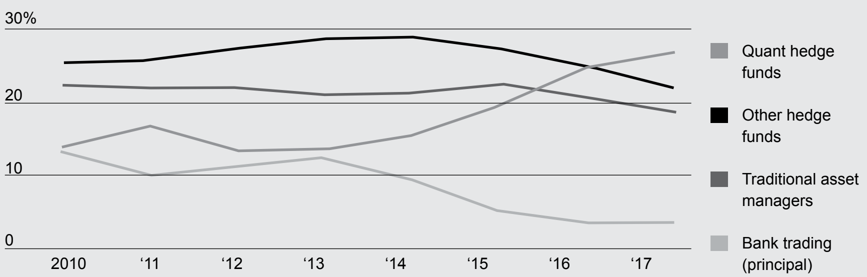
Source: Investment Company Institute; Simfund; Credit Suisse.
Note: U.S. domestic equity funds; 2016 figure as of 11/30/16

Impact of New Investing Paradigms

Reflecting the shift toward passive investment management, the five largest index funds and ETF managers (The Vanguard Group, BlackRock, State Street Corporation, Fidelity Investments and Charles Schwab) have almost doubled their market share, and now own almost half of investable assets. These low-turnover funds arguably reduce the realistic float and trading volumes of the companies they own.

In addition, quantitative investment strategies, in which investment decisions are made through computerized algorithmic trading, have doubled their share of trading volumes. Their trading has overtaken actively-managed hedge funds and traditional asset managers, whose share of trading has declined in the past five years.

Share of Stock Trading By Type of Investor



Source: Tabb Group
The Wall Street Journal

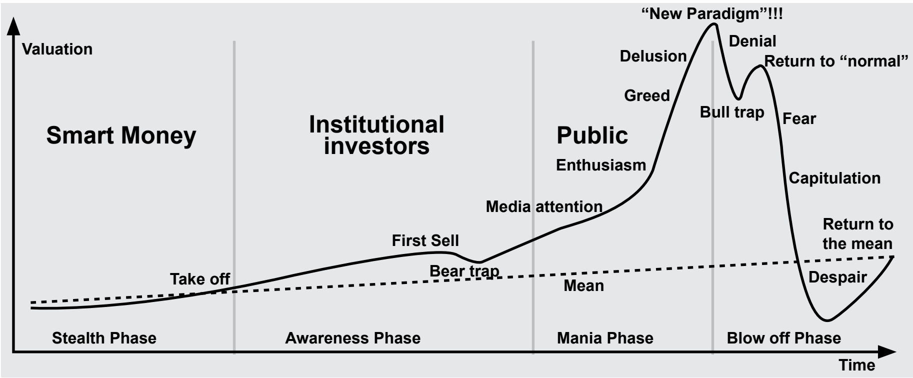
Given how large they have become relative to the market, we do not know how these passive and algorithmic funds will perform in a risk-off market. There could very well be mismatches in liquidity between the index funds and ETFs - which must quickly provide proceeds to holders who redeem - and the underlying holdings. Hundreds of billions of dollars are invested in Russell 2000 index funds, but over half the stocks (1,049) trade less than $5 million a day and almost one-quarter (456) trade less than $1 million a day. Once psychology turns and investors want to get out of the market, the compound effect of one-sided trading and reduced float may cause an automatic sell-off.

Competing for Capital in a Recession and Bear Market

"Everyone has a plan until they get punched in the mouth." – Mike Tyson

The financial press tends to characterize a bear market in quantitative terms, such as a 20% decline from a recent market top. In reality, bear markets are protracted declines of more than 50% over a period averaging 1.4 years – a psychologically debilitating period when shares decline day after day and virtually every investment decision is a wrong one. That mental aspect has knock-on effects that influence business strategy and decisions, capital allocation, governmental policy, consumer spending, and virtually all aspects of economic life.

The psychological progression will go through several stages toward despair. Then, when all seems lost, the upturn will commence, as shown in the following chart:



The broad rout can mask companies, some of which are prominent and respected, and industries that are at the cusp of a secular decline and which will never fully recover. For example, the tech and telecom crash of 2000/2001 marked mainstream adoption of web-based computing that left behind many of the “darlings” of the time. It will only be evident after value has been broadly destroyed which companies and industries have been irreparably changed. Management must help investors to understand why their businesses will survive and thrive in the inevitable recovery.

Prepare the Business

During recessions and bear markets, companies face the challenge of making a compelling investment case for a business under pressure and to an audience that is more inclined to sell than buy. Since virtually all stocks will decline, mitigating the damage means competing for and capturing more investment dollars from a shrinking pool.

This requires a strong narrative, supported by a durable business that has been prepared for a hostile environment. Investors will need to hear how the business has been weatherproofed, but for the discussion to sound credible, management must be able to articulate how it has thought about vulnerabilities and what steps it has taken to address them. That means the thinking must have already been done. It is difficult, if not impossible, to make a convincing investment case while scrambling to play catch-up with a rapidly changing business environment.

During a recession and bear market, access to capital will not be a given. Managers must evaluate their capital position and funding needs ahead of the top and use today’s buoyant markets to build a financial position that can weather the storm, with ample liquidity and no material need to raise capital. The BofA Merrill Lynch survey shows that investors are already concerned about the level of corporate debt.

A recessionary environment will obviously put pressure on revenue and pricing to the detriment of margins and profits. Managers should preemptively identify the levers they can flex in the expense base to preserve margins and earnings power in the event of a slowdown, rather than wait for profit pressures.

Even today, investors are starting to assess the ability of companies to preserve earnings power in a hostile business climate, so there is an urgency to this preparation.

Companies are presently repurchasing their shares at record rates despite the maturity of the market cycle and extended valuations. Many of these shares will decline in price, some significantly, during the bear market. Management should prepare a defensible framework for how they determine value and make repurchase decisions that can be used to respond to challenges if share prices decline substantially. Executives are not stock-pickers, but having a methodology in advance can deflect accusations of arbitrariness and ulterior motives.

The current boom in mergers and acquisitions and the shift in business models toward intellectual property have generated a record amount of goodwill and intangibles on corporate balance sheets. In a recession, the performance of acquired businesses could fail to meet expected returns projected and the value of brands, trademarks, IP and other intangibles could come into question. This risks triggering potential impairments which could trip coverage ratios and bank covenants, and in turn cause credit rating downgrades. Managers should stress test, in advance, which intangible assets might be impaired in a more hostile business climate.

Building the Narrative

Because the macro environment will be evolving quickly and lacking in visibility, investors will be inordinately dependent on management's narrative and commentary on business conditions and prospects to help determine their decisions and portfolio allocations. Maintaining credibility is paramount. The economic headwinds will provide cover for subpar results, so investors will expect management to speak transparently and candidly about the environment, challenges, remedial actions and, of course, successes.

Astute management teams will get credit for foreseeing the downturn and preparing the business for tough times, so it is key to include that thought process in the narrative. While every cycle plays out differently, consider relating how the current environment compares to the Great Recession as a reference, what lessons were learned from that experience, and how they might be relevant here. Share with investors observations on how management prepared the company to outperform its peers in the last recession, how it can manage the balance of fixed versus variable expenses and, to the extent possible, why the business is fundamentally better positioned to survive the downturn.

Since investors will want to put a floor on how low performance can go and for how long, executives should parse the factors affecting the business into those that are cyclical, and will eventually self-correct, versus any that are secular or systemic. Also underscore parts of the business that are less economically sensitive or are of an annuity-type nature, such as subscription services, the earnings power of which should be more stable through the downturn.

In a downturn, the interplay between the income statement and balance sheet becomes crucial, as lower earnings and cash flows can affect liquidity to run the business, coverage ratios, covenants, debt maturities, capital requirements, etc. So, stewardship and preservation of capital will also be at the fore for investors. Management should articulate how the cash flow cycle is affected by the environment and how priorities for capital deployment have changed between maintenance of the business and investing for the future.

Because of the elevated risk related to expected returns on investment in growth during a recession, there will be acute scrutiny of discretionary capital expenditures, especially as they encroach on investor-friendly alternatives, such as return of capital to shareholders. Management must be able to defend discretionary investments and demonstrate that their returns will exceed the cost of capital by a meaningful margin.

Credibility for prudent capital allocation in the past will greatly strengthen management's license to retain excess capital to invest in the business. Absent that license, investors are likely to demand that capital be returned to them. This topic should be discussed within the context of how much liquidity the company needs to retain to ensure a strong financial position, preserve its competitive advantage, make opportunistic acquisitions and repurchase shares at depressed prices. Given the concerns regarding corporate leverage expressed in the BofA Merrill Lynch survey, this message should be well-received by investors.

Weak economies put pressure on almost all businesses, but the best positioned ones can exploit the challenges faced by their competitors to enhance their market position and start the next cycle in a better place. Thus, a company's narrative should underscore its competitive advantages (market position, cost advantages, scale, technology, geographical reach, innovation, culture, etc.), describe how they are helping to mitigate cyclical pressures, and articulate how it will use them to win. If investors see a company poised to outperform in the next economic cycle, they will be more likely to hold shares.

Of course, all of this will ring hollow if management has not done the analysis and advanced planning described above.

Review and, as Necessary, Strengthen Corporate Governance

Boards will also come under greater scrutiny — and will be held more accountable — for weak operating or financial performance, faulty strategy and execution, poor shareholder returns and their oversight of culture and governance. Boards should self-analyze to ensure that they can withstand scrutiny of tenure, age, skills, diversity and oversight of the business, and articulate a plan for board succession and refreshment. This is especially true for companies that are undergoing a transformation, as the skills and makeup of the board must reflect where the company is going, not where it has been.

The increasing presence of passive and ESG investment managers, who scrutinize corporate governance and ESG policies and disclosure more aggressively than most investors, means that proxies and annual meetings will receive greater attention and these managers will use the proxy forum as a springboard for their agendas. Consequently, the proxy is a good forum for discussing the company's philosophy on corporate governance and responsibility to the communities in which it operates. As a matter of course, proxy disclosure must be clear and combined with robust engagement with large shareholders. Goodwill earned when everything is fine will be helpful when shareholder proposals or compensation issues surface where management needs shareholder support.

Credible independent board members can be very effective in discussions with shareholders and proxy advisers. Their involvement signifies that the company understands investor concerns, takes them seriously and is willing to be held accountable.

Proxy advisers must be monitored to ensure they understand what is driving the company's performance. Proxy analysts are not industry experts, so companies should be prepared to educate them on industrial idiosyncrasies that would not be appreciated from outside.

In addition, in August 2019 the SEC provided guidance that prompts proxy advisers to be more transparent in their methods and recommendations, and holds the veracity of their statements to a higher bar. This could enhance the willingness of proxy advisers to engage with companies to ensure accuracy of their analyses and recommendations. It could also signal that proxy advisors may enhance some of the processes to allow more company feedback, as a result of, or in anticipation of, additional SEC guidance on their reports and recommendations.

In addition, management cannot afford to ignore the retail shareholder base. In a closely contested election or proxy vote, all shareholders count. Companies can engage with and communicate to individual shareholders online and in other ways, especially if a significant proportion of holders are employees or retirees for whom the company has contact information.

Executive compensation could become a lightning rod for investors in general, who will be angered when management teams take home large pay while they are suffering due to poor performance. At the time of this writing the S&P 500 has recently made an all-time high, yet there is already ire building against certain companies whose CEOs were richly compensated while their investors lost money over the past year.

Compensation plans must be developed with a sense of fair play so that all parties share in both the upside and downside. In a bear market in particular, compensation policies that are not aligned with the creation of shareholder value, or are easily manipulated (i.e., non-GAAP metrics that ignore management mistakes, such as write-downs), could come under fire. Compensation committees should consider exercising negative discretion to align compensation with performance, but even that will not excuse a poorly designed compensation program.

Review the Guidance and Outlook Template

The volatile macro environment will make internal budgeting and forecasting more difficult, undermining management's ability to set appropriate expectations for investors.

Recessions and bear markets provide a license to change how a company sets future expectations for the Street. Review the company's guidance template to determine if it accommodates a higher degree of uncertainty; the level of precision assumed in a stable environment may no longer be suitable. If not, use this opportunity to reconsider guidance elements for which there is reduced or limited visibility due to market conditions. For example, substitute ranges for single-point forecasts to signal a wider band of potential outcomes. In a rapidly evolving environment, one might provide more detail around the assumptions behind the guidance, to allow external parties to understand how the outlook was derived and to monitor macro developments between reporting periods.

Guidance should obviously be conservative and take into consideration trending, not current, market conditions. One large downward revision in guidance to a level that the company can meet or beat (i.e., the "kitchen sink" approach) might generate a harsh market reaction in the short run. But this is eminently preferable to a series of smaller revisions over time ("death by a thousand cuts") that will try investors' patience and make management appear out of touch with the reality of the business and prevailing market conditions.

In extenuating circumstances, where there is little or no visibility into future performance, management may consider dropping guidance entirely. This should be done as a last resort, but if market conditions preclude reliable forecasting, it is better to pull guidance than to continually miss company-provided outlooks.

Continue to Engage with the Financial Community

There is a tendency of executives to hunker down during bear markets and pull in engagement with shareholders and the investment community, as it may feel futile to try to change sentiment and get investors to commit. Or they may believe that their time should be completely dedicated to operations and trying to "right the ship."

But it is the job of investors to invest, and they are constantly in search of the best opportunities. For this reason, there is a market for almost any company's shares. In our view shares are more often "sold" than "bought" and, given the inherent slack demand for shares overall in a down market, it is up to managers to drive demand for the shares by proactively targeting and engaging with potential investors and delivering a compelling investment proposition.

It is also important to eliminate any information gaps that would worry investors. As the market abhors a vacuum, any such void will be filled by covering analysts, the financial media and others, who are often ill-informed or may have their own agenda. It is sub-optimal to have the company narrative co-opted by an outside party, which is why it is so important to maintain the calendar of non-deal roadshows and conference attendance.

Because hostile markets shorten investment horizons, investors' portfolio turnover will increase and lead to turnover of the shareholder base. Regularly review who has bought and sold shares and consider engaging a surveillance firm to monitor changes in holdings between Form 13-F filings. Analyze the type of investor (active versus passive, hedge fund versus long-only, etc.) and their activities to detect possible future buying opportunities and selling pressure.

Prepare for Investor Activism

Activists, like all investors, will be suffering from performance issues. They will need to generate returns and protect their brand by demonstrating to their investors that they still have influence. And, because activists tend to manage more concentrated portfolios, they face additional pressure to make each campaign successful.

They will be hard to detect if they intend to commence an action against a company, as their success often depends on stealthily taking a stake. But activists will often take an initial position while they get to know a company and are building a thesis, so the shareholder analyses, as mentioned above, can act as an early-warning system.

Companies should preemptively implement a strategy that can be quickly mobilized to defend against an activist approach. At a high level, this entails creating a team of management, legal and financial advisors; performing a candid analysis of the company's potential vulnerabilities; scenario planning for how the attack might come; development of rebuttals to the likely lines of attack; and identification of third parties and other influencers who can support the company's campaign if needed.

Companies that are prepared will meet regularly with their advisors to discuss progress of and concerns about the business. They will also have an "evergreen" playbook that can be deployed at the first sign of activist interest.

Final Thoughts

While there might be no immediate threat of a recession or crack in the equity market, we are living on borrowed time due to the record duration of the current economic cycle and stock market run. And because of the elevated level of corporate indebtedness, high equity valuations, investor complacency and increased proportion of formulaically-managed assets, instability could come quickly and violently.

When the cycle does turn, management teams must have prepared their firms to withstand the hostile economic environment and higher scrutiny of their strategies, execution, and capital stewardship.

Because of the long lead times required for that level of preparedness, we recommend that executives use the current favorable economic and market climate to develop and stress-test plans for managing through a much less favorable environment. This will enable them to position their companies to not just survive the downturn but thrive when the next cycle begins.

For this reason, preparation should happen before the storm clouds gather. It's never too early to start.

The New Security Risk Management Paradigm

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Stepping outside of Teneo headquarters in Midtown, Manhattan, we are presented with constant reminders of the very real security risk around us. Police and fire sirens scream by regularly, while helicopters pepper the skyline during rush hour or major city-wide events. NYPD officers in fatigues armed with machine guns patrol Grand Central station, in obvious contrast to the business-suited commuters dodging one another to board trains home. We tune out the noise by scrolling through our mobile news feeds, consumed with the latest cyber breach to hit Wall Street or the newest scandal impacting the political elite.

For companies located in major cities like New York around the world, attuned to a high-threat environment, this is all business as usual. For the most part, these organizations take the necessary precautions when it comes to security risk management, either based on past security incidents or a current view of the risk. Other organizations not accustomed to operating in a high-threat environment view risk through a different lens, perhaps deprioritizing security initiatives by adopting a ‘wait and see’ mindset, leading to potential significant risk exposure.

Whatever the approach, no organization is immune to risk. It is imperative that businesses understand that the threat landscape today is evolving at a pace never seen before. The proliferation of emerging technologies and the heavy reliance on social media as a primary news and information source, have created unforeseen and increasingly complex security challenges in both the cyber and physical domain. Organizations will need to address this dynamic by implementing a new security model that replaces the traditional reactive, one-size-fits-all approach with a more targeted, proactive and anticipatory methodology.

What We're Up Against

- Insider threat, whether or unwitting or malicious, is considered one of the biggest threats to business today, and social engineering has become a primary tactic to reach insiders as pawns in criminal schemes.

- The growth of and real-time nature of social media as a tool for information dissemination has also inadvertently created a new threat domain and new channel for organizations to manage and monitor for reputation risk.

- The Internet of Things (IoT) and an estimated 25 billion connected devices by 2021 confirms that physical and cyber security are becoming inextricably linked.

- Workplace violence and active shooter incidents have challenged businesses to think differently about prevention, training and means to identify 'pre-attack' behaviors.

- Concerns over climate change and impact to the frequency and size of natural disasters like hurricanes, fires and floods means that businesses will increasingly brace for impact and will need to have robust crisis management and business continuity plans in place to recover.

Breaking it Down

Mitigating Insider Threats

In an increasingly fast-pace and high-stress business operating environment where employees are expected to manage large amounts of data, process information quickly and respond to clients near real-time, mistakes can happen. Unwitting insiders, rushed and distracted, may inadvertently click on a bad link, send the wrong file or download harmful software from a 'phishing' attack. Alternatively, disgruntled employees motivated to cause harm or achieve financial gain may use inside information and privileged or unauthorized access to disrupt operations, steal money or leak valuable data. In either case, 'insider threat' has become one of the biggest concerns today for businesses grappling with cyber security risk. The 2019 Verizon Data Breach Investigations Report found that 34% of all breaches happened as a result of insider threat.

The report went on to note that sectors most impacted by insider threat are healthcare, IT and financial services due to issues like sheer processing error, misconfigurations, theft and phishing attacks.

In the same vein, ‘social engineering’ is another means by which bad actors infiltrate organizations to gain access to systems and critical information by impersonating something or someone familiar to the target. Attackers study and deconstruct behavior patterns of the individuals they are targeting, and then set up social media profiles or email accounts to generate direct social media messages or email content that appears genuine in order to engage with colleagues or other individuals in the target’s network. The target will often be coaxed into clicking on a bad link, sending confidential information or downloading a file, believing that they are responding to someone familiar to them as either a favor or as part of an urgent communication. Malware or ransomware have become commonplace tools by which attackers are able to take control of or steal information from such unwitting employees. The end result can be as simple as stolen login credentials or as damaging as loss of millions of private records.

More recently, attackers are using these types of social engineering tactics to target or emulate CEOs for financial gain, primarily because they typically hold extremely valuable and confidential information and / or have top level access to such information, dubbed in cybersecurity circles as “whaling”. Colleagues and direct reports to the CEOs receive what appear to be legitimate or urgent requests to open accounts, wire money or provide credit card information or confidential login credentials. And normally, when the CEO asks, you answer.

So how can businesses mitigate risks resulting from these seemingly authentic, socially engineered stunts? The answer lies not just with technology – but also in regular employee training aligned to the current threat environment, diligence in identifying and reporting suspicious behavior and a commitment to building a security-focused culture which encourages employees to surface issues and protect the organization. Forward thinking organizations build insider threat training into their onboarding programs and regularly message the importance of cybersecurity risk management from the CEO down within the organization.

Authenticating Deepfakes

One of the latest and particularly troubling threats to emerge is the use of 'deepfakes', which are fake videos or audio clips that look and sound as though they are legitimate. Scammers are using deepfake audio to convince employees to transfer funds or make payments to erroneous accounts at the behest of what appear to be real and urgent requests from their managers, while other nefarious actors are using deepfake videos to spread 'fake news' on social media or create embarrassing videos to harm the reputations of public figures.

Notable deepfakes in the last year include altered videos of former President Barack Obama, Mark Zuckerberg, Nancy Pelosi and Kim Kardashian, all of which were real enough to garner initial viral attention before experts pointed out the key differences and glitches in the video feed which clarified that the videos were in fact, fake. In August of this year, a UK energy company was the victim of a cybercrime when a deepfake audio recording was used to trick the CEO into wiring over $200,000 to a fraudulent account at the direction of his German parent company CEO. The audio had perfected his German accent and the lilt of his voice so that the forged audio was literally undetectable.

Deepfakes are created using what are called 'generative adversarial networks' (GANs). GANs work as follows: two machine learning (ML) models work in parallel with the goal of creating a believable enough deepfake video. One model trains itself using massive data sets, in this case, real videos of e.g. a celebrity, to create an imitation. The job of the second model is to detect the imitation. The cycle continues until the second model can no longer detect a fake, and thus, a deepfake is born. These models work particularly well for recognizable, public figures like politicians and celebrities due to the sheer volume and availability of video and audio clips online to serve as the training set.

As we transition into an election year, members of the US government and intelligence communities have already expressed concerns related to the potential for deepfakes to pose potential serious disruption to campaign and election outcomes. In the lead up to the 2020 election, we should expect to see lawmakers intensify scrutiny on social media platforms and attempt to put in place policies and procedures to identify issues and protect consumers from the spread of disinformation. The challenge remains that the technology is developing faster than the solutions to mitigate or even detect deepfakes before they hit social media and go viral. While the problem searches for a solution, businesses and the public at large will need to be vigilant and maintain a healthy skepticism related to “fake news.”

Embracing Security Convergence

On the internet, the physical and cyber domains are converging quickly, some interesting and futuristic use cases include Jetson-esque refrigerators with direct online access to delivery services to reorder your milk and ice cream, or, watches that text biometric data to physicians for real-time health monitoring. In these two examples, the convenience factors are obvious, not to mention the ability to prevent potentially life-threatening health circumstances from becoming reality. However, the ‘connectedness’ implies a new and unexpected playground for cyber-attack in the form of machines, appliances and personal accessories.

Within a business context, every organization is connected to the Internet in some way, whether the business itself is an Internet platform, or the physical assets of the company are managed and controlled online. Since the 90’s, we’ve grown accustomed to ‘information technology’ and associated cyber-attacks on computers and network infrastructure through the Internet, including phishing, malware, and, now with the rise of crypto-currency, ransomware. The Internet of Things, which has largely enabled more efficient and automated processing of ‘operations technology’ through Internet connectivity, such as machines found in manufacturing facility assembly lines or office building infrastructure like elevators, escalators, turnstiles and doors, has also created an unintended new attack surface for malicious actors. Who could have imagined that a refrigerator, a watch or even an elevator could serve as an open door for a cyber-attack? The 2013 Target breach proved this is indeed possible – the company was hacked after the attackers stole network credentials from one of Target's HVAC vendors who had remote access to heating, cooling and refrigeration systems for maintenance and troubleshooting. Hackers successfully tunneled in via the vendor's network credentials and famously uploaded card-stealing software to cash registers.

This convergence of both the physical and cyber domains implies that security measures must also converge, else organizations are left exposed through increasingly unexpected entry points. No longer can organizations draw lines between their physical security and information security teams and expect that the two can achieve success while operating independently. Clearly, hostile actors will exploit weaknesses in either the physical or information technology domains to achieve their objectives. Heretofore siloed security operations within companies have failed to accurately recognize patterns and emerging threats when not considering the totality of the attack surface within an organization. To effectively manage security risk in today's environment, businesses are best served to centralize both physical and information technology security under the leadership of the Chief Security Officer, who is then responsible to build and drive a culture of security mindedness as the shared fate of the organization.

Detecting & Preventing Workplace Violence

2019 has been plagued with tragedy related to active shooter and other workplace violence issues. According to the Occupational Safety and Health Administration (OSHA), more than 2 million American workers contend with workplace violence, ranging from threats and verbal abuse to physical assaults and even homicide." Businesses are reporting a rise in workplace violence.

As the open carry firearm debate swirls in the US, many major retailers like Walmart, Kroger, CVS and Walgreens this year issued policies respectfully requesting that customers no longer openly carry firearms in their stores. Other brands like Target, Starbucks and Chipotle established similar policies in prior years.

Companies are best served to implement policies, procedures, training and reporting mechanisms to protect employees and enable them to comfortably come forward if they notice unusual or suspicious behavior in and among colleagues. Some common steps recommended by safety and health agencies include:

- installation of safety measures like security cameras, alarm and lighting systems;
- education and training on what to look out for, what to do and who to notify, specifically active shooter, sexual harassment, data theft, hostile behavior;
- provision of clear policies and procedures related to zero tolerance and code of conduct; and
- safe and, where applicable, anonymous reporting mechanisms whether hotlines, mobile apps or open-door management policies to encourage employees to speak up without fear of retribution.

Bracing for Natural Disaster

2018 had the fourth-highest total costs from natural disasters since tracking began in 1908. Businesses that are most impacted and struggle to recover likely have not adequately prepared for continuity of operations or were ill-prepared as an organization to handle the disaster as it unfolded into a full-fledged crisis.

Good business continuity planning and crisis management frameworks enable resiliency and are central to boosting employee morale and confidence in dealing with crises. Key components of good continuity of operations and crisis management plans include:

- a thorough understanding of the critical assets of the company and the risks to the enterprise;
- mitigation strategies in place to address enterprise risks;

- an inventory of core business processes and “keep the lights on” operations and technology, as well as the people who manage those functions and their locations;
- designation of backup operations facilities if applicable and plans for remote access; and
- assignment of a crisis management and crisis communications teams with relevant policies, procedures and training in advance of disaster.

Overcoming Traditional Security Structures

Many organizations are still operating under a more traditional and frankly, outmoded security structure which will only serve to undermine well-intentioned security professionals. As we look ahead into 2020, and in light of the anticipated threat landscape, traditional security structures potentially create more risk and make it even more difficult to survive a major security event. As the spectrum of security issues that endanger businesses grows, the outdated model of “guards, guns and gates” fails to fully address and mitigate the current threat landscape.

Traditional corporate security departments were created to protect physical assets, and their employees were constructed with a relatively narrow operational scope. Physical security based in access control and screening measures, uniformed guard services and video surveillance, is generally characterized by their defensive, or responsive measures, yet fall short of fully addressing the current state of security risks facing an organization.

Social issues are rapidly becoming the underlying causes of insecurity within an organization and present a new security risk for companies globally. From social unrest to violence rooted in a particular political ideology, identifying emergent risks and building a new security strategy that mitigate their impact is essential to gaining a competitive edge. For organizations to achieve new business opportunities, especially in areas deemed too risky, increased security investments must be made that look beyond the traditional model.

Transforming to Meet New Security Demand

It remains hard to convince companies to spend more on security infrastructure, and even harder to have them divest from the traditional security methods. Companies annually spend millions on physical security guards that offer little-to-no return on investment yet are hesitant to spend thousands on digital protections that could protect them against financial and reputational disasters. Often, the reluctance to undertake a new model of security risk management is based in the fact that the Boards, CEOs, and other C-suite executives do not fully realize all the threats faced by the organization, therefore, to overcome this institutional reluctance towards change, a culture and governance change is necessary. Security leadership must create a culture of security awareness beginning with the Boards to highlight the risk and consequences of security incidents such as the insider threat, disinformation campaigns, workplace violence and the impact of natural disasters have in an organization. With greater understanding and awareness of the risks faced, organizations can establish the appropriate governance and oversight of the security risk management programs. Once established, a security risk management governance structure, attuned to the current state threat environment, will also reinforce and quicken deployment of saleable mitigation techniques across the organization. Collectively, proper security awareness and governance will prepare an organization to address a multitude of emerging and future threats.

The Bottom Line

Even the most well-conceived and accurately executed security program will not protect against all threats; organizations must understand that they will never operate in a zero-risk environment. While no organization is immune to security risk, it remains imperative that the current threat landscape facing an organization is understood throughout the organization; from the board room to the mail room. Building a new model that can address the impact of a dynamic threat environment will prepare organizations for security incidents that have a measured impact on corporate finances, operational functions and overall corporate reputation.

The best risk management strategy combines multidisciplinary security protocols, aligned to the threat environment and the creation of a corporate culture of security awareness. As threats in the physical and cyber domains increase and deepen during this age of extremism and decentralized attack tactics, protecting against impact of an attacks on an organization requires not only a greater awareness but the implementation of a new security model that replaces the antiquated reactive traditional security model.

The New Era of Corporate Activism

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For nearly five decades, CEOs viewed their primary responsibility as delivering shareholder returns, and subsequently acted in service of that goal. That has changed.

Over the past several years, societal expectations of corporations have evolved significantly, and with it, the role of the CEO.

Historically, returns to shareholders and corporate "purpose" were distinct subjects that rarely coexisted in the same conversation. The latter was often the domain of corporate social responsibility ("CSR") departments, and largely peripheral to the core businesses of most companies. CEOs would engage in CSR activities – some with great commitment and passion toward causes that their company supported – but it was rare for senior leaders to view these efforts as central to their businesses, and only a relatively small cohort of investors consistently evaluated companies by this measure.

Today, there is an increasing awareness of the need to align purpose, long-term business strategy, and the interests of shareholders. A confluence of macro-economic and political factors, changes in the demographics of the workforce, and the increasing influence of corporations as societal institutions has brought us to this point.

This evolution hit a milestone in August 2019 when the Business Roundtable (BRT) – which comprises 200 of America's most prominent companies – revised its "Statement on the Purpose of the Corporation." Since 1997, the BRT has declared that, "the paramount duty of management and of boards of directors is to the corporation's stockholders; the interests of other stakeholders are relevant as a derivative of the duty to stockholders."

In contrast, the 2019 revised purpose acknowledges the role of business in driving broader economic growth and opportunity for all, and pledges of commitment to all stakeholders, including customers, employees, suppliers and partners, surrounding communities and the environment, and lastly, shareholders.

In this new era, leaders grapple with effectively balancing the expectations of a confluence of stakeholders – beyond just shareholders – who are both impacted by, and influencers of, corporate behavior and success.

While often erroneously labelled as CEO profile building or advocacy of personal political or social beliefs, for this essay 'CEO activism' is defined as the engagement of CEOs on issues that are not limited solely to the delivery of shareholder value, but are nonetheless still accretive to the long-term health, competitiveness and success of their companies.

Increased Scrutiny

At the heart of this shift is a heightened, more analytical focus by a wider group of stakeholders on a company's role and actions when it comes to these various issues; this coupled with the growing influence and power of this wider group is redefining the role of the corporation and, concurrently the role of the CEOs who run such organizations. For a CEO, understanding these dynamics is vital for the success of the modern corporation.

Ten years after the global financial crisis, and despite sustained macroeconomic growth in most developed economies, political polarization has increased in many countries as a result of growing inequality and continued job displacement. Many individuals feel increasingly powerless, subject to economic and political forces beyond their control and influence. Add to this the crisis of personal privacy, and the reaction among many people has been profound disenfranchisement.

At the same time, power has become increasingly concentrated among large companies. This dynamic has triggered intense scrutiny from regulators, politicians and media. 'Supra-sovereign' companies – those with vast global employee populations and market values that exceed the GDP of some countries – are especially vulnerable to this trend. These companies wield extraordinary influence over economic and societal well-being, as well as consumer behavior. Due to the size and influence of these firms, their CEOs are often (and many times unwillingly) drawn into political and social issues, and feel intense pressure to take positions on issues that concern their customers, employees and the local communities in which they operate.

As has been the case throughout history, governments are closely monitoring the impact of these powerful companies on their constituents and CEOs find themselves caught in the middle of not only domestic political priorities, but also geopolitical transitions and tensions.

Finally, as awareness of the consequences of environmental degradation becomes increasingly commonplace, climate change and the environmental impact of corporate decisions are also central concerns among a wide array of stakeholders, from employees, to customers, policymakers and investors. Well-established business models are being upended in recognition that sustainability is becoming a matter of existential survival for many companies.

Expanded Role for CEOs

These issues increasingly require that leaders of large multinational companies also act as diplomats – representing and balancing varied stakeholder concerns across geographies – in interactions with government officials or in fielding press.

And there are myriad recent examples of CEOs harnessing their stature, and their authority to advance corporate policies or advocate on behalf of the corporation and its stakeholders. Patagonia Chairman Yvon Chouinard serves as such an example (alongside Patagonia CEO, Rose Marcario) building upon his founder's story rooted in adventure and the outdoors, to incorporate environmental activism at the core of the company's values. This is realized across employee policies, which encourage enjoyment of the outdoors, to policy advocacy – as a vocal critic of defunding the National Parks and rolling back endangered species protections, to product development incorporating recycled materials and limited ecological impacts, and philanthropic and volunteer efforts dedicated to environmental protection.

Even if CEOs choose initially not to take a position on an issue, they may be pressured to do so by their stakeholders. Frequently, employees demand that CEOs lead as a spokesperson – and advocate – for the internal body politic. Third-party stakeholders, such as unions and NGOs, are labelling CEOs based on their policies, or lack thereof, around issues such as workforce re-training, human rights, and climate change.

CEOs often face difficult dilemmas, such as placating one set of stakeholders at the expense of the priorities of another constituency or core business interests. The two-year evolution of the firearms retailing policy of Dick's Sporting Goods is an illustrative example. Following the February 2017 mass school shooting in Parkland, Florida, Dick's raised the purchasing age for firearms and ceased selling assault weapons, high-capacity magazines and bump stocks across all their stores, and destroyed all remaining assault weapon inventory instead of selling it to another retailer. While the move challenged some customer loyalty, it did not go against the company's core sporting proposition, as they continued to sell hunting firearms and accessories. At the same time, the company began a pilot program to remove all firearms and ammunition from 10 stores, replacing the stock with local sports teams' merchandise and other inventory. The program proved successful in sales performance across the pilot stores and was expanded to a further 125 stores in early 2019. While the company experienced a 3.1% decline in sales in 2018 fiscal year, which was attributed to the policy change, CEO Ed Stack nonetheless continued to advocate for gun control measures and sales rose 3.2% in the second quarter of 2019.

As the Dick's case demonstrates, while the choices CEOs face are not always binary, they are undoubtedly complex and often require a balancing of stakeholder interests. However, by taking an ad hoc or reactionary approach, and not having a clear governing philosophy and strategic framework through which to engage stakeholders on these issues, CEOs face great risks to both their and their companies' reputations.

A Framework for Action

Changing expectations and the potential risks to the value of the company and its ability to operate demand a rigorous approach to decision-making on social and political issues.

[#1] Broaden the Definition of Stakeholder Interests

The confluence of factors outlined above not only encourages traditional stakeholders to consider a broader range of challenges and interests, but also activates unconsidered additional stakeholders. The modern CEO must therefore review the company's stakeholders in a more purposeful and intentional way.

Stakeholders should be assessed by their evolving priorities and expectations of a company – for example, examining whether the company's employees, customers and shareholders will be negatively affected if a specific issue is not addressed and effectively managed. Assessments should map issues which stakeholders are not only affected by, but about which they also care or may be influenced by as a result of emerging trends.

The exercise of mapping out stakeholders and outlining their main priorities should also take into consideration the interconnectedness of these varying stakeholder priorities.

[#2] Assess Your Current Position

A CEO should also understand the company's own track record on the set of core issues identified, as well as existing policies regarding such issues – if they exist. For example, before taking a stand on political action surrounding gender rights, a company should assess its track record on gender and LGBTQ workforce diversity and existing employee benefits and policies. Leadership should ask not only if an issue materially impacts or potentially contradicts the company's stated culture and values, but also examine company actions and potentially related issues which might surface as a result. In addition, through benchmarking, a CEO can understand the company's position relative to peers and competitors to identify changing expectations and emerging standards by which stakeholders may judge a position.

[#3] Re-prioritize

Alongside the board, a CEO should use the new assessments to decide how to prioritize issues and stakeholders through multiple lenses – essentially employing a 3-D matrix approach to examine the impact, likelihood and outlook of issues on both company operations and stakeholders. This exercise will achieve several objectives: understand the importance of issues to the company; understand the importance of the issue to stakeholders; understand the importance of the stakeholder to the company; and, understand the outlook of the issue and how that will affect both the company and stakeholders. In turn, a board and CEO will be well positioned to prioritize issues according to stakeholders while keeping central the impact on the company.

[#4] Identify and Address Vulnerabilities

Having assessed and newly prioritized the broader array of issues that ultimately matter to the company and existing positions, the next step is to identify potential vulnerabilities and determine if and how to address them. In addition to drawing from the assessment of the company's existing positions and policies, this may involve an internal organizational review of suppliers and partners, as well as operational practices. When assessing any potential vulnerabilities, and possible action to address them, a cost-benefit analysis should examine not only company objectives and financial imperatives, but also impacts to stakeholders – ensuring a holistic view which also incorporates the negative outcomes for different stakeholders; what potential impact might be created with key stakeholders if the CEO does or does not engage on said issue?

[#5] Define Your Positions

Armed with a clear understanding of how issues affect the company, how they matter to which stakeholders, and what action the company will or will not take to address them, the company is now prepared to define its positions. Depending on the issue and how it is prioritized according to strategic objectives and stakeholders, this may mean building a strategy to take a public position or focusing primarily on internal organization and preparedness or perhaps, remaining neutral.

[#6/Ongoing] Build Resiliency: Review and Adapt

Companies should consistently monitor changing external dynamics. The modern CEO must take an expansive view to an external assessment and commit resources to monitoring developments outside of the traditional purview of an operating landscape assessment, anticipating potential events and scenarios, and translating them into potential implications for both the company and its stakeholders. This process of revisiting priorities and prior assessments will support in identifying core parameters for a company's individual framework – consistently referring to company and stakeholder priorities – while also building resiliency by ensuring adjustments which adapt to changing times.

Conclusion

In this new normal, corporate purpose exists in service of business strategy and enhanced shareholder value. The role of the CEO is to drive the alignment of these principles by proactively engaging with this wider set of stakeholders, always keeping in mind the long-term viability and health of the company they lead. Adopting this philosophy will safeguard the company's license to operate and prepare it as new dynamics develop in external and internal environments.

The Expanding Report Card for Companies: Fast Adoption of ESG Ratings

Matt Filosa, Managing Director

A company's "ESG performance" as an investment factor in stock and fixed income selection has been evolving rapidly over the last five years. Considering a company's ESG performance is now mainstream for European funds and catching on rapidly in the U.S. and elsewhere, companies that do not proactively address this trend are at a significant risk to be left behind by investors.

The ESG performance review judges how well a company is managing risks related to environmental, social and governance ("ESG") issues that may have a material financial impact over the long-term. Specifically, this is the framework that most firms are using to rate companies on ESG performance ("ESG Rating Firms").

This increasing focus on ESG performance is in part driven by investor and social pressure and in part by the competitive nature of the fund management business; once one steps on the bus, everyone else feels they are at a competitive disadvantage if they do not follow suit. The total number of funds which claim to consider ESG performance as part of their investment process is rising rapidly. For example, more ESG-themed ETFs were launched in 2018 than non-ESG themed ETFs in the U.S., and this has continued in 2019.

Today, there remains a significant difference between qualitative versus quantitative adoption of ESG screening. The qualitative piece is a much easier path for investors and involves the wholesale avoidance of certain industries deemed undesirable (e.g. tobacco), as well as an increased focus on proxy voting and engagement with companies to identify their ESG shortcomings and ask for change.

To Come, a Quantitative Framework

The quantitative approach is still developing. Investment managers primarily rely on ESG Rating Firms to provide a quantitative framework and rate companies on ESG performance. Today there are more than 100 ESG Rating Firms: an unsustainably high number and a major cause of confusion for companies. The number of EGS Rating Firms is also a deterrent to some managers, as no two ESG Rating Firms have the same methodology and produce the same ratings. Most are requesting ESG data from public companies and this collective “ask” is creating an overwhelming workload. Our expectation is that this will be a short-lived problem, with investors (and consequently public companies) focusing on only a handful of ESG Ratings Firms, with the survivors being those favored by the index providers and the funds which use them. For example, RobecoSAM, an international investment company with a specific focus on sustainability investments, is now almost guaranteed a seat at the table, with S&P choosing to use its data in creating the suite of S&P ESG indices in early 2019.

Equally interesting is the S&P approach, which is to attempt to keep industry balance in the new indices, by cutting the bottom 25% of ESG performers in each sector. This minimizes tracking error versus the mainstream S&P indices. S&P has also removed some industries (those involved in controversial weapons and those with significant tobacco exposure) but has otherwise, for the most part, looked for the lower-performing ESG companies within each sector.

Two likely trends should be very much on public company radar. First, the ESG investing push will continue and become mainstream globally. Growth is likely to be driven by index funds, given investor’s appetite and given the high cost for an active manager of doing something proprietary and hard to recover in a shrinking fee world. Second, the focus will start to shift as the metrics for ESG performance improve, and consensus develops around which metrics matter across and within industries. Even today, the focus is on ESG disclosure; tomorrow the focus will most likely shift to ESG metrics and performance. Today it is not good for a company to be excluded from an ESG index, especially one based on a proxy that has historically seen substantial success at attracting assets (such as the S&P 500). Tomorrow, staying in an important ESG index may be driven by ESG performance, as opposed to ESG disclosure.

Public companies will need to ensure that they are monitoring and actively providing feedback to ESG Rating Firms, as well as embarking on a plan to create a path to the highest possible ESG rating for their company.

Active and Passive Channels

As the traditional investment management world has divided into the active and the passive channels, so will ESG investment initiatives. Indexes are appearing, but they have been slow to materialize, in part because of confusion over how to structure ESG index funds that can compete with traditional index funds on cost and performance basis. In addition, with so many current ESG Rating Firms, often featuring very different information, it has taken time for index providers and mutual fund providers to get comfortable with what they are offering.

In 2018, many of the active managers of equity ESG funds in Europe claimed victory as their funds for the most part outperformed the broader markets. It can be argued that this might have been more a case of luck than good judgement, as commodities and commodity-driven equities had a poor year. Most active ESG managers are underweight these sectors and this likely contributed to the win. While this perceived success may provide some short-term bragging rights for the active managers, it is still likely that the low fee indexes will begin to dominate ESG investment inflows as they have in the industry in general. The introduction earlier this year of the S&P 500 ESG index, as well as other S&P ESG indices may be an important point of inflection. S&P has focused on performance and tracking error versus the broader indices against which the ESG indices are constructed and consequently has largely driven the composition of the ESG indices by sector – maintaining the same sector weightings as in the broad index. In short, S&P has not cut the bottom 25% of ESG performers; it has cut the bottom 25% of ESG performers within each sector. Companies with lower scores may survive versus those with higher scores if the sector has a lower average. This allows the ESG index to show limited tracking error versus the larger index and is part of the marketing pitch.

Active managers are, for the most part, taking one or more of several approaches:

- There are aggressive ESG funds that will simply not own any companies engaged in tobacco products, weapons and increasingly “dirty” energy and other polluters of either the air or water. They are taking a stand and performance is a secondary concern. Today the more aggressive have limited assets, but there is a significant pool of assets boycotting tobacco and a growing pool boycotting weapons.
- Others are using third party and/or internally-developed ESG Rating Firms to screen out certain companies or sectors, but for the most part, are not taking big sector bets as performance is still the focus. Most are much more aggressive when it comes to proxy voting and engagement with the companies they own – pointing out changes that they would like to see.
- Others currently take a pseudo-quantitative approach and assume that low ESG scores translate into greater risk and consequently adjust valuation (terminal values in NPV models, forward multiples, etc.) to reflect that risk. This lowers target prices (selling triggers) for stocks they own and reduces the possible upside in stocks they might be considering.

The process is still more art than science today, in part because of the less tangible nature of some of the ESG data and the inconsistency between ESG ratings firms. This will evolve, and probably quite quickly, and it is likely that the number of relevant ESG data and ratings providers will shrink to a handful, dominated by those favored by the index creators and the large ETF managers.

For those indexers using a third party to determine the composition, public companies are further removed from the decision makers. If Vanguard creates a fund based on the S&P 500 ESG index, the decision on whether a stock is included is neither Vanguard’s nor S&P’s. The company making the decision is RobecoSAM, three steps away from the public company and most likely faceless to the company, except for their annual Corporate Sustainability Assessment.

While most of the focus is on equities, there are some ESG fixed income funds, but the business is less developed to date. Bloomberg has created fixed income ESG indices.

	ESG Landscape		
	Today	**Next 12 Months**	**Next 5 Years**
ESG Ratings Firms	Hundreds of Firms Inconsistent Methodologies Focus on ESG Disclosure	Hundreds of Firms Inconsistent Methodology Focus on ESG Disclosure	Handful of Firms More Consistent Methodologies Focus on ESG Performance
ESG Investors	Both Passive and Active ESG Funds Utilizing External ESG Ratings	Migration to Index Funds Begin Constructing Internal ESG Ratings	Continued Migration to Index Funds Internal ESG Ratings Primary Resource
ESG Indices	Just Emerging Many Players Mix of Internal & 3rd Party Ratings	Fast-growing component of ESG investing MSCI, S&P and FTSE emerge as leaders Mix of Internal & 3rd Party Ratings	ESG Index investing dominates MSCI, S&P & FTSE continue to be leaders Mix of Internal & 3rd Party Ratings
Corporates	Too many requests for ESG data. Unclear benefit to completing surveys.	Too many requests for ESG data. Clearer view of benefits of disclosing ESG data.	Accept that you will likely be measured by change rather than what you disclose and make sure you have a plan to address that.
Risks	Inaction and impatience; drive poorly thought through decisions such as the FTSE “dirty energy” label for oil and gas	Activist and activist (or just more vocal) investors control the narrative and target industries and companies - influencing active managers and leading to creation of more focused (restrictive) ETFs	Money flow drives performance - the appeal of ESG funds attracts enough money away from traditional funds to impact performance - poor ESG companies lose value (quickly)

What of ESG in the Future?

Today's landscape is unlikely a good proxy for the future. While funds under ESG management will almost inevitably continue to grow, companies should prepare for three distinct trends and one risk:

1. A tightening of the definition of ESG Performance, especially in the E&S areas:
    a. In Europe, the EEC Legislative Proposals on Sustainable Finance is an attempt to put detailed and consistent definitions around many of the measures – a move supported by many fund managers in Europe who welcome the clarity.
    b. In the U.S., performance metrics for each will largely be determined by third-party ESG disclosure frameworks, such as the Sustainable Accounting Standards Board ("SASB") and the Task-force for Climate-Related Financial Disclosure ("TCFD").
2. Significant pressure on companies to increase disclosure to meet these tighter definitions:
    a. Today "inclusion" and "exclusion" from indices is largely determined by the level of disclosure and this is a strong incentive for companies to comply – and will only strengthen further if there is a measurable increase in the money flowing into ESG active funds and ETF's.
3. A shift from ESG investing based on what companies are disclosing, to ESG investing driven by how much companies are improving their ESG performance:
    a. Change (and rate of change) will most likely become more important than disclosure.
4. The risk would be the broadening of industries that are in the penalty box regardless. Today the industries that tend to be excluded from ESG funds include tobacco, weapons (either in general or "controversial," in the eyes of the S&P indices) and sometimes coal:

a. With the ever more vocal climate change lobbyists and their impact on investors, fossil fuel more generally could come under threat rather than just coal, and we could also see greater focus on mining, power generation and cement manufacture.

The third point above is likely the ultimate goal of those looking for a soap box to discuss responsible investing in a more action-oriented manner. Those companies being excluded from ESG indexes today because of their lack of disclosure are reacting and improving disclosure. When the determinant becomes the quantum of what you are disclosing rather than the fact that you are disclosing it, it will be easier to set goals and benchmarks – whether it is greenhouse gas-related, or waste-related, or board diversity.

Furthermore, with the right branding and the right consumer sentiment, ESG funds could outperform for years, simply based on money flow and the different supply/demand dynamics that flow creates for the stocks in favor and those out of favor.

Any broader application and acceptance of EGS drivers which result in measurable valuation differences between the “haves” and the “have-nots” could then drive a number of secondary actions. Credit ratings could be impacted, M&A could be driven by opportunities to improve ESG ratings, and activists could use the potential to change ESG ratings as a reason to get involved in certain stocks. Other more tertiary consequences could be increased private ownership of companies in inherently bad ESG industries (once the stocks are cheap enough on a cash return basis), and a possible talent drain from companies if the broader workforce is discouraged from working for low ESG companies. None of the above bodes well for companies with low ESG ratings.

Preparing for an ESG Investing World

While ESG investing is a trend that is here to stay, companies do not have to sit on the sidelines. And those that do will miss significant opportunities to enhance their relationship with key stakeholders, including investors. Companies can take any or all of these steps now:

Be proactive about better understanding your company's ESG ratings. Dedicate internal resources and form a cross-functional team to survey and analyze the company's primary ESG ratings and feedback opportunities. There may be relatively easy short and long-term opportunities to enhance your ESG rating.

Benchmark your company's ESG disclosures against an appropriate ESG disclosure peer group. Understanding what your peers are doing is critical given that a company's ESG rating are largely relative to its peers. This means that standing still on ESG disclosure likely means that your company will lose ground as your peers continue to evolve.

Understand and monitor the primary ESG disclosure frameworks. While ESG disclosure is not mandated in the U.S., investors and other stakeholders have become strong advocates for certain ESG disclosure frameworks, such as the Sustainable Accounting Standards Board. Understanding these frameworks and incorporating them into your ESG disclosure plans is imperative to telling your ESG story.

Develop an ESG communication plan with your stakeholders, including the board of directors. ESG should be included in any stakeholder engagement strategy, including with investors. This will help inform the company's ESG strategy. In addition, investors will expect the board of directors to be overseeing a company's ESG initiatives and be able to communicate the company's ESG priorities to investors.

A poor ESG rating can have a tremendous impact on your company - from negatively impacting the fundamental analysis of your company's stock, to excluding your company's stock from an ESG-themed investment product, or even impacting your company's credit rating. It is therefore critical that all companies review and monitor their ESG ratings on an ongoing basis. While companies cannot possibly be everything to everyone, they cannot sit on the sidelines either. Companies need to be actively engaged in telling their own ESG story. If they are not, others will surely tell it for them.

Debunking Common Myths About ESG Investing

Understanding ESG investing can be very confusing for companies given the lack of common definition of ESG investing, the relatively low level of transparency of ESG funds, and the fragmented marketplace of ESG ratings and data providers. This confusion has resulted in several common misconceptions of ESG investing that we attempt to clarify below.

"We never get ESG questions on our earnings calls. So, our investors do not care about ESG."

It may be true that sell-side analysts do not focus on ESG issues during earnings calls. It also may be true for portfolio managers and research analysts at active investment firms. But the ESG investing trend is not being led by either of those sets of individuals. Instead, it is being driven by passive managers like BlackRock, Vanguard and State Street – the largest investors in the world that collectively own a significant percentage of any public company's stock today. The influential third-parties that investors utilize – including ESG Rating Firms and index providers – are also not typically on earnings calls. Finally, the governance teams at investment managers who help determine proxy voting decisions on ESG issues are also often not on earnings calls. So, the fact that earnings calls are relatively quiet on ESG issues is not a good proxy to gauge the importance of ESG issues to investors today.

"ESG ratings have no real impact on our stock."

This is perhaps an accurate statement at this time. The amount of money invested in ESG index products today is relatively small. But over the longer-term, this will prove to be untrue. As we have discussed above, a company's ESG ratings may be determinative as to whether its stock is included or underweight in an ESG index fund or not. For example, the new S&P 500 ESG Index excludes over 150 companies due to their poor ESG ratings from RobecoSAM. Investment managers will certainly produce more funds benchmarked to the S&P 500 ESG index to satisfy demand from millennials and others as issues like climate change become part of the mainstream geopolitical debate. Even if a small portion of the $10 trillion in assets benchmarked to the S&P 500 moves to the ESG S&P 500, it will certainly have an impact on your stock price.

"We will never get a good ESG rating because of the industry we are in."

It is true that certain companies (e.g. tobacco) will be excluded from certain ESG portfolios regardless of their ESG rating. But outside of that small number of industries, ESG portfolios often contain a perhaps surprising list of companies. This is because most ESG ratings are done relative to an industry peer group. For example, if an ESG fund permits holding of energy companies (which most do at this time), many energy companies can be included in that fund if they are rated well by the ESG Ratings Firm relative to their peers.

"ESG investing is just a fad in the U.S."

This was absolutely true 10 years ago. But today, we see mainstream investors embracing ESG in a big way – BlackRock, Vanguard, SSGA, Fidelity. For example, there were more ESG ETFs launched than non-ESG ETFs in 2018. Both active and passive managers have significantly expanded their ESG investing and governance teams. In addition, other mainstream companies are strategizing to expand their footprint in the ESG investing case, such as Moody's, MSCI, S&P and Bloomberg. ESG investing has clearly made it to the mainstream investing marketplace.

"ESG disclosure is not required, so we don't need to disclose."

In the U.S., this statement is also true, as there is no current ESG disclosure framework required by law. However, Europe is a different story as regulators have been mandating certain ESG disclosure for many years, and those initiatives continue to expand. This has a real impact on U.S. companies because the many ESG ratings compare U.S. companies with non-U.S. companies on ESG disclosure, putting U.S. companies at a disadvantage. In addition, ESG disclosure initiatives such as SASB and TCFD are heavily supported by investors, making them a de facto requirement for all public companies.

Conclusion

We strongly believe that no public company can ignore the global trends in ESG investing and ESG Ratings. Like it or not, your company will be rated on ESG performance and investors will be using those ratings to help inform buy/sell decisions, as well as proxy voting decisions. All companies need be proactive and prepare for a world where ESG investing is top of mind for their stakeholders, especially investors. Those companies that do not will undoubtedly have their stock price impacted.

Challenging the Current Board Structure: Activism Continues to Evolve

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The purpose of corporations, the structure of their boards and the nature of their directors are no longer just abstractions. Now, corporations must seek to diversify the homogenous nature of directors, including their historically similar backgrounds, education and networks. Also, to be sought are broader board actions that go beyond just, “checking the box” or taking a reactive stance towards events. Vigorous, relevant boards are needed to sustain good governance and oversight.

The debate on corporate board structure and resources has been stimulated by the continuing evolution of activism, in particular, employee activism, which is on the rise. In this climate, it is crucial to have a high-performance board, best-in-class governance, and a way of working together that supports the CEO and ultimately the company and its shareholders. The best practice corporate board structure is composed primarily of independent directors, who have no ties to management. These directors take on part-time roles with full-time fiduciary duties.

Event-driven processes will not be sufficient to demonstrate good governance and oversight. Boards will be expected to continuously reevaluate their structure and resources, and plan for succession in order to be in the best position to provide thoughtful oversight.

To Whom Should the Board Answer?

An important aspect when considering board composition includes the constituents to whom the board must answer. Shareholders, as the owners of the company, expect boards to represent their interests and to engage with them. Yet, that has not always been the case. As investor stewardship, including pressure from active owners and activists, has been on the rise over the last decade, so too has the debate about the interests of shareholders versus stakeholders. Decades ago, the only interaction between board members and shareholders was the election of the board, which often occurred only once every three years. It was rare for a shareholder to interact with a member of the board of directors. Instead, shareholders focused almost entirely on management; if they felt the company was being mismanaged, they would "walk with their feet" by selling the company's shares. We could not be further from this reality today. The largest asset managers in the world are publicly challenging boards to be better overseers of the company's operations, especially on environmental, social and governance issues ("ESG"). Asset managers also expect robust transparency about how the board oversees ESG issues and demand board members engage with them about these issues on a regular basis. These asset managers are pressing boards for more dialogue and transparency because of their heightened interest in "stewardship" – being good stewards of the capital they are managing on behalf of their ultimate beneficiaries – individual retirees and pensioners.

According to a recent study ("The Specter of The Giant Three," Bebchuk and Hirst, Harvard Law School Discussion Paper, May 2019), BlackRock, Vanguard and State Street Global Advisors collectively cast about 25% of the votes at S&P 500 companies. It is estimated that these three mostly passive asset managers will collectively own as much as 40% of the votes at S&P 500 companies by 2039. Up until about 15 years ago, passive asset managers were arguably true to their name – only passively interested in directors and corporate governance. Their primary focus was on providing low-cost funds and because "stewardship" activities, like voting analysis and engagement, were costly, they dedicated few if any resources to that function.

Today, due to their tremendous growth in size and ability to scale while keeping fund fees low, passive investors have retained large "stewardship" teams that actively analyze and vote their securities in a way they deem beneficial to the long-term economic value of the company. These stewardship teams also engage regularly with companies, including the board of directors. Many active managers have also built internal stewardship teams to supplement their investment teams, with a key distinction that portfolio managers and research analysts bring insight about the company's strategy that, arguably, passive stewardship teams do not have. In addition to asset managers, asset owners such as CalPERS and CalSTRS have expansive stewardship teams carrying out stewardship activities focused on issues relating to the ESG issues.

But this surge in stewardship activities implemented by asset managers and asset owners are not without critiques. Some question whether stewardship activities accomplish their stated goal of helping clients (retirees and pensioners) achieve their long-term financial goals. At a recent Congressional hearing, several lawmakers questioned CalPERS about its use of pensioners' money to pursue stewardship activities despite the fact that the pension itself was underfunded. In the context of shareholder activism, Delaware Chief Justice, Leo Strine, has argued that "the loudest voices mostly represent one interest, that of equity capital, but are not representing the viewpoint of those human investors who entrust their capital to the corporations whose futures are at stake." Similarly, proxy advisory firms – those research firms utilized by stewardship teams to aid their activities – have become the subject of several pending regulations aimed at increasing federal oversight of these firms and curbing their influence on shareholders. In addition, the pressures continue on boards and companies from activist hedge funds seeking changes on the board in order to pursue an alternative strategic or transactional agenda.

The stakeholder model incorporates the interests of groups that have a stake in the company outside of stock performance. Understandably, shareholder and stakeholder interests can and do diverge. On August 19, 2019, the Business Roundtable (BRT) published a letter, signed by 181 CEOs, that promotes a stakeholder business model; "Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country." The Council of Institutional Investors (CII), a non-profit association of U.S. asset owners, issued a response to the BRT letter, expressing concerns about the BRT's stakeholder statement: The CII "believes boards and managers need to sustain a focus on long-term shareholder value. To achieve long-term shareholder value, it is critical to respect stakeholders, but also to have clear accountability to company owners."

Thus, the varying groups and interests can make it difficult for a board to interpret the appropriate course of action to represent the company and its diverse shareholders and stakeholders. They need a highly-skilled team around the boardroom table, with robust processes to support their decision-making. It is imperative for directors to ensure that they receive accurate and updated information to help manage the evolving expectations of shareholders and stakeholders.

As boards attempt to meet the expectations of a vast array of interests, they are also faced with the common problem of balancing short-term and long-term interests. ESG takes a long-term perspective, while hedge fund activism is often viewed as short-term. Boards must oversee strategy and monitor business risks, while engaging with and understanding a diverse global ownership base. Along with diverse owners, diverse risks have also emerged.

Business Risk is Ubiquitous

When talking about risk and its oversight, we often think of financial risk, cybersecurity and the risks associated with data and information. However, at the “risk” of sounding dismal we can enumerate dozens of business risks from client attrition, to brand fatigue, to health and safety, and natural disasters.

Boards have a fiduciary duty to oversee and monitor risks to the businesses they serve. The framework by which they do this is typically one of several constructs. Either the entire board assumes responsibility for risk oversight, or it falls within the purview of the audit committee, or some companies establish a risk committee. Whatever the appropriate structure, risk is everywhere, and it is ever changing.

Of late, there is heighted concern about human capital risk. And with good reason. Human capital, the foundation of all business, is complex, unpredictable and often misunderstood. Unlike profits or data, there is often no logic to human behavior. Or worse, it can be destructive, malicious or just plain illegal. As such, boards are increasingly on the hook for human capital challenges and changing demographics suggest this trend will persist and expand. Among the many permutations and combinations of human capital risk, below, we explore what we think are (not necessarily in order of importance) some of the issues that pose the most serious threat:

Employee Activism

Amazon, Google and Facebook (among others) have all been the subject of employee activism recently. This has taken the form of protests, walkouts, calls for changes in strategy and changes in leadership. No matter the specifics, the engagement has many of the hallmarks of union organizing. Like unions of the past, today's employee activists believe in their cause and want their organization's leadership to listen to them and ultimately yield to their demands. Management and the legal team cannot be expected to respond and negotiate without input from the board. Often, demands are about strategy and strategic choices, and the board must be amenable to working through these issues, at least from an advisory perspective.

Employee Turnover

According to the U.S. Bureau of Labor Statistics, the median tenure of workers ages 55 to 64 was more than three times (10.1 years) that of workers ages 25 to 34 (2.8 years).

The new labor pool changes jobs frequently and boards need to plan for what may be more than a risk, but rather an inevitability. Boards must contemplate return on investment in employees and implications on strategy, stability and continuity when employees move frequently.

Lack of the Right Skills and Knowledge

As the rate of change continues to increase at an exponential pace, so too must the skills and knowledge of a company's workforce. This is not as simple as an individual course or day long training session. To mitigate risk, boards must think strategically about talent and plan in advance, not only a plan B but also a plan C, as well a succession strategy that takes into account individuals well-beyond just the CEO.

#MeToo

It was reported in October 2018, that in the first year of what we call the #MeToo movement, at least 425 prominent people across industries have been accused of sexual misconduct. The fallout on corporations is incalculable.

From reputation ruin, to the ability to attract investors and employees, the consequences can linger and percolate. Boards can try to be proactive and focus on training and culture, however as mentioned above, humans can be irrational and unpredictable, and as such, the board must be prepared. There should be policies and protocols for reporting misbehavior that are trusted. The board must be made aware of issues, as appropriate, and there must be a crisis response plan in place.

As boards find themselves under ever-increasing scrutiny, the ability to dig deep on human capital risk will become even more imperative. As we continue to focus on culture, and amidst the new focus on ESG issues, an appreciation for human capital, and a new focus on its vulnerabilities and risk, will absolutely increase.

Just as the components of risk oversight are evolving, so is the perception and thinking around board performance. There are all types of metrics and tools for analyzing performance at every juncture of the organization and at every stage of one's career. What about at the level of the board?

Until recently, many boards had an unstructured and occasional approach to performance. Often a key component was attendance at board meetings. Showing up was tantamount to achievement. While attendance is still reported in proxies, this, of course, is only the bare minimum.

What Constitutes Board Performance?

By virtue of its very structure, accurately measuring performance of a board is difficult. Directors are part-time, must be careful to provide oversight and not get into tactical matters, and stay "noses in, fingers out" to borrow a common board governance term. As such, cause and effect can be hard to measure. Did the board's decision on strategy yield the most recent quarterly results, or was it the masterful execution of the President? Can stock performance be attributed in any way to the board?

Generally, we are moving in the right direction. Recent data indicates that 98% of the S&P 500 companies perform some form of board evaluation. There is however, a vast divergence on what constitutes an evaluation. Is it conducted for the board in its entirety? Individual directors? Committees? Their leadership? How often is it done? What is the methodology? What is the purpose? Is it robust, accurate, and perhaps most importantly, is anything done with the results and does this yield improved performance? To fully diagnose board performance and work towards its improvement, there must be some standardization and definition as to what this means. This does not require completely reinventing the wheel. Some of the best practices of performance evaluation can be borrowed for the boardroom. For example, creativity and task-completion should be assessed, as well as responsiveness to feedback.

There is a level of sensitivity and delicacy that must be embraced when instituting any measure of performance, and in particular, that of board directors. These are senior executives who have typically had great success in their career and may feel that due to their stature and seniority they are beyond evaluation. However, as complexity of the board role increases, so too must the criteria for measuring success in the role. No longer is it enough to rely on past performance. Shareholders, stakeholders and the business environment and culture require this.

Who Should Sit on the Board?

Although the business climate we live in constantly evolves, one of the tools widely used to analyze the board, The Board Matrix, remains the same with leadership, financial and relevant industry experience as prioritized skillsets. Experience as a CEO or on a public company board has historically been a must-have credential. Looking to 2020, we predict high-performance boards will not only have proactively put a process in place to expand (or enhance) the matrix, the most forward-thinking boards will consider additional, relevant skillsets that go beyond the "old matrix" and are in alignment with business strategy. We predict the new matrix will include the following:

- *Contemporary versus historical experience:* There will be more scrutiny on how "current" a director's experience is. As the business environment changes at an increasingly rapid pace, the rate at which experience remains current will diminish. More stakeholders will be paying closer attention to board tenure and experience.

- *Consumer-Centric Meets Customer-Centric:* Both audiences have the same end goal: get people, or a business, to buy what is being sold. The new matrix will include management or board expertise at a company with a multichannel presence which has successfully grown its e-commerce revenues, or someone who brings “consumer” centric experience in support of growth efforts, whether it be capturing online share, implementing omnichannel capabilities or harnessing customers. Directors with a deep understanding of evolving consumer and customer needs, an instinct for brand, and the ability to operationalize consumer and customer acquisition efforts to drive growth and transformation will be in demand.

- *Human Capital Experience:* With both corporate culture and corporate activism “in the boardroom” a spotlight on executive compensation and ongoing #MeToo issues, having perspective on culture oversight, talent management and compensation, recognition, and reward systems should be more of a priority.

- *Evolution of the “Digital Director:”* Cyber remains important. However, big data, privacy, artificial intelligence and experience with emerging technologies will be emphasized.

Difficult Conversations

Not having a succession plan in place can lead to difficult, awkward conversations with respected fellow directors. Many boards do not have a well-articulated succession plan, and this is at a time when more stakeholders are asking how a board plans for evolution and future state director selection. Without a framework grounded in the 1-3-5-year business strategy, a hard conversation with a fellow director about performance or relevance can become a very difficult one. Again, the boardroom is very human. It is not fun to bring up the subject of refreshment with a fellow director – and friend.

With the spotlight on board performance even brighter, we predict the most forward-leaning boards will prioritize: director succession planning; lead director succession planning; and committee effectiveness.

High-performance boards will leverage an ongoing “future proofing” process that helps drive performance and manage risk. It will include the regular review of:

- Board structures and board processes for compliance of governance requirements.
- Board structures and board processes for effectiveness, efficiency and impact.
- Prioritization of committee work (high, medium, low) and how best to leverage committees.
- Key criteria, skills and capabilities for lead director, committee chairs and the full board.
- Contributions of individual directors, group dynamics and committee effectiveness.
- Lead director and committee chair performance.
- Rotation of committee members (including the chair) after five years.

On the Subject of Board Quotas: Abstract to Reality

Gender diversity quotas have moved from the “never in the United States” to reality. There have been quotas in Europe for the past 15 years. In the United States, board quotas have been controversial. California made headlines in September of 2018 with legislative action towards instituting gender quotas for boards. Governor Jerry Brown signed a bill that any public company that has principal executive offices in California must have at least one woman on its board by December 2019. Illinois has a bill that requires public companies headquartered in Illinois to have at least one female, one African American, and one Latino individual on the board. Pennsylvania has a bill. New Jersey has legislation introduced that is similar to California. Not only are quotas controversial, some argue prioritizing one form of diversity over another violates the constitution. We predict more quotas on the horizon for the United States.

We predict the high-performance board of 2020 will be known for its functioning across:

- *Future-Proofing:* Boards must develop immediate - and long-term succession plans to align the board with the company's go-forward strategy and account for planned director departures. This goes well beyond recruitment and refreshment. The future-proofing framework is an ongoing, integrated way of working that is not "reactive" or event-driven.

- *Relationship with the CEO:* Individual directors will be more closely scrutinized on their ability to leverage their expertise in support of the CEO, ask the right questions, and focus on the most important issues.

- *Diversity:* Diversity is multifaceted – gender, ethnicity, age, geography, industry and thought – and is inseparable from qualifications. Let's stop talking about "why" to do it – get it done.

- *The New Matrix:* In 2020 and beyond, there will be more focus on new skillsets to complement the widely-used matrix of today. The "new matrix" will more directly reflect the full picture of company strategy. It will include skillsets previously dismissed as "too risky" or "not heavy" enough. We will see more first-time directors bringing new types of experience across marketing and brand, e-commerce and human capital. This will have positive implications on diversity in the boardroom.

- *Succession Planning and Committee Effectiveness:* While investors expect boards to proactively drive a process that identifies gaps in skills and experience, investors will expect to see an approach to deal with those gaps. Having a process in place paves the way for "difficult conversations" regarding board refreshment. Additionally, to truly evolve the board in alignment with strategy, boards must have available openings.

Conclusion

The challenges to companies, and hence their boards of directors, are increasingly complex and unpredictable. To remain competitive the very foundation of board structure, composition, performance and expectations must be examined. The assumptions we make about boards can no longer be taken for granted. Corporate governance in its current form came into focus in the 1970s. The most successful companies will be those that evolve and transform in accordance with new realities, new demands, new markets and new challenges.

What’s Next for the Internet?

Mark Wainwright, Associate Director

When the internet turned 30 in March of 2019, it felt like a significant moment. Significant because the internet has had a seismic impact on modern life in a relatively short space of time. Fifty-seven percent of the world’s population has access to the internet. Five billion people own a phone; four billion of those are smartphones. The internet isn’t quite ubiquitous yet, but ubiquity isn’t far away.

Many would argue that the future of the internet is headed in the wrong direction. The internet is a track where, due to the sheer volume of people and content, algorithms are now responsible for huge amounts of content curation and prioritization. And too many of these algorithms still struggle to distinguish between videos and articles that nourish our understanding, and those that appeal to our baser, darker instincts; monitoring these algorithms on a 24/7 basis is nearly impossible and opens the door for manipulation by bad actors. This means that the same tactics that help an individual find fame, or help businesses increase sales, can also be used to spread misinformation and promote hate speech to a large audience over an extremely short period of time.

Platform owners are trying to keep up by implementing big changes in an attempt to improve their systems and their filters, but sensitive material continues to slip through. Copies of the New Zealand terrorist attack video were uploaded to Facebook 1.5M times in the 24 hours after the incident; all were removed, but it indicates the scale of the challenge the big platforms face.

The fact that on this track, responsibility for curating and controlling these hugely-influential algorithms appears to sit with just a few companies, is coming under increasing regulatory scrutiny. U.S. Senator Elizabeth Warren used an appearance at the recent tech festival, SXSW Interactive, to announce calls for action against big tech. A bipartisan pair of senators want “commercial data operators” with over 100 million monthly users to disclose how much the data they’ve gleaned is worth. The EU continues to attempt to rein in big tech's influence, riding on the back of the success of GDPR to unveil its Digital Services Act at the end of the year. The Australian Competition and Consumer Commission is also expected to call for a regulatory authority to oversee online advertising. However, other than General Data Protection Regulation (GDPR), rolled out across Europe in 2018, and the UK government's Online Harms White Paper and digital advertising investigation, no other concrete proposals have been initiated. Regulating the big tech industry and the internet has proven to be a complex challenge for governments in the West.

Rules and Regs Challenges

The broad scope of this challenge is prominently on display in the U.S., where existing antitrust rules are primarily focused on price and ensuring monopolies don't overcharge consumers. Applying the outdated logic of these laws to big tech firms, many of whom provide free services, offer customers the lowest prices, and whose premium price point is part of its popularity, will be extremely difficult. This new breed of conglomerate calls for a new type of legislation; a process which won't be quick or easy. To be effective, regulation will also need to have a more internationally-focused outlook; perhaps similar to laws regarding outer space or climate change.

Another (perhaps greater) challenge to regulation might come from the tech companies themselves and the speed at which they innovate. To be successful and deliver on behalf of their customers and shareholders (and keep up with the competition) it is their job to continually update their technology and keep their platforms at the cutting edge. Laws could be passed that are made irrelevant in a matter of months by a significant pivot.

The next wave of changes are already on the horizon, as tech and social media companies respond to the existential threats facing internet culture and the open-source dream that sits behind it. On the internet's 30th birthday, Sir Timothy John Berners-Lee, inventor of the World Wide Web, published an open letter detailing what he sees as the main challenges for his "child" as it moves into middle-age. Tim's letter encouraged readers to "come together as a global web community" to beat these challenges and avoid blaming one company or one government.

While we're not all working together just yet, you can see change beginning to take shape; one can even start to envisage a number of different, but overlapping, futures for the internet.

We've picked out three interdependent scenarios we expect to develop over the next five years. Whatever their final form, these scenarios are going to make a big difference in how CEOs and businesses communicate with their key audiences, and will, for everyone, dramatically shift the way information is shared; it's worth planning for the appearance of such scenarios now.

Scenario One: A World Without Newsfeeds

The newsfeed is the emblem of the past decade. Pioneered by Facebook and Twitter, the endless scroll of updates has changed the way we share and consume information. But the newsfeed has become problematic both for its creators and for its users. The aforementioned algorithmic delivery system was originally introduced to ensure platform users didn't miss out on important updates (if your best friend is on the other side of the world, you shouldn't have to scroll for hours to find their latest picture). But these algorithms are not infallible, and users have begun to tire of their bluntness, as well as the pressure of public sharing and its associated "like" counts, comment sections and the potential these features present by inviting unwanted replies and interaction.

Increasingly, the way we communicate is focused around messaging. As we tire of the feeling of "broadcasting to no one," we take refuge in carefully curated group chats: sports talk with your football buddies, baby pictures with your family, nostalgia with your school friends. Messaging puts the user in control of your audience, not an algorithm. And messaging gives the user privacy and removes the possibility of spam and trolls.

Facebook in particular has taken note of this trend and is doubling down on it. Mark Zuckerberg recently announced a move toward privacy; no specifics were mentioned, but the benefits to the business are plain to see. It keeps users happy, shouldn't affect advertisers too adversely, and means that the actions of bad actors will become less visible and less discoverable. And if everything is private, it will be harder for the media to find, for example, anti-Semitic content to showcase in an article. Harder, but not impossible. This won't mean the end of hoaxes and misinformation, unfortunately. Other countries, particularly India, have major issues with large, disparate WhatsApp groups being used to spread hatred and fear. Progress is never perfect, but action beats inaction.

The rise of messaging apps does not mean social media will disappear completely; it's likely Twitter's loyal audience will stay put. What we already see is the rise of messaging apps being accompanied by the continuing popularity of "Stories" as a format. "Stories," if you're not familiar with them, are vertical full-screen photos or videos that last for 24 hours. They're available on all of Facebook's services and are cropping up in more and more places, including email newsletters. Like the traditional newsfeed, they allow users to share updates with their friends and followers. Unlike newsfeeds, they are real-time, not permanent and do not have any public commenting or sharing functionality. Your friends can "like" your post, but only you know about it. "Stories" is already hugely popular, with 500 million people a month using the functionality on Instagram, and we expect them to continue to grow and proliferate.

No more newsfeeds, but more messaging and more "Stories" – that's scenario one. For businesses, this means less publicly-available data and less opportunity for "one-to-many" broadcast messages. It will require communications plans to be smarter, more targeted, and to use more ambassadors to reach their target audiences. Smart, precise and authentic messaging will rule the day.

Scenario Two: De-Socialized News

Most traditional media outlets are not fans of big tech. You only need a cursory glance at *The Guardian* or *The New York Times* to see this. Facebook and Google are significant players in the digital advertising market (and Amazon is making big gains here), and plenty of media owners feel as though they've been unceremoniously elbowed off the pitch. After prioritizing distributed content and 'pivoting to video' in 2017, large swathes of the media are re-thinking their use of social media as their primary means of reaching audiences.

Publications such as Buzzfeed, Bloomberg, Vox Media and *The Atlantic* are prioritizing owned channels over everything else. Newsletters, podcasts, onsite video, exclusive reader events, subscriber-only access – anything and everything that brings readers closer to the organization and increases the likelihood a reader converts into a subscriber. Social media, while still used extensively by consumers to share and read news, is becoming less of a primary platform for publications.

The appeal of D2R (direct-to-reader) channels for publishers is pretty self-explanatory. D2R channels provide better control over targeting, more opportunities for personalization and (crucially) also means that media keeps 100 percent of the revenue. And anything that can be monetized is being monetized – newsletters, podcasts, videos and events.

While the most prominent drivers of de-socialized news are definitely media outlets and publishers themselves, the move is inextricably linked to the trends we outlined in scenario one. Fewer people using newsfeeds means fewer potential readers of articles shared via those means; publishers will need to adapt to the new landscape of messaging and “Stories.” This will be an adaptation not just of channel planning, but also of content itself. Attention-getting tactics that work well in-feed won’t necessarily work on WhatsApp and will probably need to be re-formatted for “Stories.” We’re already starting to see examples of publishers exploring these new channels today; “Social Chain” is a popular WhatsApp-based social media news outlet, delivering daily updates in short, digestible bites. “Stories” has been enthusiastically embraced by everyone from *The Economist* to Bloomberg, while former *Vogue* deputy editor, Emily Sheffield, went one step further and setup an Instagram-only outlet; her outlet, #ThisMuchIKnow has 10,000 followers and uses “Stories” as its primary news delivery vehicle.

For brands and businesses, the advent of de-socialized news will mean that the popularity of coverage will be less immediately visible. It will also likely result in an increased importance on telling stories across a multitude of formats and working closely with media outlets to develop this content. A video pumped out indiscriminately will become less effective, than, say, a guestedited newsletter and a special one-off podcast appearance. It means media outlets will have a better steer of where their audiences are and how best to reach them – advantageous when it comes to the precision targeting and tailoring of messages. Again, sophistication is going to be the order of the day in this new world. The world of de-socialized news could also be a litmus test for the concept of the filter bubble; if news is less prevalent, does that mean we'll seek out more information from a wider variety of sources? Or, will it prove that social media just exacerbated pre-existing preferences for certain news outlets?

Scenario Three: The Artisanal Internet

In many ways, the future of the internet resembles its past. Like wider socio-political trends, we often look back on what came before with rose-tinted glasses. For example, forty-one percent of British people "think things were better in the 1990s." We struggle to see a compelling way forward, so we revive what we remember enjoying.

You can see this in the return to prominence of newsletters, in the excitement around podcasts (a term first coined in 2004) and in the incipient rise of the "artisanal internet," a movement away from a handful of large platforms dominating online discourse, and a shift toward smaller, more bespoke spaces for conversations to thrive.

Look at the popularity of "Facebook Groups" – more and more people use "Groups" to get together to discuss topics of interest and (importantly) to organize real-world interactions. Groups tend to organize around geographies (people living in a specific locale) or around a singular shared interest. In a similar vein to the rise of group chats, the rise of multiple member groups helps groups of individuals come together and seamlessly adapt to the subjects of discussion. This is another macro trend across all three of our scenarios: the primacy of human curation. Group admins, like forum admins of old, tend to be passionate and dedicated to their flock. They decide on the terms of engagement and police the discussion accordingly. The challenge for social media companies is creating a set of rules that is broad enough to satisfy the whole world; an almost impossible task. Smaller groups set their own rules; you either abide by them, or you go elsewhere.

“Discord” is an increasingly popular platform that also invokes the spirit of the early internet. Originally founded to make it easier for the gaming community to communicate, Discord is becoming the place for YouTubers and other “creators” to engage with their fans. Discord is like Slack for consumers, or a more private forum. Users setup a ‘server,’ which then has public or private channels, private messaging and the ability for the server admin to designate a variety of different roles to users. This is another example of a human-controlled, human-curated platform with specific rules of engagement for group members.

The artisanal internet, while looking back to the past for its inspiration, isn’t weighed down by its nostalgia. It’s a positive place, a place where like-minded individuals are taking responsibility for their communities, both real and virtual. It’s diffuse but dedicated.

This no doubt poses challenges for businesses. Firstly, promoting branded content to a consumer audience won’t be as simple as ‘putting some spend on Facebook and Instagram.’ Brands in particular will have to be smarter and more precise with their digital targeting (there’s a theme developing here). It will also mean that digital monitoring for all businesses will need to improve its breadth and move beyond pulling in social media KPIs alone. A greater emphasis will be placed on identifying where audiences, stakeholders and key opinion-formers are active – particularly for CEOs and other senior leaders who are active on social. We won’t be able to assume that LinkedIn and Twitter will cover all bases; profile building will become more multi-faceted, with a bigger focus on narrative and engagement.

It also presents an opportunity for businesses. More artisanal, dedicated communities will be more likely to want to work with interesting and relevant companies, which could lead to deeper, longer-term and more mutually beneficial relationships; the opposite of one-off transactional interactions.

Conclusion

So, where is the internet going next? Based on our analysis, we're characterizing the future of the internet as a refraction from the past 30 years. A change of direction, but not a complete reimagination. A reboot typified by more personal, private interactions, with a continued taste for the ephemeral, and an attempt to replicate the early days of the internet and revive some of the joy that came from those early explorations of smaller, more tight-knit communities.

It's a return to heterogeneity, after 15 years of rising homogeneity. Connecting the world in large, common spaces started out as a beautiful, libertarian dream. The dream turned sour as everything started to look the same, as what was trending came to rule. We're realizing now that what is trending is not the same as what is important. We're learning that the crowd isn't always wise. As a result, we're reclaiming our heterogeneity, within the existing framework of the World Wide Web.

But this process isn't going to be smooth and seamless. Our first 30 years of global interconnectedness have been a wild ride, with as many ups as downs. There'll be plenty of further twists and turns to come. But the opportunities are there for the most agile and switched-on businesses to take advantage of humankind's continued propensity to share, to connect and to build.

The internet and digital communications are fundamental to our lives; we're not going to give them up easily. We're just going to be smarter about how we use them.

CEOs and the New Media World: Man Bytes Dog

Seth Martin, Senior Managing Director
David Lurie, Senior Vice President

The traditional media of newspapers, magazines and broadcast stations is being transformed by new channels of communication and new forms of reporting, driven by technologies that are now taking us far beyond the transformations of the internet era. In short, the media is being democratized and, as a result, CEOs and their organizations face fresh risks and opportunities.

New technologies have widened the aperture of what it means to be a news producer, to include still-evolving digital hubs of influence.

The internet era of the last 30 years has acclimated us to the electronic delivery of news, and the spread of social media over the last decade has created a new front page in the form of the digital feed. News aggregation led by Google, Facebook and Apple is now key to how we consume the headlines of the day. News dissemination through Twitter, Snapchat and other social channels, which circumvents traditional journalism, is perhaps even more disruptive to the media.

In the midst of this complicated web of news dissemination channels, we see the dawn of a new era in news production; we are highlighting it here because we have not yet seen it addressed head-on, but believe it will change the calculus for how companies engage with media. We also think that the implications are bigger than the tactical insights we can garner by knowing that millennials cut cords, and GenZ trusts Logan Paul more than they trust Paul Ryan. Technology's democratizing effect will change the way CEOs will need to lead.

Journalists have always relied upon primary research (interviews), and secondary research (publicly available materials). That did not change during the internet era, it only sped up and became more democratized. Journalistic research has been greatly aided and made more efficient by search engines, email, and social networks. Journalists can find confirming or negating data in relatively short order. But so can everyone else. Information once available only to media with the resources to access it has become accessible to everyone with a smartphone. This competition from non-professionals has changed the reporting landscape.

What is new today, and is only just beginning to be understood, are the emerging sources of information, driven by new technology. It has started with crowd-sourcing and will accelerate as the media begins to leverage the power of Artificial Intelligence to spot patterns and trends that were previously too time-consuming to undertake manually.

A Tale of Crowdsourcing

In this account, a mythical business reporter named “Susan” heard anecdotally that the fictious company, “SellCo” had discriminatory hiring practices. Her investigation 10 years ago would have been focused on finding former employees through internet searches and subsequent calls and emails to request interviews. After several weeks or perhaps months, she may have found five former employees willing to speak to her. These sources would then form the basis of her investigative article.

Fast forward to today, Susan confirms the anecdote on Glassdoor (a well-known website where current and former employees anonymously review companies) through citable (though anonymous) comments. Then she goes to LinkedIn and direct-messages several hundred current and former employees with an invitation to discuss their experience at SellCo. She also finds a SellCo employee-run Facebook group, where she posts an all-points request for stories of discrimination at SellCo. Some participants contact her directly, others post their stories to the entire group. Now she has 50 sources after three days of research.

SellCo may have become aware of Susan’s outreach on the first day, when a former executive alerts the company that she contacted him. Or it may have found out when her request was posted to the Facebook group which they monitor. But by the time SellCo begins direct engagement with Susan, she has more than enough primary research to convince her editors this is a legitimate story.

This form of crowd-sourced research is only the beginning. Companies that actively engage employees through the same channels Susan is leveraging are the only ones that stand a chance of countering her narrative.

The Rise of Participatory Journalism

Media outlets are going further than crowdsourcing for on-the-record sources. They are conducting participatory research that leverages their consumers without requiring a significant effort. A reader interested in the impact of screen-time on society may be willing to provide their personal daily screen-time data to assist in a story about when and where New Yorkers spend the most time looking at their phones. A reader interested in what political news and advertising is being served up to the public can automatically send the ads they see on Facebook to a database analyzed by a media outlet.

Unlike the crowdsourcing investigation conducted by Susan, this mass-scale participatory journalism merely requires passive participation to generate the data needed for news. That's because media outlets now have access to AI tools that can quickly consolidate the information and draw broad-based and credible conclusions backed by data. Which leads us to the most significant burgeoning trend in media: AI-augmented analysis.

Mining our Digital Footprint

Our personal digital footprint is rapidly growing so large that many of us have long conceded any control over it. That footprint is orders of magnitude greater for most corporations, and yet companies often believe they have more ability than private citizens to control their information flow. This belief is grounded in the control companies can exert over their traditional methods of communication: marketing, press releases and corporate-sanctioned events. But non-traditional sources of corporate information are rapidly becoming accessible through new technologies.

This goes well beyond the 'behind the scenes' video shot by a factory worker of conditions in the plant in which they work, an occurrence that has become better understood by companies over the last decade of smartphone proliferation. It is now manifested in satellite imagery that documents the number of cars in the employee parking lot, or analysis of publicly-available video to spot trends among retail shoppers. Use of imagery and video to inform analysis began with sophisticated investors just a few years ago but is now becoming a resource for the media.

It also goes well beyond the word search in the earnings transcript quantifying the number of times the CEO said “innovation.” It is now manifested in AI-aided analysis of tonal frustration in the CFO’s voice during the Q&A portion of the earnings call, or the micro-expressions on the CEO’s face during an interview.

The Internet Era led to an explosion of new information from a dizzying amount of new ‘newsmakers.’ This dynamic is both well-documented, and over-analyzed. Technology’s place as the driver of ‘more’ or ‘different’ content doesn’t get to the heart of our point, because technology will have a more important role over the next decade: sunlight.

Achieving Value Discipline

Crowdsourcing, participatory journalism and the exploding digital record are all opportunities for the media to get closer to the facts. In an era of fake news, and deep fakes, this is an important benefit. Technology isn’t just the fuel to produce different kinds of cat GIFs, Trump memes and TicTok Videos. It is the accelerant of transparency and the catalyst for the democratization of the corporate message.

Other people are going to tell your story. The real question is, ‘what will they say?’ A CEO’s words and actions, in addition to the words and actions of their employees, need to align or the dissonance will be the story.

In 2020, CEOs will need to inspire discipline throughout their organization – not just media-train it from the top. It will be the only way to make sure they are telling their story effectively; to make sure it is authentic, and consistent throughout the organization.

It will be about instilling value discipline, not message discipline.

Message discipline is an output of memorization. It is the product of a different era. Value discipline is an output of an organization whose leadership creates a consistent culture and inspires its employees to do the same. It is the best antidote to newly empowered journalists, with the world’s information at their fingertips.

Politics

U.S.-China Trade War, Light at the End of the Tunnel?

Paul Haenle, Senior Advisor
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Despite the popular notion that the outlook for trade negotiations between the United States and China is gloomy, there may be room for cautious optimism that a positive outcome benefitting multinational companies can ultimately be achieved. Companies and executives evaluating their business strategies in China should focus on staying the course and avoid making major strategic shifts based on the short-term fluctuations. In short, there may be light at the end of the tunnel.

President Donald Trump's unilateral approach has undoubtedly created some self-inflicted damage to U.S. companies and the U.S. economy, and companies are justified in their concerns over the harsh rhetoric and escalations since the first tariffs were implemented in early 2018. Trade tensions have cast a cloud of uncertainty over the business environment, which has made decisions on future investments extremely difficult. Speculation over possible efforts to "de-couple" the world's two largest economies has increasingly been a cause of concern for companies that rely on supply chains in China.

Nevertheless, companies should strategically position themselves to benefit as much as possible if a trade deal is reached. Large-scale de-coupling remains unlikely, and both Washington and Beijing have indicated that they recognize what is at stake if they fail to reach an agreement. Furthermore, over a dozen rounds of talks through the end of 2019 have established a basis for continued dialogue between the two countries that could potentially lead to an agreement being reached.

Even though the talks have not yet yielded an agreement, there have been periods of sustained momentum, including a period in early 2019 when it appeared a deal might be in reach. Despite the breakdown in negotiations in May 2019, talks up to that point helped produce a 150-page document which can be drawn upon to re-build a framework for a deal that both sides can present to their constituents as a victory. Even an imperfect deal would produce tangible benefits for multinational companies in China.

If the two sides are ultimately able to reach a deal, the timing of any agreement will likely be dictated largely by political factors and the state of the U.S. economy. As the 2020 U.S. presidential election approaches, Trump might find it politically beneficial to keep the trade war with China “open” as long as possible. Trump might seek to hold out on making a deal for as long as he can, so far as the U.S. economy does not falter too much, before seeking to strike a deal shortly before the election. Doing so would give him a boost ahead of Election Day and leave critics with too little time to pick apart the deal or gather evidence if China does not follow through on aspects of the agreement.

Evolution of the Trade War

In looking back at the first three years of the Trump administration and its approach to China, it is important to bear in mind that even if a more traditional candidate such as Hillary Clinton or Jeb Bush had been elected in 2016, they too would have likely taken a tougher approach towards China, especially on trade and economic issues. Trump’s approach towards China, however, has been stylistically very different from the approaches that other more traditional candidates might have taken. He has rejected working with allies, building coalitions, and leveraging multilateral frameworks, and instead relied on a unilateral approach and applying consistent pressure through tariffs and rhetoric. However, while his approach may be distinct stylistically, it is important to note that there was already a growing consensus in Washington prior to Trump’s election that the U.S. needed to take action to address longstanding grievances on trade and economic issues.

Early Stages and Tariffs

The roots of the ongoing trade conflict can be traced back to promises Trump made on the campaign trail in 2016, when he claimed that China’s entrance into the World Trade Organization enabled the “greatest jobs theft in history.” For much of his first year in office, Trump was initially transfixed by the U.S. trade deficit with China, which he would eventually use as the main justification for implementing the first rounds of tariffs in early 2018. While some in

Washington disagreed with Trump's view that the trade deficit should serve as the rationale for implementing tariffs, there was growing consensus that issues related to China's unfair trade practices needed to be addressed.

A meeting between Trump and Xi Jinping at Mar-a-Lago in April of 2017 signaled that the two leaders recognized the need for negotiators from both sides to sit down and engage in talks. Despite Trump's harsh campaign rhetoric towards China, Trump left the meeting touting the "great chemistry" he had with Xi. Trump continues to emphasize the strength of his "friendship" with Xi insofar as he can use their personal relationship to help soothe markets and alleviate concerns that U.S.-China relations could completely fall apart.

Trump and Xi's personal relationship could only stave off growing frustration in the U.S. for so long. Shortly after the start of his second full year in office, Trump began implementing tariffs on a range of imported goods, including several major imports from China. China responded with retaliatory tariffs in April 2018, prompting Trump to announce plans for 25% tariffs on $50 billion of Chinese imports only one day later. China responded in kind by revealing its own plans for tariffs on $50 billion in exports.

A pivotal moment in negotiations occurred during the spring of 2018, when Trump initially accepted, but then rejected, a preliminary Chinese offer centered mainly around the purchase of more U.S. goods. Trump's decision to reject the offer was largely a result of backlash in Washington over the idea of reaching an agreement based on purchases with little or no progress on structural issues. From that point on, Trump has recognized that in order to effectively sell the deal at home, he will have to achieve some degree of progress in resolving issues such as intellectual property theft, forced technology transfer, and non-tariff barriers, in addition to bringing China's industrial subsidies and support for state-owned enterprises in line with World Trade Organization guidelines.

Tit-for-tat escalations continued until December 2018, when Trump and Xi agreed on a 90-day ceasefire on the sidelines of the G20 in Buenos Aires. Despite the arrest of Huawei CFO Meng Wanzhou in Canada (at the request of the U.S. government) on the same day Trump and Xi met in Argentina, positive signals in early 2019 offered a glimmer of hope after the two sides held seven consecutive rounds of trade talks over the span of four months to start the year. As momentum appeared to be building towards a possible deal, optimism spiked when China extended the suspension of additional tariffs on U.S. autos and auto parts and U.S. Treasury Secretary Steven Mnuchin claimed in April 2019 that the two sides had agreed to establish “enforcement offices” to monitor the enforcement of a trade deal. There was even growing speculation over the timing of a possible Trump-Xi meeting, as reports emerged that the negotiating teams were finalizing the text of a nearly 150-page draft trade agreement.

Negotiations, On and Off

An abrupt turn of events in late April of 2019 provided a reality check for both sides and revealed the complexity of the challenges that both Xi and Trump face in trying to reach a deal. Hopes that the two sides were on the verge of announcing a deal came crashing down when Trump issued two harshly-worded tweets on May 5th threatening to raise the tariffs rate to 25% on $200 billion of Chinese goods. The escalation scuttled plans for Chinese negotiators to travel to Washington for the next round of trade talks, dashing hopes that the trip could help stabilize to the situation.

There are indications that the collapse in talks occurred primarily due to pushback on the deal from within senior political levels in China. The two sides negotiated the terms in English until the document was finally translated into Chinese in late April and presented to members of China’s Politburo after there were already reports out that significant momentum had been building towards a deal. When certain members of the Politburo viewed the complex terms of the document in Chinese for the first time, however, they felt the draft agreement was too one-sided and that some of the U.S. demands amounted to a violation of China’s sovereignty. In response, the Chinese side sent back a heavily revised document to their American counterparts. This has been interpreted by the many on the U.S. side as a classic negotiating tactic by the Chinese, but there are indications that it is more a function of President Xi running into significant internal politics of his own in China with a number of Chinese officials fearing the U.S. goal is to dupe China into signing a one-sided and unequal agreement.

The U.S. followed through on the tariff hike on May 10th, prompting China to retaliate by raising tariffs on US$60 billion worth of U.S. goods. After the U.S. Department of Commerce effectively blacklisted Huawei Technologies Co. Ltd by adding the company and its affiliates to its "Entity List," China's Ministry of Commerce announced it would be establishing an "unreliable entities list" of foreign companies, individuals and organizations that "do not follow market rules, violate the spirit of contracts, blockade and stop supplying Chinese companies for noncommercial reasons, and seriously damage the legitimate rights and interests of Chinese companies."

Attempts to Rebuild Momentum

The resilience shown by the two sides in getting back to the negotiating table after the May 2019 collapse in talks serves as an indication that both countries might ultimately want, and in many ways may need, a deal. A meeting between Trump and Xi at the G20 in July produced only a temporary ceasefire. After trade talks in Shanghai in late July yielded little progress, Trump lashed out on Twitter on August 1st, announcing new tariffs to take effect starting in September. Escalations continued when the U.S. Treasury Department declared China a currency manipulator several days later.

However, Trump eventually decided to delay some of the tariffs he announced on August 1st in order to avoid taxing consumer goods during the peak holiday shopping season. As plans were made to resume talks in October, the two sides expressed a desire for de-escalation and an eagerness to get back to the negotiating table.

Three 'Going Forward' Scenarios

A 'no deal'. The chances of "no deal" scenario is unlikely because such an outcome would be bad for the economies of both countries. A protracted trade conflict could restrict China's access to U.S. technology and slow China's economic growth. For the U.S., the costs of tariffs for consumers will rise considerably if the U.S. follows through on all the tariffs that were announced on August.

A comprehensive deal. Even less likely than no deal, is a comprehensive deal, that achieves many or all of the core demands initially outlined by U.S. Trade Representative Robert Lighthizer and his negotiating team on structural issues such as intellectual property protection, forced technology transfer, and non-tariff barriers. The breakdown in negotiations in May 2019 made it apparent that expectations on the U.S. side that China would agree to change its laws as part of the deal while also agreeing to allow the U.S. to leave tariffs in place as an enforcement mechanism will be difficult for the Chinese side to accept. Allowing the U.S. to impose its will on China would make Xi appear weak and undermine the credibility of his leadership. Xi has gone to great lengths to establish himself as China's most powerful leader since Mao Zedong, and will not accept any deal that calls into question his ability to stand up to Trump and aggressive actions by the U.S.

A partial deal. The most likely of these three scenarios is a partial deal that includes some purchases, removal of some or all tariffs, and some action on the structural issues – particularly reforms that could be beneficial to China. There is a recognition among many policymakers in China that reforms which provide a greater role for the market are the only path for continued growth and development. Reforms announced at the Third Plenum in 2013 have long since stalled out, and prior to the breakdown in talks in May 2019 there was a growing optimism among many Chinese decision makers that pressure from Trump could push China to jump-start these reforms. If the two sides can make concessions and strike the right balance, there is a chance that a "win-win" solution can be achieved.

Pressures at Home and Abroad

Aside from the trade conflict, Xi has his hands full dealing with a complex set of issues at home. In particular, the situation in Hong Kong poses a major threat to Xi, who has called on officials to maintain a "fighting spirit" in the midst of the challenges that the Chinese leadership is facing. There is belief among some within the Chinese leadership that Xi's consolidation of power contributed to the government's misreading of the scope of discontent in Hong Kong.

Perhaps the greatest risk that the situation in Hong Kong poses for Xi is that it could exacerbate discontent and discord within the Chinese leadership over other issues. In Taiwan, the unrest in Hong Kong has boosted the re-election chances for incumbent President Tsai Ing-wen, whose Democratic Progressive Party (DPP) favors independence over strengthening ties with Beijing. In Xinjiang, China's repressive policies and the mass detention of ethnic Uighurs and other Muslims have drawn international condemnation. All of this is happening as China's economic growth continues to slow, while the expectations of the Chinese people for improved standards of living continue to rise.

Pressure From the International Community on China

The U.S. is not alone in responding to China's growing influence on the international stage. As the trade war between the U.S. and China has escalated, American allies in Europe and Asia are also recalibrating their approach to China.

In March 2019, the European Commission released a report titled "EU-China – A Strategic Outlook," labeling China as a "strategic partner," "economic competitor," and most notably, a "systemic rival promoting alternative models of governance." The release of the report preceded a visit by Xi to Italy and France that highlighted the growing divide in Europe over China's increasingly assertive push into the region. Beijing's growing economic investment through Xi's signature foreign policy objective, the Belt and Road Initiative, and diplomatic initiatives like the 16+1 Forum are raising worries by U.S. allies over the implications of Beijing's rising involvement in the region.

In the Pacific, Australia is also taking steps to respond to China. Australian officials often point out that Canberra was the first to ban Huawei and ZTE from providing 5G technology on national security grounds in August 2018. Australia has also expressed concern over China's expanded political influence operations, including steps to ramp up cultural and educational soft power, boost aid programming, upgrade efforts to influence politicians and political parties abroad, and adopt a more assertive approach to shaping global narratives about China and about China's developmental model. Canberra has even enacted legislation to prevent Chinese interference in their domestic politics.

The European Union and Australia have taken clear but measured steps in responding to China's growing influence. They also continue to seek out cooperation – especially in their economic ties – where it is still mutually beneficial but are also standing firm where they believe that Beijing is undermining their interests. The U.S. may be creating the most noise in pushing back on China, but policies emanating from Brussels and Canberra demonstrate that Washington is far from alone.

The 2020 Testing Grounds

Just as Trump faces domestic political considerations heading into 2020, so does Xi. The same internal politics that led to the collapse of talks in May 2019 will remain a major factor in China's approach to the negotiations. Xi needs a deal that he can demonstrate does not equate to China acquiescing to U.S. demands, but rather one that achieves a resolution to the conflict in a way that conveys the strength and confidence of an increasingly powerful China.

Adding a layer of complexity to Xi's dilemma is the fact that he is facing pressure not just from the U.S., but also from important U.S. allies in Europe and the Asia Pacific. These countries are recognizing and responding to increasingly assertive actions taken by China – albeit in a much less dramatic way than Trump has done since entering office. After spending much of his first term in office consolidating power, Xi is now facing his toughest test yet.

Major flashpoints remain and should be monitored closely in the year ahead. These include the ongoing Hong Kong protests, a general election in Taiwan in early 2020, and the extradition hearings for Huawei CFO Meng Wanzhou, which begin in January 2020 and are expected to continue until October. The passage of the bipartisan Uighur Human Rights Policy Act by the U.S. Senate, along with calls from U.S. lawmakers for the Trump administration to apply Global Magnitsky Act sanctions on Chinese officials involved in the Xinjiang crackdown could lead the U.S. to take action on human rights abuses in China.

Tensions between the U.S. and China could also flare if Congress eventually passes the Hong Kong Human Rights and Democracy Act. Additionally, the potential for unintended confrontations in the South China Sea between U.S. and Chinese warships presents a persistent threat to the bilateral relationship and could impact trade negotiations if a major incident occurs.

In the longer-term, the next major battleground will be over the development of next-generation technology. A trade deal that involves compromise on both sides could be a crucial first step in stabilizing the relationship and steering the two countries away from rivalry and zero-sum approach to competition. Multinational companies should prepare for on-again, off-again tension and conflict between the U.S. and China for the foreseeable future, while also maintaining their commitment to the Chinese market.

Recommendations for CEOs and Executives

The trade war has created a complex set of geopolitical challenges for companies operating in China. In order to avoid getting caught in the crossfire between the two countries, multinational companies should maintain close coordination with their government affairs teams on the ground and should carefully evaluate their existing partnerships in China. Ensuring full compliance with regulations is crucially important, especially as China prepares to launch its new “Unreliable Entity List,” and as it plans to roll out a “social credit” system for both Chinese and foreign companies in 2020.

CEOs and executives should seek out opportunities to travel to China, while also being mindful of risks related to travel for Chinese-foreign dual citizens who have not undergone the necessary procedures to formally revoke their Chinese citizenship, as China continues to treat any Chinese citizen as such unless the person actively relinquishes his or her Chinese identity documents. Visits to China can serve to both demonstrate companies’ commitment to the Chinese market and help CEOs and executives gain a greater sense of the situation on the ground. Key Chinese government-sponsored conferences and dialogues such as the Bo’ao Forum for Asia, China Development Forum and World Economic Forum’s Annual Meeting of the New Champions all provide excellent opportunities for CEOs and executives to engage with important stakeholders.

Stakeholder engagement in China, however, should not be limited to meetings to government officials. Frequent engagement with leaders in business, academia, and media can help cultivate relationships that enable CEOs to gain a greater sense of the business environment from the perspectives of influencers who impact policy and decision-making in their respective industries.

Finally, it remains critically important that foreign companies demonstrate alignment with China's national economic and development objectives, including efforts such as urbanization, food safety, poverty alleviation, environmental protection, and sustainable development. The National Development and Reform Commission (NDRC) is currently in the process of drafting China's 14th Five Year Plan (FYP), which will be approved by China's top legislature in early 2021. The 14th FYP will be an important blueprint outlining the government's top objectives for the period from 2021 to 2025, and sectoral and regional plans will be made based on its principles and targets. Multinational companies with long-term growth strategies in China must possess a comprehensive understanding of important policy documents such as the 14th FYP and should seek out opportunities to support the goals they outline.

Asia at a Crossroads: Rising Powers Contest U.S. Dominance

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The rise of China is upsetting the longstanding geopolitical equilibrium in East Asia. The U.S. has dominated the region militarily since World War II, while U.S. economic and diplomatic clout has allowed it to exert regional influence with carrots as well as sticks. Today, the U.S.' position in Asia faces an unprecedented challenge. The Soviet Union strived to challenge U.S. military dominance in the region, but the Soviets had limited ability to exert economic influence. Conversely, Japan emerged as an economic rival to the U.S. in the 1980s, but Japan's ironclad military alliance with the U.S. limited the scope of this rivalry.

China's economy is already the world's largest at purchasing power parity and is expected to surpass the United States at market exchange rates by the end of the next decade. China's military spending more than doubled between 2010 and 2018, reaching 38% of U.S. levels by 2018, compared to only 18% in 2010. China has grown increasingly assertive and daring in pursuing its disputed territorial claims in the South and East China seas, especially by using its growing naval power to challenge both commercial and naval vessels from other countries that venture into disputed waters. From early in his presidency, Barack Obama indicated that a priority for his administration would be to strengthen the position of the United States in Asia. As China's behavior grew more assertive, the Obama administration articulated what became known first as the "pivot to Asia" and later the "Asia rebalance" strategy.

During Obama's second term, his rebalance strategy took on a sharper edge, as the administration increased deployments of advanced military hardware to the Asia Pacific, strengthened alliances with Japan, South Korea, and the Philippines, and forged closer military relations with Vietnam. The administration pursued an economic strategy, too, centered on the Trans-Pacific Partnership.

The TPP was in part an effort to counter the influence of China's Belt and Road Initiative (BRI), which aims to deepen Beijing's economic and political relationships in Asia through investment in infrastructure like ports, railways, roads, and energy pipelines. But Obama was unable to navigate the TPP through Congress, and by the end of his administration, the economic pillar of the rebalance was in shambles.

On his first full day in office, Donald Trump signaled his determination to break with Obama by announcing U.S. withdrawal from the TPP. The Pentagon's 2017 National Defense Strategy identifies "long-term strategic competition with China" as one of the agency's "principal priorities," but Trump himself rattled the bilateral security alliances that had been the cornerstone of U.S. security policy in the region for decades. He warned during the 2016 campaign that he believed allies like Japan and South Korea had taken advantage of the U.S. security guarantee and should take more responsibility for their own national defense, including possibly acquiring their own nuclear weapons.

Given the potential for a landmark shift in the balance of power in Asia, this chapter describes three possible scenarios for how the region will look in 2030: 1) China gradually supplants the U.S. as the region's dominant power; 2) the U.S. re-commits against the Chinese challenge; and 3) an uneasy stalemate in which the U.S. maintains military superiority while China's economic power surpasses that of the U.S.

Scenario I: China Gradually Supplants the U.S.

By the middle of the 2020s, it was apparent that the U.S. military presence in East Asia was not what it once was. While the U.S. still deployed its most advanced warships and airplanes to its bases in the region, the U.S. defense establishment had never really solved the problem of China's anti-access / area denial strategy, which restricts the U.S.' ability to move its assets into a combat theater and maneuver within that theater. The U.S. security guarantees to its treaty allies continued to exist on paper — although the reconciliation process on the Korean peninsula was making its alliance with South Korea increasingly irrelevant — but China's arsenal of ballistic missiles, cruise missiles, drones, and submarines, as well as cyber and other "irregular" capabilities meant that both China and U.S. allies wondered how meaningful the security guarantees still were. In an extreme version of this scenario, Trump's reelection in 2020 emboldens him to ignore the objections of the U.S. national security establishment and fulfill his offer to North Korean leader Kim Jong-un to withdraw U.S. troops from South Korea.

Meanwhile, China's pursuit of disputed territorial claims in the South China Sea and East China Sea grew progressively more assertive. Vietnam, the Philippines, and Taiwan largely gave up efforts to challenge Chinese land reclamation and island-building in the Paracel and Spratly Islands. Chinese military installations on these islands serve as an effective deterrent.

Beyond the shifting military balance in the region, allies and adversaries ultimately wondered whether the U.S. still had the will to defend its Asian allies. Post-Trump U.S. presidents targeted bloated defense budgets in order to find funding for other priorities, particularly after the recession early in 2020s led to another cycle of swelling budget deficits and congressional battles over spending cuts. The polarized U.S. political system, meanwhile, made it more difficult to muster a coherent and unified response if, for example, China applied economic pressure and used cyber-attacks and other "hybrid" tactics to counter a Taiwanese independence campaign or coerce a U.S. ally into backing down in a dispute.

U.S. allies did not respond by abandoning the U.S. or jumping fully onto China's bandwagon. Instead, while maintaining economic ties with China, they hedged against Chinese military power by bolstering their own defenses and forging the Japan-India-Australia group into the nucleus of a proto-NATO aimed at deterring Chinese adventurism in disputed areas. The most dramatic change was in Japan, where the government — building on the reforms introduced by the Abe government in the 2010s – invested in a more robust domestic arms industry and moved towards more formal alliance ties with India and Australia. Tokyo even began a serious debate about Japan's acquiring its own nuclear deterrent, as much because of the prospect of a united, nuclear-armed Korea as because of China's arsenal. The region grew more unstable, resembling Europe in the decades before World War I. By 2030, the region's great powers began seeking mechanisms to contain the expensive arms race and establish communications mechanisms to prevent crises from spiraling out of control.

Meanwhile, in the economic realm, U.S. influence in the region declined even more precipitously. Trump's withdrawal from the Trans-Pacific Partnership doomed the possibility of a U.S.-led framework for regional trade, investment, and intellectual property. China's rival framework, the Regional Comprehensive Economic Partnership, came online in the mid-2020s with terms more favorable to China's statist approach to economic governance. For most if not all countries in the region, exports to China far exceed those to the U.S. and Europe, due both to RECP and to the role of BRI infrastructure projects in facilitating trade. China's dominance in regional trade gives China significant leverage, with the threat of "boycott diplomacy" making regional trading partners reluctant to challenge China on security issues.

Initially a mashup of China-sponsored or funded projects, BRI gradually evolved into a more coherent set of projects that help expand the regional reach of Chinese investment, supply chains, and technology. Building on the Asia Infrastructure Investment Bank, China established other regional institutions, while leveraging the attractiveness of China as a market for regional exporters. Beijing's tools of regional influence increasingly resemble those that the U.S. and Japan used in the postwar era.

Improved infrastructure connectivity from BRI and increased intra-Asian trade due to more integrated Asian supplier networks that formed in response to U.S. tariffs increasingly drew South and Southeast Asian economies into China's economic orbit. Though caution about Chinese investment persists due to concerns about Chinese "debt-trap diplomacy," labor practices, environmental impacts, and opaque contracting procedures, Chinese investors and lenders adapt in response to these criticisms by reducing lending rates, improving anti-corruption practices and ensuring better use of domestic labor.

Regional economies become even more important as suppliers of natural resource and intermediate goods to China. Similar to Japan's role in Southeast Asia in the 1970s and 1980s, BRI's role in improving the region's infrastructure induced a follow-on wave of Chinese manufacturing investment to Southeast Asia, as Chinese factories relocate to these lower-cost regions. Already underway in the 2010s, the migration of low-end manufacturing to Myanmar and Cambodia accelerated. Indonesia further emerged as a destination for mid-level export processing, while Malaysia and Thailand expanded their role in producing higher-end technology and white goods.

China’s increasing influence in the region made multinational companies feel they had little choice but to increase investments in China, despite persistent complaints about lack of market access, competition with state-owned enterprises, and loss of intellectual property. Increased infrastructure connectivity between China and the rest of Asia made China irresistible as a regional trading hub for serving the region. But companies also feel increased pressure to show deference to China’s nationalist sensitivities around Taiwan and the South China Sea. This deference was aimed not only at pleasing the government but also at pleasing Chinese consumers, whose purchasing power continued to grow along with China’s economy.

Scenario II: U.S. Re-engages in Asia

By the mid-2020s, the U.S. had managed to shift the regional balance of power back in its favor. Its economy weathered the “lesser recession” relatively well, while China’s economy increasingly looked like Japan’s after its bubble burst. Chinese growth faltered due to long-festering problems with excessive debt, wasteful investment, and demographic ageing. China was still a potent military power, but the Trump administration and its successors invested in maintaining the U.S. edge in defense technology. The U.S. deployed intermediate-range ballistic missiles across the region — not without its allies having to face down political opposition, of course. And as the U.S. began to disengage from the Middle East and Europe, it was able to redirect more of its assets to Asia to reassure allies of its ability to deter China and uphold its security guarantees.

The U.S. also sought to restore its economic influence in Asia. A post-Trump president revived the TPP —or a similar initiative with a different name —enabling regional economics to diversify their trade and investment relationships and avoid excessive reliance on China. This U.S.-led regional trade bloc was based on liberal norms of economic governance, including requirements that state-owned enterprises operate on a level playing field with private groups. As a result, China faced pressure to adopt domestic economic reforms that it has long resisted, in order to gain access to favorable terms of trade that other regional countries enjoy.

As a U.S.-led alternative to BRI, the Trump administration launched the U.S. International Development Finance Corporation, with Trump and his successors providing generous funding. This initiative proved attractive to regional partners because it avoids problems afflicting BRI. With many Southeast Asian countries under budget stress and China largely unable to effectively navigate the complexities of investment in the region, capitals from Yangon to Jakarta turned to the U.S., Japan, South Korea, and Australia for infrastructure funding and technological expertise. Stung by the uneven performance of Chinese firms and contractors, Southeast Asian companies and consumers continue to prefer Western counterparties. Concerned about Chinese spying and wary of China's use of technology for censorship and political repression, Southeast Asian governments largely turned away from Huawei and other major Chinese technology suppliers.

Meanwhile, U.S. economic growth was relatively strong, relieving some of the political tensions of the preceding decades. U.S. leaders felt more confident in their ability to respond to challenges in Asia. The U.S. was still not able to spend as much on defense as before, leading it to rely more on burden sharing with Japan and Australia to deter China. But U.S. economic reengagement and tighter military alliances with Japan and Australia promote partial economic decoupling between these U.S. allies and China, minimizing these allies' vulnerability to Chinese pressure. China responded by tightening its alliance with Russia in East Asia, with more encounters and standoffs between U.S. partners and Russian or Chinese armed forces in the region's seas and skies.

As China's growth slowed, some multinational companies decided the upside of the Chinese market no longer justified the headaches of doing business there. Few companies exited China entirely, but most tempered their ambitions and slowed the pace of new investment. Some foreign companies were scared away by Magnitsky-style sanctions that some countries placed on Chinese leaders involved in the mass internment of Uighur Muslims in western China's Xinjiang region. Others judged that China had become mired in the "middle-income" trap and judged that the golden era of Chinese consumption growth had passed.

Scenario III: Uneasy Stalemate

This scenario, which is probably the most likely, encompasses some but not all aspects of the previous two scenarios, resulting in a regional power balance in which neither the U.S. nor China can reliably expect cooperation or fealty from other countries in the region. Most Asian countries oscillate between the U.S. and China on an issue-by-issue basis, embracing a transactional foreign policy while resisting a clear, overarching alignment with either one.

After a decade characterized by significant constraints — fiscal, demographic, and climate-related — neither of the region's major powers was able to shift the balance of power decisively. The U.S. struggled to convince allies and adversaries that its security commitments are credible, but the U.S. still possesses the region's strongest military. Faced with slower growth, China was unable to maintain significant increases in defense spending. Therefore, while China has become a potent rival, it is not strong enough to confidently pressure or coerce U.S. allies without fear of a damaging conflict with the U.S. Dealing with similar challenges, Japan, Australia, and South Korea found it difficult to spend more on their own militaries or to substantially de-couple from China's economy.

India never quite panned out as an East Asian power, constrained by its growth struggles, lingering distrust of the U.S., and economic interdependence with China. India still poses a threat to China, particularly as China expands its maritime presence in the Indian Ocean, but New Delhi resists greater integration into the U.S.-led alliance system, limiting its impact on the regional balance of power.

During the 2020s, the potential for accidental conflict caused by a misunderstanding between the U.S. and Chinese navies will temporarily increase as China grows more assertive in pursuing its disputed territorial claims. But by 2030, as Beijing gradually recognizes the limits of its capabilities and reality of stalemate, Chinese leaders will temper their ambitions in pursuing their claims. A decade's worth of experience with minor naval incidents equips both regional powers with enough experience to avoid an unintended conflict.

With no clear victor emerging from a decade of U.S.-China competition, multinational companies hedge their bets. Companies searched for a middle path between the two regional hegemons, despite efforts by the U.S. and some European governments to use controls and investment restrictions as a weapon to hinder China's climb up the technological value chain. Most companies maintained neutrality on sensitive regional political issues, resisting efforts by both governments to force companies to choose sides. China remained an important market for many companies, but the by-now-familiar frustrations of the Chinese market also prompt companies to diversify to other Asian markets.

Domestic Factors Likely to be Decisive

In attempting to determine which of these three scenarios is emerging over the course of the 2020s, the natural tendency will be to focus on diplomatic and military maneuverings in the region. While these maneuverings certainly matter, domestic political and economic developments in the U.S. and China could be even more important. If the U.S. falls into a prolonged recession, or if the U.S. political system remains mired in gridlock, any notional commitment to strengthening U.S. influence in Asia will likely prove ineffectual. Economic stagnation or political paralysis would not only weaken the U.S.' ability to formulate and execute an effective foreign policy, but also diminish the prestige of the U.S. economic and political model in the eyes of Asian regional countries.

If "Scenario I" is realized, it will be due at least in part to the perception in Asia that the U.S. economic and political model is no longer worth emulating, while the "China Model" appears to be producing better results. China's shift towards a more state-led economic model following the 2008 financial crisis was due in part to a perception that the crisis exposed deep flaws in U.S.-style free-market capitalism. This perception was not limited to Beijing. For political leaders around Asia, the choice between the U.S. and Chinese systems was far less obvious, especially after Beijing used state-led economic stimulus policies to engineer a swift recovery from the crisis.

But in the last five years, the undesirable consequences of China's state-heavy economy and authoritarian politics have increasingly emerged. Excessive debt, stagnant productivity, inefficient capital allocation, and lossmaking state-owned enterprises are among the many economic challenges that China faces in the 2020s. Politically, Xi Jinping appears to have consolidated his power and imposed unity and discipline on a Communist Party that was riven with factionalism and corruption when he took power in 2013. Yet like the early successes of China's post-crisis stimulus, this political success may also prove temporary. Xi's elimination of presidential term limits may usher in a decade of stability in the 2020s, but it may also lead to a messy succession crisis — a persistent feature of Chinese politics dating back to the dynastic period. The spectacle of Xi seeking to maintain himself as president for life in order to avoid placing himself at the mercy of the many political enemies he has made during his ruthless consolidation of power would dim the prestige of the "China Model" for other Asian countries.

For both the U.S. and China, then, the battle for supremacy in Asia ultimately depends as much on their ability to put their own respective houses in order as on their activities in the international arena.

Balancing Act: Russia and OPEC

Dr. Otilia Dhand, Senior Vice President

Operating under Western economic sanctions for over five years, Russia finds itself in a unique position heading into 2020. Through a combination of careful fiscal management and coordinated energy policies, Russia has leveraged its status as one of the world's leading oil and gas producers to achieve a number of geostrategic objectives. Among other efforts, Russia has had considerable success in participating in the OPEC+ negotiation process, gaining influence at a time when OPEC's future is more uncertain than ever before.

However, can this success turn into long-term gains, or has Russian foreign policy become overstretched in the face of domestic economic constraints? The divergence between the interests of the state and the main players at state-owned energy enterprises may strain President Vladimir Putin's careful balancing act in the coming 12-18 months.

Geopolitical Maneuvering

Since the enactment of sanctions targeting Russian government officials in a number of areas by the U.S. Department of Treasury's Office of Foreign Assets Control since early 2014, Russia's geostrategic objective has been to develop regional counterweights to the US and its allies. This endeavor became most obvious in the fall of 2015 when Russia began its military intervention in Syria in an effort to stabilize its last remaining regional ally, Syrian President Bashar al-Assad, and to enhance its own role in the Middle East. However, other examples of Russian entrenchment or realignment abound. These include a shift toward a strategic partnership with China, as well as continued support for President Nicholas Maduro's regime in Venezuela, even at the risk of further retaliatory sanctions.

But there is also an energy dimension to Russia's geostrategic maneuvering. Long accused of wielding its oil and gas resources as an instrument to advance foreign policy objectives, Russia has now confirmed these suspicions via the so-called OPEC+ process. Namely, the Declaration of Cooperation of OPEC members and non-members signed in December 2016 and its subsequent extensions have served as a vehicle for Russia, along with Saudi Arabia, to compete head-to-head with surging U.S. oil supplies in the world market. The OPEC process has served other purposes beyond this, including allowing Putin to take direct control in guiding Russian oil output, as evidenced by the postponement of the OPEC June 2019 Joint Ministerial Monitoring Committee meeting until Putin announced a continuation of the OPEC+ agreement at the G20 summit in Osaka.

The OPEC process also has the potential to give Russia a permanent seat at the OPEC table, particularly at a time when the organization itself is undergoing changes, as evidenced by the departure of Qatar in 2018. Finally, Russia now has the leverage to explore other potentially mutually beneficial avenues, such as proposed investments from Saudi Arabia in support of Russia's import substitution strategy, as well as potential collaboration with Iran in a number of sectors.

Using energy policy in the pursuit of this geostrategic aim – to develop a counterbalance to Western economic sanctions – is fraught with domestic fiscal and political constraints that restrict the Kremlin. Not least of these is the fact that the stated objective of OPEC+ is to reduce global oil supply in the interest of higher prices, a move that directly benefits U.S. producers. Russia's own oil output has seen robust growth in recent years on the back of a number of heavyweights, ranging from Rosneft to Lukoil to Gazprom Neft.

All of these Russian industry actors have close ties to the Kremlin but divergent interests in terms of potential output cuts. In addition, depending on the structure of the Russian tax code, any cut in Russian production could directly lead to losses in federal revenue, even in a high-commodity-price environment. A similar impact would be felt by the National Welfare Fund, a rainy-day reserve that serves to cover social spending needs ahead of major elections.

With these constraints in mind, Russia's approach to OPEC+ negotiations have been characterized by a push for flexible, reversible cuts, stopping short of full non-compliance. The hallmark of this strategy is extended periods of non-compliance with agreed-upon OPEC+ output cuts, ostensibly due to difficulties managing Russian oilfields during the cold winter months. The effect of this balancing act has been to guarantee Russia a seat at the OPEC table while shifting the majority of output cuts onto other countries such as Saudi Arabia. Moreover, it serves a vital function for Putin of placating dissenting voices within the Kremlin representing the oil industry. For example, through May 2019, Russia was fully non-compliant with its agreed-upon cuts, but last-minute compliance in June 2019 ensured that Russia would continue to be an influential voice in the OPEC+ process going forward.

Tied Hands? Domestic Fiscal Constraints

With its economy heavily dependent on the export of primary commodities, Russia has seen several economic shocks in the Putin-era. The 2008-2009 financial crisis was accompanied by a 35% decline in the price of Urals oil, and this, in turn, led to an all-time high in deficit spending under Putin to shore up the federal budget. Softening the blow was the fact that leading up to 2008, Russia had built a much-needed cushion of well-over USD 150bn in its sovereign wealth fund, which depends on oil and gas export revenue.

When commodity prices again collapsed beginning in late 2014, Russia was not as prepared for the fiscal impact; social spending spiked in the run-up to the March 2018 presidential election, and the federal budget at that time required an Urals benchmark price of USD 72/bbl just to break-even. With no presidential election scheduled again until 2024, Putin has pushed through a series of unpopular tax and pension reforms to ease pressure on the budget. Having learned its lesson, the latest three-year budget features a much lower break-even oil price for 2019-2021.

There is a cap on federal revenue attributable to oil and gas royalties of USD 42/bbl (full-year average). Any royalty revenue above this threshold will be allocated to the National Welfare Fund. The base case forecast put forward by the Ministry of Economic Development recognizes that oil prices are expected to continue to trend below USD 60/bbl through 2021. This correlates with relatively modest official forecasts of Russia's GDP growth, at only +2% in 2020 and +3.1% in 2021.

With such conservative budgeting, Russia has had a free hand to engage with OPEC, agreeing to cut output without necessarily feeling the pain of severe cuts. And, as in 2008-2009, the National Welfare Fund has been used liberally to avoid borrowing (perhaps a moot point in the face of sanctions) and to justify tax breaks demanded by Rosneft as compensation for even limited compliance with the OPEC Declaration of Cooperation. This begs the question: in the absence of a strong fiscal imperative, how does Russia benefit from participating in the OPEC+ process?

There are two direct benefits. First, it widens the scope of potential joint investments into Russia, hoping to avoid the reach of sanctions. Second, it allows Russia a free hand to influence OPEC states beyond the energy sector.

The former is evidenced by the active work of the Russian Direct Investment Fund (RDIF) in attracting a flow of funds from sovereigns (mostly in the Gulf) to new infrastructure projects. These include, but are not limited to, direct investments in support of the Kremlin's import substitution strategy such as fertilizers, the Ust-Luga transshipment terminal, petrochemicals, and agriculture. As an example, RDIF has a partnership with Saudi Arabia's Public Investment Fund that has earmarked up to USD 10bn for joint investments. Russian participation and leadership in OPEC+ is yet another lever to develop economic ties with sovereigns against the backdrop of sanctions.

Dissent Within the Kremlin?

Prior to the G20 meeting in Osaka in summer 2019, all Russian negotiations in OPEC+ had been handled by Minister of Energy Alexander Novak. With comparatively low exposure to sanctions and recognizing the fiscal cushion in place, Novak and Minister of Finance, Anton Siluanov, have been very willing to toe the Kremlin's line on the benefits of cooperation with OPEC+. In general, however, Kremlin officials or close Putin confidantes are more likely to be opposed to OPEC cooperation if they are subject to sanctions and primarily motivated by commercial, rather than geostrategic objectives. For example, the most vocal critic of the OPEC agreement has been the CEO of sovereign-owned Rosneft, Igor Sechin. For one, any Russian output cuts fall disproportionately on the shoulders of Rosneft, which is simultaneously the largest single contributor to the federal budget.

But another reason for Sechin's opposition is that Rosneft has already made commercial compromises in the interests of advancing the Kremlin's foreign policy goals. In support of the beleaguered Maduro regime in Venezuela, Rosneft is currently the only active supplier of crude oil to the country, for which it does not receive market value. A similar dynamic is at play in Iran; the Kremlin has offered Tehran a discounted oil transit agreement (shipping Iranian oil to the Black Sea for export) on non-commercial terms, and Rosneft in 2017 signed a joint investment protocol with the National Iranian Oil Company. The result of these non-commercial transactions is that the cost of cuts are borne by the Russian taxpayer (vis-à-vis the federal budget) or by flagship state-owned enterprises such as Rosneft.

This balancing act came to a head in summer 2019. Rosneft took a further commercial hit on account of the contamination of one of Russia's major oil export pipelines, resulting in mutually incriminating accusations between Rosneft and Transneft. Seeking to placate personal allies such as Sechin, while also maintaining a freehand to deal directly with OPEC member countries, Putin postponed a formal extension of the OPEC+ Declaration of Cooperation from the June 2019 Ministerial in Baku to the G20 Heads of State summit in Osaka. He followed this up by granting Sechin the tax breaks he desired, much to the dismay of the Ministry of Finance.

In short, pressure on the Kremlin is building, and to date, the release valve for this pressure has been fiscal policy. Should fiscal constraints tighten, the Kremlin's balancing act will become ever more difficult.

What to Expect in 2020

Heading into 2020, the Kremlin has already agreed to a nine-month extension of mandated OPEC+ output cuts. But with global oil prices weakening, it is likely that Russia's balancing act will become strained. Russia cannot comply with the OPEC+ mandate without directly pressuring Rosneft to cut output. And having already maintained this fragile balance for a year, the fiscal cushion is not as deep as it was in years past. Indeed, the National Welfare Fund stands at just under USD 60bn, having lost value since the start of the year. This is a far cry from the Ministry of Finance's USD 150bn target for the end of 2020.

Most importantly, the economic sanctions regime remains firmly in place. As a result, Russia will continue to operate within a framework of import substitution, with direct investment from sovereigns sought in lieu of private sector investment. At a large scale, the most prominent investment will be sought in energy export projects, such as NOVATEK's Arctic LNG and Gazprom's Baltic LNG (which has already seen one multinational pull out – Royal Dutch Shell). Moreover, Russia has already made overtures to sell Russian helicopters to Saudi Arabia and the S-400 missile defense system to OPEC members. This follows a year in which Russia succeeded somewhat in driving a wedge between NATO members with the sale of the S-400 to Turkey.

Using energy policy to advance these goals will likely lead Russia to a push for a more permanent cooperation framework with the remaining OPEC members. One option, put forward by Gazprom Neft CEO Alexander Dyukov and supported by the Kremlin, would be for OPEC to shift from a hard price target to a softer price corridor in line with the commercial break-evens of major oil producers. At any rate, the Russian tactic in negotiations with OPEC will be characterized either by a series of phased cuts (possibly including last-minute compliance), or by an agreement that would allow larger producers such as Russia to overproduce in response to the ongoing loss of oil supply in Iran and Venezuela, both subject to punitive sanctions.

Going forward, so long as economic sanctions are in place, Russia will seek to deepen its strategic ties away from the West. In addition to building a strategic alliance with China, Russia will continue to leverage its vast energy resources to formalize its foreign relations with OPEC member states, in particular, Saudi Arabia, Iran, and Venezuela. The degree to which Russia can manage this balancing act will depend largely on Putin's ability to convince his allies in the domestic oil and gas sector to reprioritize their commercial interests to meet Russia's geostrategic objectives. All of this is happening against the backdrop of a changing domestic political dynamic within Russia, making Putin's balancing act even more delicate.

Europe's Domestic Politics Driving Global Confrontations: Why CEOs Should Care

Wolfango Piccoli, Co-President, Political Risk Advisory

For outside observers, 2019 might have looked somewhat like a head spin in European politics. First and foremost, Brexit was postponed. Meanwhile, elections in Spain saw the continuation of a hung parliament. In contrast, in Greece, polls resulted in the return to a rather traditional-looking center-right government, and in Denmark the result was a typical center-left minority rule. Without any voting, meanwhile, Italy has ousted its purely populist government. On top of that, the European Parliament election results displayed new levels of fragmentation, and the rise of the Liberals (propped up by French President Emmanuel Macron's new movement) and the Greens provided for a difficult backdrop for negotiations over the EU's new leadership line-up. In the end, however, the bloc managed to agree on a tableau of leaders in which, for the first time, the two most powerful jobs, the presidencies of the commission and the ECB, went to women.

How do we make sense of these seemingly random (and by no means exhaustive) series of developments over the year? And what, if anything, can they tell us about what might be ahead? Will 2020 be the year in which new trends come together to give us a better idea of where Europe is heading politically? And what will that mean for companies and markets?

For all the talk of a leaderless Europe, what is really going on is a shift in the political coalitions carrying the European project. While this entails a period of volatility, the new contours are already starting to take shape – notably the strengthening of the Green-Liberal camp and increasing polarization vis-à-vis the other camp that is here to stay, nationalist populism. This new shape of politics matters beyond the noise produced by this sharp standoff, and beyond repeated fears of a populist takeover and the consequences for the integrity of the single market and the euro.

What we are already seeing is a redefinition of market-relevant economic, fiscal, welfare, and regulatory policies in the centrist camp, too, for instance, the move from traditional welfare transfers to the unemployed to policies that focus on productivity and competitiveness by training people for the changing economy. On top of that, the growing political realization of an acute climate crisis is reshaping the way in which centrist (i.e. often Green-Liberal) parties are looking at investment policies. Depending on the industry, this can mean new risks for companies from regulation and taxation, or it can mean new business opportunities as the dominant political coalitions in Europe are doubling down on addressing the climate crisis.

New Focus on Security Issues

All of this is happening against the backdrop of the UK's departure from the EU and Russia's ongoing return to assertive, big-power status. As France has realized that it cannot (quickly) move Germany towards a more fiscally expansive stance on the Eurozone, the new focus is on another area in which Germany is spending less but could potentially do more: defense. This is one of the reasons for France's high hopes for Ursula von der Leyen – Germany's former defense secretary – as the new Commission president. But while France has already restructured its domestic party politics, Germany is only at the beginning of that process. In the traditionally more polarized, formerly communist east of the country, regional election results of 2019 saw the traditional catch-all parties of the center left and the center right getting squashed in between a remarkably strengthened far right and a Green Party that had long struggled to make any inroads in these states. But the grand coalition in Berlin is staggering on for now, making it hard to see how both partners would muster the political will for the bold moves President Emmanuel Macron has been hoping to see on the other side of the Rhine.

Businesses should watch Europe's inevitable reorientation towards strategic and security issues. Still, a fundamental reconsideration of Berlin's stance on security policy would likely require a combination of a direct strategic challenge to Europe and an outright U.S. retreat. This, in turn, is the backdrop against which Europe looks at the combination of China's arrival and uncertainty surrounding the role of the U.S. – in a crucial presidential election year across the pond. From the preparation of retaliatory tariffs against potential U.S. auto tariffs, to a new skepticism regarding Chinese digital hardware, many of the EU's business-relevant policies have been changing fast and will continue to do so against an evolving global backdrop.

But Europe's positioning is not straightforward. On the one hand, a new skepticism has replaced the previous focus on China solely as an economic opportunity story. In that sense, Europe and the U.S. remain on the same page: they are worried that China might use its growing technological leadership for more than just commercial goals. The Europeans in that sense agree with the motives driving the U.S. administration's position towards China: to react to China's rise with a much more strategic response.

At Odds with Washington

At the same time, the Europeans could not be more at odds with Washington over the actual measures that are being used. Of course, one of the biggest concerns is that the American trade war is not only directed against China, but against surplus countries and alleged "currency manipulators" in general. For Europe, this is especially dangerous after a decade in which northern, export-oriented countries have made a greater focus on competitiveness in global markets the precondition for Eurozone rescue packages. But now it is this northern European – and especially Germany's – mantra itself which is coming under pressure from the U.S. The fear of the imposition of further tariffs on some of the most important European export products is one of the key driving forces behind Europe's positioning in this ongoing standoff with the U.S.

The big concern is that measures implemented to win time – such as EU Commission President Jean-Claude Juncker's promises on soybean and LNG imports – will not last long enough politically to appease the U.S. administration. Germany is under additional pressure as the Nord Stream 2 pipeline to import Russian gas is nearing completion (a project of economic but also strategic relevance in Berlin); despite the ongoing sanctions against Russia, there remains the conviction that not all economic ties should be cut with the continent's largest country and that the continuation of certain commercial relations is in fact the best guarantee to at least remain in contact with a country that is too close and too powerful to be allowed to turn exclusively into an adversary. That approach is far from consensual across Europe, but it does hold some sway over many in Berlin and elsewhere.

A perhaps related point at which the Europeans differ from the U.S. approach to the new big power competition is the wider question of multilateralism. That is why Europe will continue to push for WTO reforms and to make progress on thorny commercial issues with China through multilateral agreements, rather than backing the tariffs approach driven by Washington. The broader motivation by the still-almost-exclusively centrist governments in Europe is their interest in countering populist politics; in many ways, this logic differentiates them from the current U.S. administration, which has been elected precisely in departure from, and in opposition to, a more conventional centrist pitch. This also explains why the Europeans and the U.S. seem to have such a different outlook on the very business-relevant topic of taxation.

Increased Global Competition

Whether it is the digital tax or the ongoing, broader debate around global minimum standards for corporate taxation in general, the shifting debate in Europe's rich democracies has triggered a gradual European movement in the direction of introducing minimal standards – again, not least to keep the political allies of the U.S. president's political movement away from power in Europe. But while Germany, for instance, has been fearing both U.S. retaliation and the implication for the global competitiveness of European companies, France has been especially active in this area. In a deal with the U.S., it was agreed that France would go ahead with its national initiative for a digital tax, and that Paris would reimburse companies if a solution could be agreed with Washington on the global stage (such as the OECD tax effort) within two years.

Whether such an agreement can be reached is questionable against the backdrop of continued global competition. The bigger question to watch might be how Germany responds to a continued French push for a digital tax and other measures, if no agreement can be reached with the U.S. The only thing that is safe to say is that both international cooperation, as well as domestic drivers will continue to be propelled decisively by political calculations.

For companies and investors alike, it will be crucial to keep a close eye on the domestic politics driving these confrontations – and not to get caught in the idea of single “deals” resolving the underlying issues. There are many angles from which we can consider the new geopolitical setup, whether we look through a strategic lens, or view it from the perspective of domestic winners and losers of globalization. But in any case, relations between the three big actors in the world economy – China, the EU, and the U.S. – will continue to remain politicized. In 2020, we will likely see more of this, from speculation on EU-U.S. trade talks, to continued vigilance in Europe vis-à-vis Chinese investments, including all the consequences this will have for the internal governance of the single market, for instance in the fields of industrial, tax, and competition policies.

Europe in the World: From Soft Power to Rule-Maker

Jacob Lund Nielsen, CEO, Strategy & Communications, Brussels
Poul Skytte Chrisoffersen, Senior Advisor

Europe is becoming assertive as a global standard-setter. To a large extent it sets the global agenda on consumer protection, financial services, and data. The EU is successfully exporting regulation as a template to be copied by other jurisdictions. The fact that the standards are related to values shared by global constituencies across markets adds powerful leverage and makes Europe's standards hard to ignore for multinationals keen to preserve their corporate image.

For the future, the European Union has a full agenda that gives priority to sustainability advancements, the spread of internal market standards, a digital industrial policy and post-Brexit negations with the UK.

Trade Power

Most European countries have historically been big trading nations. The massive scale of transatlantic trade that developed in the past century further reinforced its openness to the world. The federal power in trade, conferred to the European Commission in the EU's founding treaties, has given it the power to negotiate on behalf of its member states. The Commission has always been anxious to exploit fully this prerogative.

Today, the void left by a weak World Trade Organization (WTO) is being filled by Europe. Where the WTO fails to deliver, the EU embarks on bilateral or plurilateral trade agreements. Over recent years, it has concluded agreements with Japan, Korea, Singapore, Vietnam, Canada, MERCOSUR (Brazil, Argentina, Paraguay and Uruguay) and is in the process of modernizing its agreements. Where the U.S. steps back from promoting free trade in relation to the North Atlantic Free Trade Agreement and the aborted plan for the Pacific Partnership Agreement, the EU steps in.

EU norms and standards are becoming trans-European, as they apply not only to EU's member states, but also extend to Norway, Iceland, Lichtenstein and Switzerland. The same is the case for countries East of the EU's border, where the internal market standards are gradually being introduced in the Ukraine, Moldova and Georgia through the ambitious Association Agreements. The Balkan countries are also included. This makes the European Internal Market by far the largest in the world – population wise twice as big as the U.S. 'Third countries' that want to export to this area have to conform to EU norms.

EU's modern trade agreements with third countries are increasingly being used to promote European norms and standards, not just for exports to the EU, but also internally in the contracting countries, including in areas like environment and climate.

Global industry shows an interest in conforming to EU standards, even where they are not forced to do so by law, or international treaties. European standards tend to be higher than in most other countries. By conforming to the ambitious EU standards, producers around the world avoid double production lines. If they are EU-conformed they automatically fulfil the less demanding requirements of others. This is particularly the case for industries that are a smaller part of the wider global supply chains.

Moreover, the EU's trade policy increasingly incorporates recognition of regulatory standards, which effectively exports these norms to the rest of the world. Successful examples of such exports include the General Data Protection Regulation (GDPR), the Markets in Financial Instruments Directive (MiFID) and the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

U.S. business has traditionally been in favor of single market rules on the basis that it replaces layers of national bureaucracy across the EU Member States, thus allowing multinational businesses to scale across the EU markets far more easily and infinitely cheaper than if they had to go market by market. However, in the early 00's, U.S. business woke up to the fact that EU regulation could be potentially very costly, as the 2006 REACH regulation proved to be.

Consumer Impact

The EU's growing focus on sustainability, consumer rights and public interest is aligned with global activists demands. Europe also has the clout to claim the position of a representative of the voice of global citizens. In decades past, when Europe claimed intellectual leadership in the world, citizens concerned about human rights, solidarity, or the environment turned to their own governments to put them under pressure to follow Europe's lead.

In today's world, where governments are elected to explicitly reject the notions Europe seeks to embody (sometimes even within Europe itself), citizens are increasingly turning to companies to claim the mantle that politicians have cast off. This encourages companies to play a greater political role, making value judgments in areas previously in the remit of government or regulatory agencies, such as environment and sustainability, labour standards, tax, and sustainable use of resources. This shift has made its way into boardrooms, with executives now accountable for their company's track record in these areas as consumers are becoming increasingly driven in their choices by the positions taken by brands.

Another reason why international companies should pay attention to the EU's regulatory drive and its enforcement in international trade, is the fact that Europe's post-modern values are well-aligned with rising global movements, and are empowered by the world-wide reach of global news and social media. This means that EU regulation will likely be representative of the growing expectations of the consumer audience, which will help international corporates identify and fulfill this expanded set of expectations ahead of their competitors.

The Taxation Issue

There is rising popular pressure in Europe for tackling the problem of cross-border tax avoidance and punish what is considered as unfair tax practices by the giant IT companies. However, unlike internal market legislation, tax questions are ruled by unanimity decisions in the EU, and many issues fall under national competence.

In recent years, the Commission sought to achieve some degree of harmonization by attacking what were considered unfair and discriminatory tax practices by multinationals, using wide-ranging tools under EU competition law to attack illegal state aid and discrimination.

However, competition policy cannot replace EU tax legislation if a genuine and durable EU policy is to be established. The EU does not possess powers on taxation, which has so far made it impossible to adopt rules on a common corporate tax base, let alone common source of direct taxation or harmonisation of corporate tax rates. Member States show no sign of wanting to relinquish their veto power in this area.

These obstacles could be overcome if international standards could be established, in particular through OECD, where work is presently being intensified. Should these efforts fail, it is likely that the present trend will intensify, where individual countries adopt national legislation on taxing major tech companies. This could at a later stage lead to renewed efforts on EU harmonisation, if major problems of tax competition concurrently arise between Member States.

What Next?

Politically, one of the new Commission's most important objectives is the European Green Deal, which aims to bring Europe's ambitions on tackling climate change, energy policy and environmental protection to a new level. This includes enshrining the target for EU climate neutrality by 2050 into law and setting more ambitious goals on reducing emissions. The Commission wants to extend the emissions trading system to new sectors, including maritime, traffic and construction, and lower the exemptions for aviation. It is proposed to use EU funds to help less developed parts of the EU catch up on their environmental targets and in general to direct a major part of EU financing instruments towards green investments. Additional policy targets are envisaged on biodiversity, circular economy, single-use plastics and other aspects of environmental pollution.

The new Commission (supported by member states) is determined to ensure that the EU's effort is not undermined by carbon leakage. In this respect, the new Commission envisages a Carbon Border Tax with import tariffs on products from countries that do not meet the required carbon emissions standards. The Commission is convinced that such a tax can be constructed without infringing WTO rules. However, international contestation can be expected.

For third-country businesses, this means an impact on market access, particularly procurement rules. Mergers and acquisitions may also be impacted. For those operating in the EU, strict regulation could stifle competition, so the Commission will likely be careful to ensure that third country companies also follow the path to higher standards.

Finally, for some, the new standards will mean nothing less than a complete overhaul of their business models.

The EU will also use its international leverage to push the global climate agenda, including through its trade policy. For the moment, several Member States are threatening not to ratify the MERCOSUR agreement, unless Brazil make serious efforts to combat forest fires in the Amazon. At present, the EU is handicapped by the fact that it has only the "nuclear option" available – to refuse or denounce a trade agreement. The new Commission will seek ways of applying more flexible responses in future trade deals. It is a moot point whether the EU would be prepared to walk away from a free trade deal with the U.S. – if ever such a possibility would arise – because of present U.S. refusal to join the Paris Agreement.

Another of the Commission's priorities is the digital sector. The core tenet of the policy approach is not to try to replicate U.S. and Chinese success on 'hyperscalers' but to secure Europe's sovereignty in the digital economy by strengthening its capacity in key technologies like blockchain, quantum computing and algorithms. In practice, this means a European regulatory framework for human and ethical implications of Artificial Intelligence, a Digital Services Act outlining the liability rules for digital actors, and a more collaborative cybersecurity policy for the EU.

Margrethe Vestager, Europe's new 'digital czar,' is best known for her role as the former Competition Commissioner, thanks to her string of high-profile antitrust investigations into big tech. In her new role, she has highlighted the larger societal role that online platforms play today, and the special responsibility that comes with dominance. Under her influence, the Commission will likely be supportive of measures that force platforms to be neutral and interoperable, and allow users to more easily switch providers, for example by easily taking their data from one platform to another. Vestager will also likely champion public alternatives to private online platforms, such an official EU online identity system to allow people to prove who they are, instead of having to log in through private platforms.

The Commission will also likely put in place a long-term digital industrial policy, and an artificial intelligence plan that should focus on the use and sharing of data to enable new technologies and business models. She will also be responsible for an update of liability and safety rules for online platforms in the Digital Services Act, and work towards consensus on digital taxation globally.

In terms of broader implications, Vestager's anti-trust action has already become a leverage to enforce structural reforms and changes, as she will likely continue to apply it to tech. She may use court challenges to bypass legislative process and obtain similar results, imposing new standards on digital services that would otherwise be difficult to achieve.

Money Laundering Plague

Finally, the EU may seek to assert itself in the financial markets. The areas to watch are currency and anti-money laundering regulation. Money laundering scandals plaguing European banks in recent years have raised this issue to one of the top priorities in the financial sector and the new Commission will likely seek to address the situation and prevent further instances by imposing new regulation, strengthening oversight and cross-boundary cooperation.

Meanwhile, currency sovereignty may be an equally pressing issue when it comes to business implications for the broader economy. European countries were shocked to see the U.S. administration negate the Iran nuclear deal and reimpose sanctions. The cost to French industry alone ran into billions. The U.S. power in this respect is based on the dominance of the dollar in international transactions and the lack of real alternatives. As a stopgap measure, the EU has initiated a system of barter trade with Iran, but only on a small scale, and avoiding its use for oil sales. If the EU wants to be serious in its endeavors, it would need to create a series of safe assets on a major scale denominated in euros. This links the issue to a reform of the EU's Economic and Monetary Union, which presently is progressing at a snail's pace, which is unlikely to speed up in 2020 without a major catalyst.

Europe: The Future

Europe is on a global path. A path of less resistance than agreeing to global standards through cumbersome and endless multilateral negotiations; and a path that will continue to drive disagreements with the United States. And one that will have implications for global business, whether directly exporting to the EU or not.

The EU's strategic agenda aims at strengthening the internal single market, and at the same time, pursuing ambitious and robust trade policy ensuring reciprocity and mutual benefits. This may mean that while trade will become easier within the bloc and with its trade partners, barriers may be raised in relationship with other blocs or individual industries. Norms and standards may become a reason to suspend trade agreements alongside issues such as human rights.

The EU will likely promote multilateralism and rules-based international order, pursue an ambitious neighbourhood policy, and focus on strengthening its influence in Africa. While this may strengthen the EU's voice in world trade, it also implies potential tensions with other powers – Russia on the neighbourhood policy, China on Africa, and possibly the U.S. on multilateralism.

What About Brexit?

The departure of the UK could present a rupture in the ever-increasing spread of EU norms and standards. For the present UK government, "taking back control" is a key motivation for Brexit. It rejects the EU demand that a future UK-

EU long-term deal should maintain a level playing field in areas like consumer and environment protection, labour standards, taxation, climate etc. This will become a key issue in the negotiations that will follow the UK's departure and will have a broader impact on the future EU-UK relationship. The EU fears the appearance of a "Singapore on the Thames" and will champion tough bargaining in this area.

It is yet to be seen if the UK breaks the trend, and pivots towards U.S. norms and standards. Despite possible cost savings, such a move will not be generally welcomed by UK industry, where the EU will remain the main market, and where there is little appetite for changing its production process towards double production lines and breaking existing production chains with European partners.

Negative consumer reactions can also be expected, perhaps most violently with regard to norms and standards for food. There is little appetite for taking over U.S. norms and standards involving greater acceptance of pesticides, chloride chicken or hormone beef.

Finally, while the U.S. has recently engaged in a roll-back of several measures introduced after the 2007-8 financial crisis, the EU is unlikely to follow suit. In this area, there will be a great temptation for the UK to follow the American lead after Brexit, but the implications of such a possible divergence in standards is difficult to estimate as of now.

Biographies

Declan Kelly

Chairman & CEO, Teneo

Declan Kelly is the Chairman, CEO and a co-founder of Teneo. He is responsible for running all of the company's operations globally.

Declan is an advisor to several of the world's leading CEOs and corporations and is recognized in particular for his crisis management experience.

Prior to Teneo, Declan served as the U.S. Economic Envoy to Northern Ireland at the U.S. Department of State, appointed by Secretary of State, Hillary Clinton, in September, 2009.

In his role as Economic Envoy, Declan is recognized as having helped bring significant investment to the region from U.S. corporations. He also played a significant role in supporting the efforts that led to the historic devolution of policing and justice powers to the Northern Ireland Assembly, giving Northern Ireland fully devolved political governance for the first time in its modern history.

Prior to his government service, Declan served as Executive Vice President and Chief Integration Officer of FTI Consulting (FTI), one of the world's leading international consulting companies.

Prior to taking an executive officer position at FTI, Declan was Chairman and CEO of Financial Dynamics in the United States and Chairman of Financial Dynamics in Ireland.

Declan was a member of the senior management team which sold Financial Dynamics (FD) to FTI Consulting in September of 2006.

Declan previously worked as a journalist for more than a decade. He was selected as the recipient of the AT Cross Business Journalist of The Year Award in 1994.

Declan is a graduate of The National University of Ireland (Galway). In 2012, he was awarded the Ellis Island Medal of Honor, presented to individuals of different ethnic backgrounds who distinguish themselves by their contributions to society in the United States.

In 2008 he became the youngest-ever recipient of the American Irish Historical Society's prestigious gold medal, given annually to one person deemed to have made a unique contribution to Irish American society.

Declan is an honorary Visiting Professor in Management and Leadership at Queen's University Belfast. In 2011 he also received an honorary doctorate from the University in recognition of his service to the community and economy of Northern Ireland.

He created and continues to underwrite and personally oversee The Northern Ireland Mentorship Program which enables young university graduates from Northern Ireland to spend a year working within several leading corporations in the United States with a view to using their experience to embark on new careers in Northern Ireland. To date there have been over 100 participants in the program.

Declan serves on the board of Global Citizen, a leading international advocacy organization dedicated to ending extreme poverty by 2030. He was an Executive Producer of the 2018 Global Citizen Festival Mandela 100 in Johannesburg, South Africa which featured artists including: Beyoncé, JAY-Z, Cassper Nyovest, D'banj, Ed Sheeran, Eddie Vedder, Pharrell Williams, Chris Martin, Usher, and Wizkid.

Declan also personally leads Teneo's partnership with Global Citizen around Global Goal Live - a year-long campaign that culminates with a 10-hour global media event spanning five continents that will be the largest live-broadcast cause event in history on September 26th, 2020. The initiative will help secure commitments toward the $350 billion in additional funding needed annually to achieve the United Nations Global Goals in the world's poorest 59 countries.

James Hoge
Senior Advisor

James Hoge is a Senior Advisor to Teneo. Prior to joining Teneo, Mr. Hoge was Editor of Foreign Affairs, a bi-monthly, non-partisan magazine of analysis and commentary on international affairs and U.S. foreign policy. During his 18 years as editor, Foreign Affairs more than doubled its circulation to an all-time high of over 160, 000 and also launched editions in Spanish, Japanese and Russian. The magazine was founded in 1922 by the Council on Foreign Relations to educate the public on key international challenges and to enrich the debate on policy choices.

Prior to joining Foreign Affairs, Mr. Hoge spent three decades in newspaper journalism as a Washington correspondent, then editor and publisher of The Chicago Sun-Times, and finally, as publisher of The New York Daily News.

Mr. Hoge has been a Fellow at Harvard's John F. Kennedy School of Government, the Freedom Forum Media Center at Columbia University and on the American Political Science Association's Congressional program. He is a former Chairman of Human Rights Watch and The International Center for Journalists, as well as a member of the advisory board of the Center for Global Affairs at NYU-SCPS and of Brown University's Watson Institute.

Courtney Adante
COO, Risk Advisory

Courtney Adante is COO of Teneo's risk advisory business segment. Ms. Adante has over 20 years of operations and consulting experience from a unique and continually evolving career in financial services and strategy consulting. Her recent focus has been supporting global clients through the delivery of enterprise security strategy programs, including emergency preparedness and response and crisis communications.

Prior to joining Teneo, Ms. Adante worked for Accenture in the Capital Markets practice, managing global client account teams. Her project work was primarily in the Investment Bank Trading and Operations space, specifically managing multi-million-dollar projects in operational risk, trading supervisory enhancements, operational effectiveness, OTC Derivatives trading and middle office operations, regulatory reform, target operating models, and organizational design. Ms. Adante also supported the Capital Markets practice as the Finance, Risk and Regulatory (FRR) lead, developing the go-to-market strategy for sales and thought leadership around operational risk and OTC Derivatives regulatory implementation challenges.

Before joining Accenture, Ms. Adante worked for the electronic trading system division of Instinet (INET), formerly known as Island ECN in New York, where she ran the FIX operations group and was the key account manager for all equity trading for US and European based client groups. Before joining Island ECN, Ms. Adante was a Fixed Income Senior Market Supervisor at Eurex in Frankfurt, Germany, the electronic trading division of Deutsche Boerse. There, her primary role was to supervise electronic trading in German fixed income derivatives products. She monitored the markets for price aberrations and negotiated trade breaks between counter-parties outside market. She speaks fluent German, and also executed trades on behalf of global traders.

Ms. Adante completed her MBA at Loyola University in International Business and Finance and holds a BA in Economics and German. Ms. Adante is an active member of the American Council on Germany and serves on the Board of Girls Inc NYC.

Faten Alqaseer

Senior Vice President

Faten Alqaseer is Senior Vice President of Teneo Ventures where she focuses on improving the role corporations play in society. She advises a diverse group of public and private companies on conscientious business practices, helping them meet the public's evolving expectations of the private sector. Her work includes identifying vulnerabilities, addressing the wage gap, boosting inclusion in the workplace and setting policies to enable greater transparency. In addition to these proactive strategies, Faten has extensive experience managing complex crisis situations and implementing long-term remediation and rebuilding strategies.

As part of Teneo Ventures, Faten invests in disruptive start-ups that support the above aims. The Teneo Ventures portfolio is composed of early-stage enterprise solutions that use technology to tangibly change the way companies do business. Within Teneo Ventures, Faten is responsible for sourcing and analyzing potential investments, as well as working closely with portfolio companies to help them scale and commercialize for enterprise. Key investment subsectors include recruiting, supply chain management, health and wellness, and customer engagement and loyalty.

Previously Faten spent three years working on the interest rates sales desk at Bank of America Merrill Lynch in London, where she advised institutional clients on global economic drivers and financial markets and helped grow the Company’s MENA Central Bank and Sovereign Wealth Fund business.

More recently, Faten co-founded an EdTech start-up in Bahrain with the mission to deliver career development services to high school students, regardless of academic record or socio-economic background. She also helped launch The Novel Diner, an experiential pop-up restaurant in London.

Faten holds an M.B.A. in Management and in Business Economics and Public Policy from The Wharton School and a Bachelor of Arts in Economics and International Relations from Cornell University. Faten is also a member of Bahrain’s Crown Prince International Scholarship Program.

Ursula Burns
Senior Advisor

Ursula Burns is a Senior Advisor to Teneo. She was the Chairman of the Board of the Xerox Corporation from 2010 to 2017 and Chief Executive Officer from 2009 to 2016. She is currently the Executive Chairman of VEON.

She joined Xerox as an intern in 1980 and during her career she has held leadership posts spanning corporate services, manufacturing and product development. She was named president in 2007.

During her tenure as chief executive officer, she helped the company transform from a global leader in document technology to the world’s most diversified business services company serving enterprises and governments of all sizes. Shortly after being named CEO in 2009, she spearheaded the largest acquisition in Xerox history, the $6.4 billion purchase of Affiliated Computer Services.

Most recently in 2016, she led Xerox through a successful separation into two independent, publicly traded companies – Xerox Corporation, which is comprised of the company's Document Technology and Document Outsourcing businesses, and Conduent Incorporated, a business process services company. The separation of the two businesses has enhanced their competitive positions and created significant value creation opportunities.

Ursula, who regularly appears on Fortune's and Forbes' list of the world's most powerful women, is a board director of Exxon Mobil, Nestlé and Datto. U.S. President Barack Obama appointed Ursula to help lead the White House national program on Science, Technology, Engineering and Math (STEM) from 2009-2016, and she served as chair of the President's Export Council from 2015-2016 after service as vice chair 2010-2015.

She also provides leadership counsel to several other community, educational and non-profit organizations including the Ford Foundation, the Massachusetts Institute of Technology (MIT) Corporation, Cornell Tech Board of Overseers, the New York City Ballet, and the Mayo Clinic among others. Burns is a member of the National Academy of Engineers and the American Academy of Arts and Sciences.

Ursula holds a master's degree in mechanical engineering from Columbia University and a bachelor's in mechanical engineering from Polytechnic Institute of New York University.

Dr. Martha Carter

Senior Managing Director, Head of Governance Advisory

Dr. Martha L. Carter is a Senior Managing Director and Head of Governance Advisory with Teneo. She leads Teneo's governance advisory division, advising CEOs and boards of public and private companies on corporate governance best practices, activism defense, executive compensation, shareholder engagement, strategy, and other matters that come to the board. Dr. Carter currently sits on the Advisory Council of the Harvard Corporate Governance Forum and the Markets Advisory Council at the Council of Institutional Investors (CII).

Prior to joining Teneo, Dr. Carter was the Head of Global Research at Institutional Shareholder Services (ISS) and Chair and Founder of the ISS Global Policy Board. During her 13 years at ISS, Dr. Carter led Global Research's team of 160 corporate governance analysts in 10 offices worldwide. Under Dr. Carter's leadership, the research team provided institutional investors with corporate governance research and proxy voting recommendations on more than 38,000 companies in 115 markets. In addition, the team produced corporate governance studies and white papers.

Dr. Carter has been quoted in media around the world and has been a speaker for numerous corporate governance events. She has also written articles for a number of well-recognized publications, including: NYSE: Corporate Governance Guide (2014 and 2015); International Foundation of Employee Benefit Plans Benefits Magazine (2011); ICGN Yearbook (2009); and Financial Analysts Journal (2003).

Earlier in her career, she held positions at NASDAQ, The Federal Home Loan Banks, IBM, and Touche Ross.

Dr. Carter also held numerous academic appointments teaching finance courses. She holds a Ph.D. in finance from George Washington University, an M.B.A. in finance from The Wharton School, University of Pennsylvania, and undergraduate degrees in mathematics and French from Purdue University.

Mike Cooper
Consultant

Mike Cooper is currently a consultant for Teneo in Beijing, where he works closely with colleagues in Beijing and Hong Kong to provide ongoing analysis of government, industry, and media affairs for the firm's regional and global client teams.

Mike first traveled to China in 2009 as a volunteer to teach in under-resourced schools in China's rural areas. He returned to China in 2010 to begin Chinese language studies at Beijing Normal University, and again in 2012 to enroll in the Tsinghua-Berkeley Inter-University Program for Advanced Chinese-Language Studies. Following completion of the program in 2015, Mike worked on a project organizing promotional events for the National Football League in Shanghai and Beijing.

Mike graduated from Dartmouth College in 2012 with B.A. in Asian and Middle Eastern Studies and a minor in Education.

Dr. Otilia Dhand
Senior Vice President

Dr. Otilia Dhand is a Senior Vice President with Teneo Risk Advisory.

Dr. Dhand specializes in political risk in Central and Eastern European countries, including Russia and Ukraine. She is a member of the International Institute for Strategic Studies and holds a Ph.D. in the geopolitics of Central Europe from King's College, London. She also has a master's degree in Russian and East European Studies from St. Antony's College, University of Oxford, and a bachelor's degree in International Relations and Diplomacy from Matej Bel University in Slovakia.

Prior to joining Teneo, she was a CEE Region Analyst at Eurasia Group, and previously worked for the Economist Intelligence Unit, composing global indexes in its custom research unit. Earlier in her career, she held various positions servicing foreign investors entering the market of her native Slovakia.

Matt Filosa

Managing Director

Matt Filosa is Managing Director, Governance with Teneo. He advises companies on a variety of corporate governance issues such as activist defense, executive compensation, board composition and shareholder engagement.

Prior to joining Teneo, Matt spent over 17 years as a recognized leader in the corporate governance community. His extensive experience includes serving as Vice President and Director of Corporate Governance at MFS Investment Management, where he managed the corporate governance program for $500 billion in assets under management. During his 13 years at MFS, Matt developed the firm's first global stewardship program, guided the firm's global proxy voting policies and activities, and directed the firm's ESG engagement efforts. He was also a leading member of the firm's Responsible Investing & Proxy Voting Committees, as well as the firm's ESG Working Group.

During his career, Matt has also served as an Associate Director at Harvard Law School's Program on Corporate Governance and served on its Advisory Council, and as a Proxy Analyst at Fidelity Investments. He is also a founding member of the US Investor Stewardship Group, which launched the first investor corporate governance and stewardship principles in the United States and served on its Governance and Marketing Committees.

Matt earned a B.A. from Tufts University and an M.B.A. from Boston University.

Paul Haenle

Senior Advisor

Paul Haenle is a Senior Advisor with Teneo. In addition to his role with Teneo, Paul also serves as Director of the Carnegie-Tsinghua Center in Beijing, China.

Prior to joining Teneo, Paul served as the Director for China, Taiwan, and Mongolian Affairs on the National Security Council staffs of former President

George W. Bush and President Barack H. Obama. Paul also played a key role as the White House representative to the U.S. Negotiating Team at the Six-Party Talks Nuclear Negotiations.

From May 2004 to June 2007, Paul served as the Executive Assistant to the U.S. National Security Adviser. Trained as a China foreign area Officer in the U.S. Army, Paul has been assigned twice to the U.S. Embassy in Beijing, China, served as a U.S. Army Company Commander during a two-year tour to the Republic of Korea, and also worked in the Pentagon as an adviser on China, Taiwan, and Mongolia affairs on the staff of the Chairman of the Joint Chiefs of Staff. Some of his early assignments in the U.S. Army included postings in Germany, Desert Storm, Korea, and Kuwait. He retired from the U.S. Army as a Lieutenant Colonel in October 2009.

Paul received an M.A. from Harvard University, and a B.S. from Clarkson University.

The Rt. Hon. The Lord Hague of Richmond
Senior Advisor

Lord Hague of Richmond is a Senior Adviser to Teneo. He served as British Foreign Secretary from 2010 to 2014 and was leader of the UK Conservative Party from 1997 until 2001.

Lord Hague was first elected to Parliament for the seat of Richmond, North Yorkshire, at a by-election in 1989. At 27 years old he was the youngest Conservative Member of Parliament. He was re-elected a further five times to Parliament, on the last three occasions with the largest margin for any Conservative in the country.

Within two years of entering Parliament, Lord Hague had become Parliamentary Private Secretary to the Chancellor of the Exchequer. In 1993 he became Parliamentary Under-Secretary of State at the Department of Social Security. He was promoted the following year to Minister of State with responsibility for Social Security and Disabled People. He introduced the landmark Disability Discrimination Act in 1995.

Prime Minister John Major appointed him Secretary of State for Wales in the same year making him, at 34, Britain's youngest cabinet minister since Harold Wilson in 1947.

Lord Hague became leader of the Conservative Party after the 1997 General Election, making him, at 36, the youngest leader of a major political party in the United Kingdom in 200 years.

He set about reforming his party, including giving local party members a decisive say in future leadership elections. He led his party to victory in the European elections of 1999 and was widely credited for leading a successful campaign against the country joining the Euro. He stood down as leader following the re-election of Tony Blair at the 2001 General Election.

Lord Hague led the negotiations with the Liberal Democrats following the 2010 General Election that led to the creation of the Coalition Government. During his tenure as Foreign Secretary, Lord Hague dealt with one of the most tumultuous periods in modern history with unrest across the Middle East, and crises in Europe.

He set about reviving the Foreign and Commonwealth Office, opening new embassies in Latin America and Africa, expanding Britain's presence in China and India, re-opening the language school, establishing the Diplomatic Academy, and personally visiting 83 countries.

In 2012, Lord Hague launched the Preventing Sexual Violence Initiative with UN High Commissioner for Refugees, Angelina Jolie Pitt, to address the culture of impunity that exists for crimes of sexual violence in conflict and increase the number of perpetrators held to account.

After four years as Foreign Secretary, in July 2014 he declared his intentions to step down from front-line politics at the 2015 General Election, becoming Leader of the House of Commons in his final 10 months in government, and retaining his position as First Secretary of State.

Lord Hague has written two very successful and critically acclaimed political biographies: William Pitt the Younger, which won the History Book of the Year prize in 2005, and William Wilberforce: The Life of the Great Anti-Slave Trade Campaigner.

Tobias Harris

Senior Vice President

Tobias Harris is an expert on Japanese politics, and worked in 2006-2007 on the staff of Keiichiro Asao, at that time a member of the upper house of the Japanese Diet and shadow foreign minister for the Democratic Party of Japan, for whom he conducted research on foreign policy and Japan's relations with the United States. He is also the Fellow for Economy, Trade, and Business at Sasakawa Peace Foundation USA.

He earned an MPhil in International Relations from the University of Cambridge and a bachelor's degree in Politics and History from Brandeis University. Tobias has also conducted graduate research at the Massachusetts Institute of Technology and, from 2011-2012, at the Institute for Social Science at the University of Tokyo as a Fulbright scholar.

Tobias has written about Japanese politics for publications including the Financial Times, Wall Street Journal, and Foreign Affairs and regularly provides on-air analysis for CNBC, Bloomberg, and other networks.

Bob Herrera-Lim

Managing Director

Bob Herrera-Lim is Managing Director, South East Asia with Teneo. Mr. Herrera-Lim has been covering political and business risk in the Philippines, Thailand, Vietnam, Indonesia, Malaysia, Singapore, Cambodia, Myanmar and Laos since 2002, previously with Eurasia Group. He has advised firms not only with overall risk assessment at the regional and country level, but also developed and helped implement market entry, divestment and risk mitigation strategies for the firm's clients.

Before working in the United States, Mr. Herrera-Lim was a practicing lawyer in the Philippines and served in a variety of government and private sector positions. He was the Chief of Staff of the Majority Leader of the Philippine Senate, where he focused on post-crisis economic policymaking, energy sector privatization and IT and mining sector policy. He was also a program fellow for Corporate Governance at the Asian Institute of Management in Manila, where he led research on Southeast Asian corporate social responsibility. With funding from the Asian Development Bank and USAID, he developed and implemented a Supreme Court training program on securities and bankruptcy law for trial court judges.

As a lawyer in Manila, Mr. Herrera-Lim worked on tax, family and corporate law; much of his corporate work was focused on due diligence for mergers and acquisitions and securities issuance. He also consulted on communications crisis management for large infrastructure projects in the Philippines.

Mr. Herrera-Lim has degrees in law and economics from the University of the Philippines and became a member of the Philippine Bar in 1994.

Kevin Kajiwara

Co-President, Political Risk Advisory

Kevin Kajiwara is co-president, Political Risk Advisory at Teneo. He works closely with Teneo's largest financial and corporate clients, advising Fortune 100 CEOs and significant institutional investors with insights on geopolitical and policy risks, and their investment and corporate strategy implications. Mr. Kajiwara plays an active role in promoting the firm's research agenda and developing its macro views, as well as integrating Teneo Intelligence advisory services across the Teneo platform. A sought-after public speaker, Mr. Kajiwara regularly presents to a wide range of audiences worldwide on geopolitical risks and trends.

Prior to joining Teneo, Mr. Kajiwara was the Director of Strategic Clients at Eurasia Group and a member of the firm's Operating Committee. In this role, he led the firm's business development efforts with strategic financial markets and corporate clients, and managed relationships with some of the world's largest hedge funds, private equity groups, wealth management firms, sovereign wealth funds, securities exchanges and family offices. Mr. Kajiwara played an active role in promoting the firm's research agenda and developing its macro views.

A sought-after public speaker, Mr. Kajiwara regularly presents to a wide range of audiences worldwide on geopolitical risks and trends and their implications for markets and corporate strategies.

Previously, Mr. Kajiwara was a Director and Head of Institutional Equity Sales in the New York office of the Spanish bank, BBVA. Earlier, he spent eight years in international institutional equity sales with Bear, Stearns & Co. in New York and San Francisco, focusing on global emerging markets.

Mr. Kajiwara received a B.A. in economics from Vassar College.

Patricia Lenkov

Senior Managing Director

Patricia Lenkov is a Senior Managing Director with Teneo's Talent Advisory team. She is widely regarded as a thought leader on board recruiting, corporate governance, composition, and succession.

Prior to joining Teneo, Patricia led Agility Executive Search, a boutique firm she founded in 2008. Agility Executive Search specializes in corporate board and senior level executive search. To date, Patricia has conducted over 300 board searches for corporate clients, as well as, having worked with some of the world's leading activist investors to recruit board directors. In 2018, Agility Executive Search was named as one of "America's Best Executive Recruiting Firms" by Forbes and was included in the Hunt Scanlon "New York Power 60" List.

Previously, Patricia was a member of the board of director's practice at Spencer Stuart for four years, and prior to that, she spent six and a half years with Heidrick & Struggles where she conducted board and senior-level search assignments for Fortune 500 companies.

Prior to her work in the executive search field, Patricia worked for a Silicon-Valley based company, where she was the Regional Sales Manager for the province of Québec (Canada).

Earlier in her career, she held the role of Assistant Director of the MBA Program at Concordia University where she was also an Adjunct Professor. During her time at Concordia University, the MBA Program was ranked 4th in Canada by Canadian Business Magazine.

Patricia is an active member of the Women and Leadership Advisory Council at Concordia University and is on the Advisory Board of BoardProspects.com, the world's largest online boardroom community.

Previously, she was a member of the Family Advisory Council of the Komansky Center for Children's Health at New York- Presbyterian Hospital Weil Cornell Medical Center and the New York Steering Committee of 2020 Women on Boards.

She holds a BA, with distinction, in psychology from McGill University and an MBA from Concordia University.

She recently founded the ½ Percent Project, an animal welfare charity.

Patricia is an active contributor to Forbes.com.

David Lurie
Senior Vice President

David Lurie is a Senior Vice President with Teneo based in New York.

Mr. Lurie joined Teneo in December from General Electric where he spent 5 ½ years in various marketing and communications roles. At GE, David focused on financial communications and media relations, supporting senior executives on all major financial events, proactive media opportunities and the development of new digital strategies for reaching investors. He also led the issues management heat map process for the function globally and served as lead spokesman for various corporate issues involving litigation, environmental disputes, healthcare benefits and SEC-related matters.

In his most recent role Mr. Lurie managed paid media strategy for the brand across all media including TV, print, radio, search and digital, helping the company develop direct relationships with its key audiences. Some of his recent work includes media strategy for GE's 20,000 women in STEM jobs by 2020 campaign, Droneweek on Vice, Politico x GE Global Policy Lab and GE Additive's first advertising campaign.

Seth Martin

Senior Managing Director

Seth has spent his career working in corporate communications across sectors including financial services and diversified industrials.

Prior to joining Teneo in 2016, Seth was Director of Financial Communications for GE, responsible for corporate and reputational issues, quarterly earnings, M&A, legal issues, the annual report, annual meeting and CFO communications.

Prior to joining GE, Seth was Vice President, Communications at Barclays in New York, managing media relations for several of Barclays' core business lines including: research, commodities, clean-tech investment banking and Latin America communications.

Prior to Barclays, Seth was VP, Communications for Mizuho Corporate Bank, managing Mizuho's Americas communications. Prior to Mizuho, Seth was an Assistant VP at Morgan Stanley, covering asset management communications.

Seth began his career as a financial journalist and editor at IDEAglobal, covering U.S. equities. As a market strategist at IDEAglobal, Seth was frequently quoted in the media and interviewed on CNN, Fox, and YahooFinance TV.

Seth graduated from Cornell University and lives in New York City with his wife and children.

Gordon McCoun

Senior Advisor

Gordon McCoun is a Senior Advisor with Teneo. Mr. McCoun works closely with client companies to develop and implement effective financial communications strategies to optimize their valuation in the capital markets and enhance their ability to attract investment. He also advises on a broad range of issues including: enterprise valuation, financial reporting, corporate governance, regulatory compliance, crisis management and transaction communications.

Prior to joining Teneo, Mr. McCoun was Vice Chairman of the Strategic Communications (Americas) segment of FTI Consulting, one of the world's leading consulting companies. Before its sale to FTI in September 2006, Mr. McCoun was Vice Chairman and Head of the Capital Markets Communications Practice at Financial Dynamics (FD), the world's largest business communications consultancy. His first position in strategic communications was Vice President of Investor Relations at Morgen-Walke Associates, the predecessor to Financial Dynamics, which he joined in 1998.

Supporting Mr. McCoun's communications expertise is more than 20 years of experience on Wall Street in both equity research and portfolio management. He was a Vice President in the investment research & Co., a boutique investment bank, and a portfolio manager for both institutional and high-net-worth individual funds at Prudential Insurance, Mutual of America, Citibank and The Bank of New York.

Mr. McCoun has written and published white papers and client memoranda on topics relevant to the capital markets such as financial disclosure, the shifting balance of power in corporate governance, capital allocation, assessment of equity trading venues, the importance of cash dividends, the SEC's pursuit of Regulation FD violations, and emerging trends in sell-side research coverage.

Mr. McCoun received an M.B.A. in Finance from New York University's Stern School of Business and a B.A. in Sociology from the University of Pennsylvania.

Jacob Lund Nielsen

CEO, Strategy & Communications, Brussels

Jacob Lund Nielsen is CEO of Teneo's Strategy & Communications business segment in Brussels, and leads Teneo's Brussels office.

He has advised clients from across a whole range of industries on strategic communication and government affairs, but also contributes to strategic accounts across the company.

Jacob co-founded cabinet DN in 2005 and was its Managing Partner until the acquisition by Teneo in 2017.

Jacob began his career in politics, chairing European Democrat Students, working as a Chief of Staff to a Member of the European Parliament; heading up a Brussels-based policy think-tank; and teaching postgraduate studies in international relations and politics as a visiting lecturer with the Charles University in Prague. He is a frequent public speaker and lecturer, and serves as a trustee on the board of the Martens Centre for European Studies.

Wolfango Piccoli

Co-President, Political Risk Advisory

Wolfango Piccoli is a Co-President with Teneo. He is responsible for co-managing Teneo's global political risk platform and for the specific coverage of Europe. As director of research, he ensures the relevance, timeliness, rigor, and accuracy of the firm's political risk advisory and consulting service.

Wolf has a long experience in advising financial institutions and corporations on political developments in Europe. Specifically, he focuses on the interplay between business and government, and the impact of legislative, regulatory, and electoral outcomes on clients' business and investment strategies.

Prior to joining Teneo, Wolf was the director of the London office and led the Europe practice at Eurasia Group. He often appears on major TV networks and is frequently quoted in the world's leading newspapers.

Wolf holds a Ph.D. in International Politics from the University of Wales, Aberystwyth, and an M.A. in International Relations from the University of Bilkent (Ankara).

Alexandra Rogan

Managing Director

Alexandra Rogan is a Managing Director with Teneo. Ms. Rogan's responsibilities at Teneo include client relationship management, product development, and research management. Prior to joining Teneo, Ms. Rogan was an associate director of Corporate Advisory Services in Eurasia Group's New York office, where she served as Global Relationship Manager for the firm's largest account and strategic alliance partner, in addition to many other responsibilities across the firm.

Previously, she worked in emerging market equity research at JPMorgan Chase & Co. and at a New York-based emerging markets private equity firm.

Ms. Rogan holds a master's degree in global affairs from New York University, and a joint honors bachelor's degree in French and Spanish from University College London. Ms. Rogan also studied art history at the British Institute in Paris, and international relations at the Complutense University of Madrid.

Patricia F. Russo

Senior Advisor

Patricia "Pat" Russo is currently Chairman of Hewlett Packard Enterprise and also serves on the boards of GM, Merck and KKR. She served as Chief Executive Officer of Alcatel-Lucent from 2006 to 2008 after completing that cross-border integration.

Pat also served as Chairman of Lucent from 2003 to 2006 and as CEO of Lucent from 2002 to 2006. Prior to rejoining Lucent in 2002, Pat was President and Chief Operating Officer of Kodak from March 2001 to December 2001. She has spent her career in technology-based businesses, including: IBM, AT&T and Lucent Technologies.

Pat graduated from Georgetown University with a bachelor's degree in political science and history and obtained an Advanced Management Degree from the Harvard Business School's Advanced Management Program.

Megan Shattuck

President, Talent Advisory

Megan Shattuck is President, Talent Advisory at Teneo. The Talent Advisory business segment advises clients on how to connect talent to business strategy. Ms. Shattuck counsels Teneo's clients in areas including: CEO advisory, strategic alignment, CEO impact, leadership development, C-Suite succession, recruiting, Board effectiveness and board succession planning.

Previously, she was a Senior Client Partner at Korn Ferry, advising clients on how to align talent with overall strategy, assess existing leadership teams, approach succession planning, and manage recruiting needs.

As a member of the Board & CEO Practice and Corporate Affairs Center of Expertise for nine years, she specialized in recruiting senior executives for publicly-traded, private or private-equity-backed companies, representing a broad range of industries, including: financial services, technology, health care and consumer. Ms. Shattuck also played a key role in the growth and expansion of both the Board & CEO Practice and Corporate Affairs Center of Expertise globally.

Prior to joining Korn Ferry in 2006, Ms. Shattuck covered The White House for the Cable News Network (CNN). As a White House Producer, she was a member of the press corps, reporting on the Clinton and Bush administrations. Her responsibilities included: conducting interviews with administration officials; producing long and short form pieces; and leading White House coverage during breaking news situations. Her work with John King, "CNN Presents: 9/11," was nominated for an Emmy. Previously, Ms. Shattuck was an associate producer for "CNN NewsStand," a long format, nightly news program. Earlier in her career, she worked at The American School in Japan.

Ms. Shattuck graduated from Middlebury College and was Co-Captain of the Middlebury College Women's Lacrosse team.

Poul Skytte Christoffersen

Senior Advisor

Poul Skytte Christoffersen has had a long career in Danish diplomatic service, including two stints as the Permanent Representative for Denmark to the EU for a total of more than nine years and as bilateral ambassador to Italy and to Belgium.

He served as Chief negotiator for the Council during the final phase of the enlargement negotiations in 2002. In total he has worked more than 18 years in the European Institutions serving as Head of Cabinet for the Secretary General of the Council of Ministers (1980-1995) overseeing the European Councils of Heads of State and Government and as Head of Cabinet for the European Commissioner for Agriculture Mariann Fischer Boel (2006-2009). He was Special Advisor to the High Representative on Foreign and Security Policy and was instrumental in setting up the European External Action Service, which is the European Union's diplomatic corps.

He is Chairman of the Board of the renowned Brussels think-tank the European Policy Centre, as well as President of the Board of the Danish think-tank EUROPA. He is a frequent public speaker on European Affairs and often consulted as an expert by both governments and corporates.

Dan Tarman

Senior Managing Director

Daniel is a Senior Managing Director based in Teneo's San Francisco office, counseling clients on the West Coast and across Teneo's global operations.

Daniel has significant experience in corporate reputation management, brand strategy, senior executive positioning, culture and employee engagement, purpose-centered business strategy, communications organizational design, special situations and crisis communications.

Prior to joining Teneo, Daniel was Chief Communications Officer at eBay. Prior to his time at eBay, he served as Global Head of Corporate Communications at PIMCO, and also led communications at Countrywide Financial. He has also served as SVP of Issues Management at VISA and spent six years at Burson-Marsteller in their Miami and San Francisco offices. Daniel began his career as a litigation attorney at Akerman, Senterfitt, a leading national law firm.

Daniel is a member of the national Board of Directors of Autism Speaks and is on the Board of Advisors of the USC Annenberg School Center for Public Relations. He has been named twice to the PR Week Power List of the 50 most influential people in the communications industry, as well as the Holmes Report Influence 100.

Daniel and his family live in the San Francisco Bay Area.

Jonathan Wackrow

Managing Director

Jonathan Wackrow is a Managing Director with Teneo. In this role, Mr. Wackrow leads strategic and crisis communications campaigns and advises CEOs, management teams, and Boards on issues relating to crisis preparedness, planning, management and response.

Mr. Wackrow is an exclusive Law Enforcement Analyst for CNN; providing on-air analysis of law enforcement, safety, and security matters for domestic and international events.

Prior to joining Teneo, Mr. Wackrow was the Executive Director of RANE Corp's Advisory Group. In that capacity, he advised leading corporations on enterprise security risk management, critical infrastructure protection, physical security, executive protection and crisis management procedures. Mr. Wackrow is a nationally recognized expert on event security policy and procedures. He regularly presents at the annual conferences for the Event Services Professionals Association, the Event Industry Council and Meeting Planners International.

Mr. Wackrow spent a majority of his professional career in the United States Secret Service, serving as a criminal investigator in New York City and served on the Presidential Protection Division in Washington, DC. While assigned to the President's detail, he managed numerous high-level security operations both in the United States and abroad while assigned to the protection of the President, First Lady of the United States.

Mr. Wackrow's philosophy towards corporate security risk management is simple; security should be a workforce multiplier to enhance other organizational divisions, helping to achieve the fiscal goals of the company. Jonathan has extensive involvement designing engineered policies and procedures, which require deep understanding of critical business-drivers in multiple operating segments. He is highly successful in building relationships with upper-level decision makers, seizing control of critical problem areas, and delivering on client commitments.

Jonathan Wackrow is a graduate of Loyola University in Baltimore, Maryland, the Federal Law Enforcement Training Center and the United States Secret Service Academy.

Mark Wainwright
Associate Director

Mark Wainwright is an Associate Director at Teneo.

Mark is a digital and social media specialist and has been helping companies improve their approach in these areas for over 10 years.

He is also heavily involved in leading a range of digital training sessions, including Agile Campaigning, Agile Content Training and Next Generation Campaigning. He edits Teneo's weekly digital inspiration newsletter, and regularly delivers insights sessions covering the latest in social, digital and tech trends.

Mark began working in social media and digital comms at Kingston-based social media consultancy immediate future. There he led the Sony Europe account and worked on projects for AVG and the RSPCA. In 2011 he moved to Launch PR, where he led the digital team and spearheaded the agency's approach to social across the business. He worked on a large number of projects for the likes of Starwood Hotels, BP, Betty Crocker, Disney, Lucozade, Dolby, Zurich Insurance, Capital One, Tesco and Virgin Holidays. Prior to joining Teneo, Mark was Senior Account Director at We Are Social. He worked on two global clients, adidas and Lenovo, leading large teams and handling million-dollar budgets.

Prior to moving into social media and digital, Mark worked in the music industry for six years. He specialised in regional PR, and college & club promotions. He worked with a variety of bands and artists, including Franz Ferdinand, Kings of Leon and Belle & Sebastian.

Gabriel Wildau
Senior Vice President

Gabriel is a Senior Vice President focusing on political risk analysis in China. He was previously Shanghai Bureau Chief for the Financial Times, where he covered China's macro-economy, financial system, and markets.

Prior to the Financial Times, Gabriel served as the China Finance Correspondent and Markets Correspondent for Reuters, where he wrote daily reports on China's interbank foreign exchange and money markets. He also worked as a research analyst for SK Group China and as the Beijing bureau chief for GaveKal-Dragonomics, a macro-economic consultancy. He graduated magna cum laude from Brown University and is fluent in Mandarin.

From The Authors

"What keeps me up? Geopolitical uncertainty…the entire landscape around trade, movement of people, and talent and goods. Secondly, the environment and climate are big issues for humans, specifically for companies."
– Ursula Burns, Teneo Senior Advisor

"The 21st century will be dominated by four trends: the rise of China and the nature of its relations with the U.S.; climate change; the technological revolution and the impact it will have on societies and 'work;' and the role of the U.S. – as the defender of the norms and rules that it designed and benefitted from in the post-war era."
– Kevin Kajiwara, Co-President, Political & Policy Risk Advisory

"Huge swathes of voters…have lost trust in institutions and fear also now losing their identity. If there is a long-term answer to the march of European populism, no one has formulated it yet."
– The Rt. Hon. The Lord Hague of Richmond, Teneo Senior Advisor

"While there might be no immediate threat of a recession…we are living on borrowed time…because of the elevated level of corporate indebtedness, high equity valuations, investor complacency and an increased proportion of formulaically-managed assets, instability could come quickly and violently."
– Gordon McCoun, Teneo Senior Advisor

"Our first 30 years of global interconnectedness have been a wild ride…There'll be plenty of further twists and turns to come. But the opportunities are there for the most agile and switched-on businesses to take advantage of humankind's continued propensity to share, connect and build."
– Mark Wainwright, Associate Director

"As threats in the physical and cyber domains increase during this age of extremism and decentralized attack tactics, protecting against an attack requires not only a greater awareness, but the implementation of a new security model that replaces the antiquated, reactive model."
– Jonathan Wackrow, Managing Director

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