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Editor
James Hoge

Vision 2021

Where is the world going? How do we get there first?

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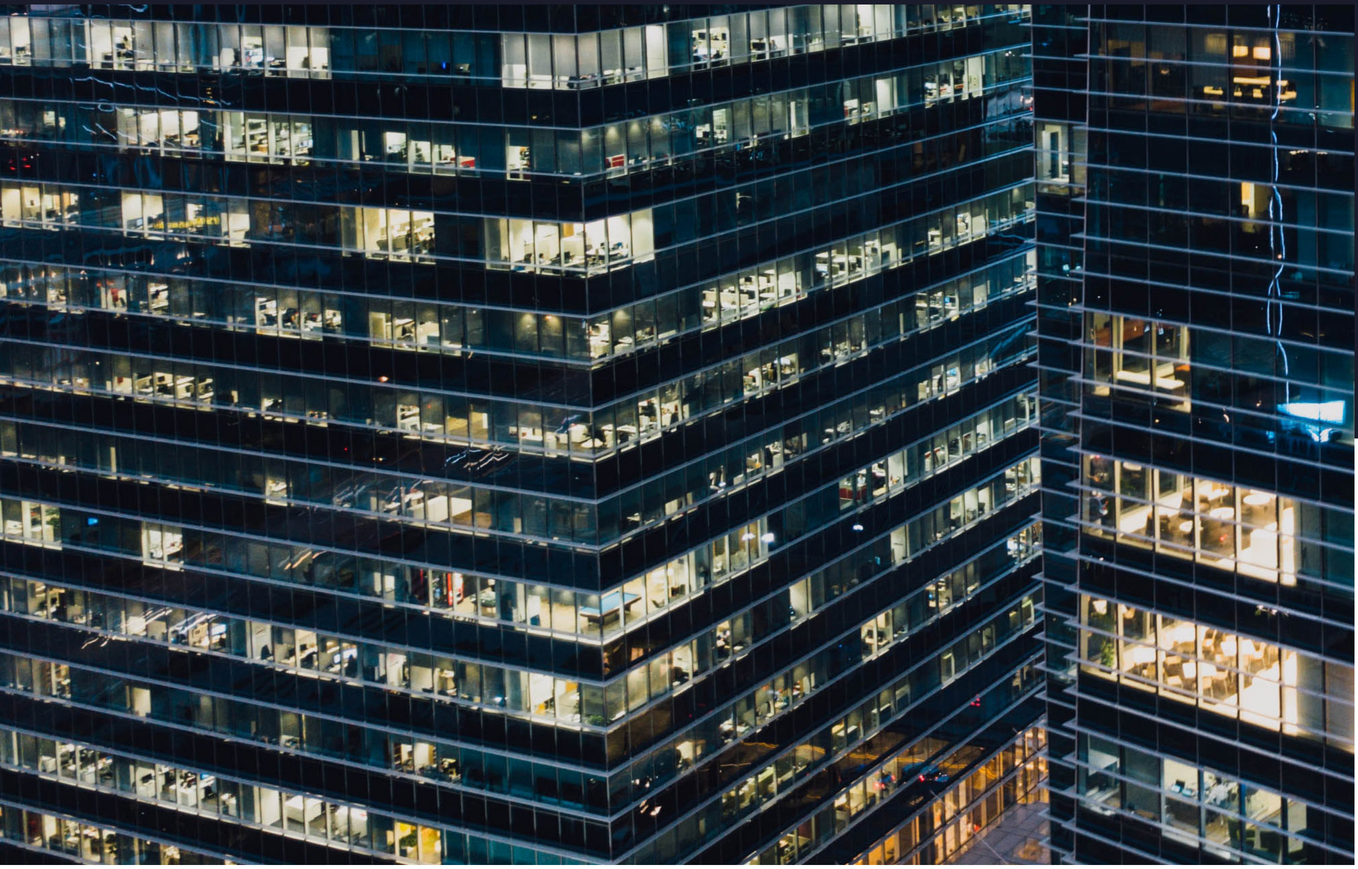
Foreword



Reflections from Teneo's Chairman & CEO

Declan Kelly, CHAIRMAN & CEO, TENEO

Reflections from Teneo's Chairman & CEO, on 2020 and thoughts on what lies ahead in 2021.

For many, 2020 was the year the world turned upside down. It is what Teneo Senior Advisor, Lord Hague of Richmond, in his book article refers to as "the most universal event in human history."

"We didn't see it coming, not really. A pandemic was nowhere on the list of likely global risks that CEOs worried about."

We didn't see it coming, not really. A pandemic was nowhere on the list of likely global risks that CEOs worried about. This despite any number of warnings from the experts over the years and the real-world experience of Ebola, SARS, and MERS. (I tip my hat to our Senior Advisor, Jerome Hauer, Ph.D., who not only authored an article for this year's book, but also warned of such a threat in an article he wrote for our 2018 Vision Book). For sure, we learned that we can drastically underestimate risks we are not familiar with, through a combination of cognitive biases – recency, selective attention, well-travelled road, and status quo bias likely all in there.

I don't think there's ever been anything like this in terms of the scale, the breadth, the depth, and the far-reaching potential consequences – and the speed at which it all happened.
It was incredible to see massive international companies pivot on a dime to maintain their operational capacity, whether redrawing supply chains overnight, creating virtual trading floors so that markets were not interrupted, or switching business models and products that had only been available physically into online channels and direct-to-consumer.

As well as crisis management, every CEO we work with is now taking a longer view. There's a lot of talk about the "New Normal," but we don't think that's the right way to describe it. Some things will go back to how they were, some things will evolve predictably, but the pandemic itself is a discontinuity. It's a reboot moment. And many things will not look like anything like they did before. We at Teneo see this not as the "New Normal," but as the "New Different."

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It's not just the pandemic. Even if we had a vaccine available for 7.5 billion people tomorrow, the world - and business - is in flux. Three irreversible shifts are at play. COVID clearly is one. Climate is another, and connectivity is the third, across areas such as the "Internet of Things" (IoT), social media and mobile devices. Together, these are going to completely change how people live, how businesses operate, and how society runs.

Three irreversible shifts at play.

These will change how people live, how businesses operate and how society runs.

COVID-19 | Climate | Connectivity

It is more difficult than ever this year to predict where the world is going. We don't know "the consequences of the consequences" as my mentor, the great Don Keough, used to say. It is far too early to know exactly what changes the pandemic will ultimately bring. But change things it will, and we have to make a call on the possibilities so that we can prepare. We already know the nature of work will change fundamentally, but we don't know exactly what that means. We know there has been a tectonic shift for politics, but the direction is not certain. We know many industries which have had the same business model for decades must now completely reinvent themselves or die (you can read about several of them in this book), but we don't yet know what that looks like.

The New Different means change for the C-suite. We see a shift in leadership, which now places a higher premium on agility, empathy, and purposeful leadership. These qualities mattered before; now they're essential.

The first shift I see derives from the uncertainty and is around agility and the determination and willingness to change one's own business. Reinvention has always distinguished great leaders, but it's a must-have now. If you're not willing to change quickly, take risks and not look for every last detail before you make the call, then you're going to suffer, and you're probably going to be overtaken by your competition. With the pace of restructuring we are about to see, it's a must.

"We see a shift, which now places a higher premium on agility, empathy, and purposeful leadership."

The second difference is empathy. It is a key CEO attribute today, and if you don't have it and don't show it, you're going to struggle to survive if you're in the C-suite. It's not about having all the answers. It's about hearing your employees and listening to the people affected most directly. Third is the ability to communicate in a clear, calm, and concise way; it sounds like a simple thing, but I don't think it is. People are feeling isolated, lonely, and unsure. They crave stability; that's the human condition. Leaders need to say what's going on and show there's a plan. They have to be open, authentic and talk honestly about what matters.

And then the last thing is maybe the most obvious one, which is leading by example – set the standard in your industry, in the business world, and be vocal about the actions being taken. When the pandemic hit, we saw some great CEOs make it very clear that their people came first, before profits.

The New Different then, is that what's in scope for CEOs has changed almost overnight. In 2020, we saw the end of fifty years of shareholder capitalism as the dominant narrative. It's absolutely clear now that unless you can connect your purpose and values to all your stakeholders and the wider world, you are going to get left behind. CEOs will need to stand up and be counted.

It's easy to be pessimistic about our future after Covid. Easy to point to the complete failure of multilateral institutions to react to the challenge. To the weaknesses in our national responses. To the global recession we are entering. To the pandemic poverty that is hitting hard around the world.

Instead, I am optimistic. In crisis, as well as tragedy, we have also observed the best of humanity. The first responders who walk into danger for us. Family, friends, and communities helping each other. The new dialog about race, diversity, and inequality.

And more than dialog, action. Teneo is honored to be a founding partner (along with Gabrielle Sulzberger, the Ford Foundation and the Executive Leadership Council) of the Board Diversity Action Alliance (BDAA) led by Teneo Senior Advisor, and Former Chairman & CEO of Xerox, Ursula Burns, whose wisdom on boardroom diversity you can read in this year's book. I want to acknowledge and thank all of our clients and friends, who have supported the BDAA, as well as many of our other initiatives over the years, including the recent Global Citizen-hosted ***One World: Together at Home*** concert, which raised over $120 million for the WHO's COVID-19 Solidarity Response Fund.

Recognizing the challenges is the first step in overcoming them. Thank you to all the individuals and organizations stepping up. And thank you to all the CEOs and other courageous leaders we work with every day.

Thank you as always to our great editor Jim Hoge for his excellent work producing this book for the 8th straight year. This is our first year transitioning to a digital only version. A sign of the times. Thank you to the Teneo experts from around the world for sharing their insights. Also, thanks to Ali Penaro, Solomon Chaison, Jeff Sindone, Eric Teng, Jennifer Quinn, Devin Mullin, Alex Lager, Alex Brennan, and many others for all their support to make this happen.

Be well.

Declan Kelly

Chairman & CEO, Teneo

Global Outlook

The Pandemic Effect: A New Order for Economics, Geopolitics and Society?

Kevin Kajiwara

CO-PRESIDENT, RISK ADVISORY

At the heart of many science fiction films is the morality-tale question of whether, in the face of an alien attack, the world will band together to vanquish its common enemy or revert to an "every-man-for-himself" ethos. In 2020, the SARS-CoV-2 pandemic, the first truly global pandemic in a century, and the related economic crisis, have provided a real-world laboratory experiment, and the results are not pretty. Further, given that the virus has essentially hit the world all at once – albeit in a somewhat rolling impact manner – different approaches to governance, leadership, and crisis management have been put to a simultaneous and collective stress test.

No country has been challenged in the way that the United States has, for in many ways this should have been the crisis the U.S. "trained" for; what seventy-plus years of global leadership and hegemony prepared it for. The failures of the U.S. on this front, in absolute terms, as well as relative to global peers, is well understood and, at this point, not subject to debate.

> *"In 2020, the SARS-CoV-2 pandemic, the first truly global pandemic in a century, and the related economic crisis, have provided a real-world laboratory experiment, and the results are not pretty."*

Coming on the heels of the U.S.-led "Global Financial Crisis and Great Recession," the renewed exposure of racial and economic inequality, almost two decades of "unending wars" and perceived foreign policy overreach, as well as the rise of China, the question is, as the U.S. heads into one of the most consequential and contentious elections in its history, what will this mean in terms of global leadership and the global operating environment, irrespective of the 2020 electoral outcome. In a world living with a yet-to-be-controlled virus, plus looming demographic and environmental challenges, the answer to that question will be of profound consequence.

Getting Back to Sustainable Growth

Over the last sixty years, rich economies have experienced 5%+ drops in GDP 13 times and on average it has taken four years for GDP to return to pre-crisis levels. It stands to reason that the slower recoveries have rendered countries more vulnerable to additional economic and political shocks.

"As of September 2020, the OECD is forecasting the global economy will shrink by 4.5% in 2020."

As of September 2020, the OECD is forecasting the global economy will shrink by 4.5% in 2020. On the surface, this looks better than the 6% contraction that was forecast as late as June, but this "improvement" is the result of vast injections of public resources and, as this year's book goes to print, the pace of recovery is fading, even as the pandemic is demonstrating signs of the feared "second wave." To put this in perspective, the IMF asserts that there has been only one time that the post-war global economy has contracted for a year, and that was by 0.1% in 2009, during the Financial Crisis. So, while we have seen a modest recovery rebounding from a very steep fall, the question is one of getting back to sustainable growth.

It has been 150 years since so many countries have been in simultaneous recession. Emerging markets have, for the most part – and for reasons still unknown – avoided the worst impacts of the virus itself, but due to a confluence of factors (lack of spare reserves, collapse in tourism, reduction in remittances, plunging demand for natural resources – and the logistics and infrastructure to get them to market, stresses on fragile health care systems), the economic impact has been harder. The actual contraction may be less than in the developed world, but the compromise to growth will be similar. All this before taking into consideration the long-term consequences of the pandemic impact. As students in the developed world fitfully return to school, at the very least, most children have some access to remote learning. In much of the developing world, the technology option is not available, and in the poorest elements of society, children are being sent to work. Meanwhile, 70% of children are seen getting WHO recommended vaccines this year (versus 84% in 2019), a level not seen in a quarter century. So, the developed and the developing world are feeling the effects. However, it is worth noting that China is the only major economy forecast to experience positive year-on-year growth in 2020.

"It has been 150 years since so many countries have been in simultaneous recession."

Looking forward, economists and policymakers are attempting to anticipate the "shape" of economic recovery. Will the shape be V, U, W, L or the newest shape: K? At various points this year, financial markets would seem to have priced in a V-shaped recovery, but in reality there has been a disconnect between what is observable in the real economy, and the investment environment that reflects "free money" from the Federal Reserve and, in an effectively zero or even negative interest rate environment, a dearth of choices. Consumer behavior is much tougher to forecast than monetary policy in a sui generis economic environment, thus creating challenges to business response in terms of investment and employment strategy, as well as uncertainty about trade patterns. So, at the moment, it appears that the K-shaped recovery is what's unfolding – the aforementioned, liquidity-charged market performance, juxtaposed against "permanent" job losses and the unabated rise in inequality that has accelerated since the great recession. All of this points to a deterioration in productivity growth and unemployment not returning to pre-COVID levels.

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Importance of Central Banks

It has become abundantly clear that sustainable, comprehensive growth of the economy is not possible absent the "flattening of the curve" via either a safe, effective, scalable vaccine or behavioral change. An unprecedented supply and demand shock has left monetary and fiscal policymakers scrambling, even as they remain handicapped by political dynamics. As has happened in the past, in the U.S., the Federal Reserve did its part and acted fast, validating yet again the importance of central bank independence. The policymakers, led by Jerome Powell, still had weapons in the arsenal, despite pleas to deploy them when the economy was in ruder health. In an encouraging early sign, so did the fiscal authorities, (particularly when compared to TARP and the CARES Act), and the result was fairly efficient bi-partisan efforts (particularly on the part of House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin), even if the deployment and disbursement was anything but. The unfortunate reality is that leaders must contemplate that the pandemic will last longer, with the corresponding suppression of global demand, than is politically palatable.

The key bills were passed in March and June of 2020, but meanwhile the $20+ trillion U.S. economy has been on "pause" for over half a year. Clearly, institutional and political inertia will have to be overcome, and more will have to be done on the fiscal front. While fiscal hawks will likely whine, it is worth considering that this is a "whatever it takes" moment, and worth remembering that there is no discernable inflation and there are more options available to the country with the global reserve currency. The big question is whether there will be political space to move beyond "survival" bills and design true stimulus bills that have multiplier and accelerator effects, particularly focused on the technologies and jobs of the future. Because here's the sobering reality: U.S. GDP growth in the fourth quarter of 2019 was 2.1% (recall that GDP growth averaged 2.4% in President Obama's second term). When one considers the size of the tax cuts that led to the largest peacetime deficit in history (until the pandemic), the return on that policy design (with so much saved money going into market-boosting buybacks rather than geared toward productivity-led growth) was shockingly poor.

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As we look at policy responses in aggregate, the picture that emerges is of governments claiming powers and spending money as never before in an attempt to combat the pandemic impact. At the same time, central banks are printing as much money as necessary, keeping borrowing costs low and, in the Fed's case, effectively becoming the lender of last resort not only to the financial system, but to the real economy as well. Historically, "temporary" expansion of state power tends to become long lasting, even when a given government paradoxically doesn't "believe" in big government. As spending increases alongside declining tax revenue, so will debt increase. And the phenomenon will raise the question of what the central bank's role should be – if the government can spend like this with rates at zero and no inflationary impact during the pandemic, why not do the same to finance other things ,especially since the Fed's statement at this year's virtual Jackson Hole conference that it would allow the economy to run hotter for longer – dovishness that will be music to the ears of proponents of Modern Monetary Theory.

Big Tech Winners

An additional phenomenon of the pandemic to watch is that the other "bigger" winner (in addition to government) is big tech – as evidenced by the tech platforms' disproportionate stock market performance. However, big tech and big government are still opposed. This battle has been underway and foretold for some time, but the COVID era has proved Google, Facebook, Apple, and the other big platforms 'essential.' Watch this space as the essential can be viewed as a utility, and utilities can be regulated. Big tech needs to get in front of this, otherwise bigger, and now less laissez-faire governments will do it for them.

"The COVID era has proved Google, Facebook, Apple, and the other big platforms 'essential.' Watch this space as the essential can be viewed as a utility, and utilities can be regulated."

The dislocations, shortages, and disruptions caused by the pandemic have led to a lot of talk about the evolution of supply chains. However, supply chain resiliency is about more than just diversifying from China. It's not nearly as simple as that. Eighty percent of trade involves countries with declining political stability scores, and the share of global trade conducted by countries in the bottom half of political stability rankings has doubled this century. So, thinking strategically about a China-plus strategy is key. The rhetoric regarding diversifying supply chains from China has yet to be borne out in fact. Relatively few U.S. companies have indicated an intent as yet to move any of their supply chain out of China, and a very few intend to leave altogether. While the U.S. trade deficit with China has improved from its 2018 peak, in reality it's merely back to pre-Trump administration levels, and the overall trade deficit with the world remains little changed, so the shift has been to other countries. The pandemic itself has notably had the effect of increasing China's share of global exports – 20% in the second quarter of 2020 vs. 13% in FY 2019.

Competing States, Not Systems

The thinking behind the welcoming of China into the WTO in 2001 was that a richer and more integrated China would lead to greater democratization in the country. The arrival of the internet would only help drive the demand for greater freedoms within the country. This has not happened. China now boasts the world's second largest economy, while the Chinese Communist Party's grip on power is arguably as great as ever. The so-called "Great Firewall of China" has effectively closed off the country's internet, and yet China is highly involved in the global internet – as evidenced in 2020 battles over TikTok and WeChat. China also has an industrial policy, as evidenced by the Made-in-China 2025 and Belt-and-Road initiatives. For its part, the United States now spends less on Research & Development – as a percentage of GDP – than it did in 1955. Indeed, at the height of the Cold War, the U.S. government spent more on R&D than the rest of the world's private and public sectors combined.

Clearly the simple prospect of a rising China raises concerns in Washington, even notwithstanding the genuine need to counter China's illegal or unsavory tactics. And herein lies the challenge for western governments and institutions, which have generally been focused on less multi-dimensional competitors. A China that is ruled by the Chinese Communist Party can be a partner on many issues. The assumption that the Chinese people are oppressed is somewhat belied by the evidence that most citizens may not actually view the CCP as oppressive. In fact, the most recent Edelman Trust Barometer suggests that support for the Chinese government is among the highest in the world. Is it fair to suggest that the average Chinese has a higher opinion of their government than the average American does about theirs? Even those democracies that are in its neighborhood and, in theory, most "at risk," are not calling for any regime change in Beijing. Indeed, stability and predictability provide a counterweight to some of China's more assertive regional behavior. It is a flawed assumption that a "democratic" China would automatically adopt the norms and practices of the West. Turkey and India are good examples of democracies that have not. Many countries' populations harbor anti-Western sentiment, and China is certainly no exception. The paradoxical reality is that, in pursuit of its overarching objectives, the Chinese Communist Party actually keeps a check on Chinese popular nationalism.

Much commentary on U.S. – China relations has characterized the relationship in Cold War terms, and while the shorthand is understandable, it's misleading. This is about competing states, not competing systems, as such. China is neither trying to contain or defeat capitalism, nor is it trying to spread Communism. Indeed there is a sense of Chinese exceptionalism in its unique brand of Communism. While it is transforming its economy, China is still highly dependent on export markets, and its lack of natural resources renders it reliant on imports. For the last 70 years, it has been effectively dependent on the U.S. Navy to protect those supply chains. As the country grows and its strategic competition with the U.S. grows in lockstep, it makes logical sense that it wants its own brand of regional hegemony and the U.S. naval presence in the western Pacific attenuated. The bottom line – China is not looking for global hegemony, but neither does it want to be at the mercy of those who might have an interest in compromising its rise.

"Much commentary on U.S. – China relations has characterized the relationship in Cold War terms, and while the shorthand is understandable, it's misleading."

On the one hand, the strategy for the U.S. ought to be simple – it should be striving to ensure the competitive advantages (which are legion) and attractiveness of its own system. The U.S. doesn't seem quite sure how to deal with a superpower with a different values system, but that also represents an enormous opportunity and has many mutual interests. Globalization is shorthand for the system designed and perpetuated by the U.S. in the post-war period. One of the byproducts of interconnected global supply chains and markets was the network effect, which in turn created certain exploitable chokepoints.
A clear example of this is the SWIFT system, which ultimately allows the United States to exercise enormous power over the global payments system and therefore global finance and trade. This is only exacerbated by the U.S. being the source of the global reserve currency. To some extent this explains the furious attempts by the U.S. to stymie the efforts of Huawei (meaning, at the end of the day, China) to spread globally – to deprive them of control of the 5G, and therefore Internet-of-Things chokepoint.

China's success is not, however, pre-ordained. It is doubtful that Xi Jinping sleeps well at night, and given the millions of people entering the workforce each year; spare industrial capacity; a looming mid-century demographic cliff that makes Japan's look like junior varsity in comparison. So, while much is made of Xi's ambitions, his actions also reflect the need to act now, and the window of opportunity has been made more attractive by a more distracted and isolationist U.S.
In the competition for global support (or at least relative global neutrality between China and the U.S.), China is embracing multilateral organizations and institutions, to be more of a rule-maker. China's lending to the developing world has made it a bigger lender than the IMF or World Bank. And last year, China overtook the U.S. in terms of how many embassies and consulates it maintains around the world.

America's Most Formidable Rival

China is likely to prove the most formidable rival the U.S. has ever faced. But a number of countries' ambitions are growing as they perceive a less hegemonic U.S. Russia, as an example, may be far from a peer, but its projection of asymmetric power wasn't anticipated when the Soviet Union collapsed. It continues to drive the crisis (in Europe, in the Middle East, in the U.S. electoral system), but the net impact is to damage Western credibility and the true net winner of Russian disruption is actually China, which is ultimately better positioned to capitalize.

The most recent Pew Research survey of 13 countries shows that only 34% of respondents have a favorable view, in 2020, of the U.S.: 15% say the U.S. has done a good job on COVID, 16% have confidence in President Trump (in contrast to 76% for Chancellor Merkel and even 23% for Putin), and only 34% believe the U.S. is the world's leading economy (versus the 48% saying China is). It's a reminder that in a certain sense, the alliance system is as much a popularity contest as it is a group of countries holding similar values and that there is nothing inevitable to countries staying "on board." The U.S.' rivals need to sell the idea that there is less to be gained by latching on to U.S. leadership.

Results of Pew Research Survey of 13 Countries

Views on the U.S.

34%
Have a **favorable view,** in 2020, of the U.S.

15%
say the **U.S.** has done a **good job** on COVID

Leadership Confidence

16%
Have confidence in **President Trump**

76%
Have confidence in **Chancellor Merkel**

23%
Have confidence in **Vladimir Putin**

Who is the world's leading economy?

34%
Believe that **U.S.** is the world's leading economy

48%
Believe that **China** is the world's leading economy

The upshot is that we have seen retrenchment before, generally in the aftermath of war or intense and focused geopolitics. And while the periods of retrenchment have tended to be shorter following perceived "successes," these periods do share characteristics such as: The U.S. can't be the world's policeman and a refocus on domestic priorities. What's important to note is that historians suggest there has never been four consecutive presidential terms of retrenchment – and we're coming up on the end of the third.

The U.S. has followed these periods with greater activism. As we consider the tectonic issues of the 21st century: the rise of China; the role of the U.S.-built post-war system; technological disruption of not only the workplace, but the very relationship between populations and their leaders (and institutions of state); and, the most existential of all, climate change, each is crying out for global leadership. Take climate change – ultimately countries will have to adapt. It can be argued that there is no such thing as a "natural disaster." Earthquakes, fires, and pandemics are all naturally occurring events, but the "disaster" part is social and political – in other words, manmade. But without leadership, the process will be messy, both in terms of science and politics – hydrocarbons producers will fight over share of their declining markets, while others will fight to dominate the key renewable energy technologies.

While support for democracy may be in decline around the world (even within democracies), and while the U.S. continues its epic struggle to reconcile a political and economic system that promises equality and promotes inequality respectively, and while the biggest autocracy is extending its influence and increasing its prosperity, the biggest challenges facing the evolving global population require leadership within the context of a global commons.

The world is looking less cooperative than it did pre-COVID. But nationalism in the past has not produced a stable balance of power, but led rather to catastrophe. The institutionalized, global world that the U.S. built and (even as it did more for the world than any other system in history) benefited from more than anyone – was born of just such a catastrophe.

However, unlike the world of the 1940s, there are no greater powers than the U.S. and China to save them from themselves. They will have to manage. And therein may lie the silver lining from the pandemic – for it has shown us that humans can change and adapt their behavior expeditiously when survival depends on it.

> *"Therein may lie the silver lining from the pandemic – for it has shown us that humans can change and adapt their behavior expeditiously when survival depends on it."*

Reverse Globalization? It's Much More Complicated Than That

Lord William Hague, SENIOR ADVISOR, TENEO

It was apparent early on in 2020 that the COVID-19 crisis would be likely to act as a great accelerator of some of the most powerful emerging megatrends in world affairs. In the realm of political ideas, the crisis has intensified a focus on inequality that had already become more pronounced after the global financial crisis. Since the economic impact of this pandemic falls particularly on younger people and less skilled workers, the coming years will see much heightened expectations of governments and corporations to take action to address the consequences.

At the same time, fiscal conservatism, already under great pressure, has been killed off. Even in Germany and the United Kingdom, centre-right governments have joined in massive spending to alleviate the crisis. Governments in the 2020s will be far more tolerant of debt levels previously thought unsustainable, as well as of some degree of inflation to erode their vast liabilities.

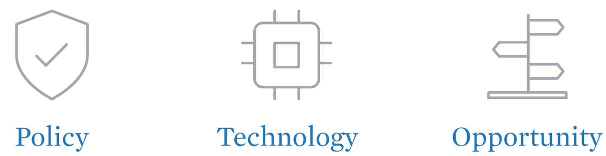
Many geopolitical trends have also been speeded up. Oil producing countries are experiencing an early taste of the coming energy transition. The Eurozone has been forced to confront fundamental issues about its cohesion which would otherwise have remained unresolved for years. The greater resilience of Asian economies in the face of the crisis is accelerating the arrival of a pacific century, in which more than a half of global GDP is concentrated in the Asia-Pacific region.

Most important of all, tensions between the United States and China have increased exponentially. An emerging superpower rivalry has broken fully out into the open. This has rapidly spilled over into new issues about corporate ownership and the sharing of technology. Such divisions between the two largest economies in the world inevitably speed up a nascent process of de-globalisation, and seriously inhibit the effective operation of most global institutions.

There are three key points to make about these trends. The first is that they should in the main be seen as a speeding up of existing developments rather than a change of direction. Secondly, they do add up to a reversal of many important aspects of globalisation. Third, however, new habits of cooperation are likely to emerge outside existing structures, with a wave of innovation in both policies and technologies creating new opportunities. The overall picture is therefore much more complex than a straightforward trend of globalisation in reverse.

A New Form of Globalisation

Driven by three factors



Creating New Opportunities

The situation in the United Kingdom is a good example of these three points. The official departure from the European Union took place on 31st of January, and many observers were expecting that the British government would ultimately delay the expiry of the transition period at the end of 2020. However, the effect of the COVID crisis has been to reinforce the determination of ministers to terminate the transition on schedule and obtain more immediate freedom to pursue their own policies. Up to a late stage in the negotiations, they have proved unwilling to set out a framework of state aid policies. This is because doing so might restrict their future freedom to support particular sectors of the economy, even though that has made agreement with the EU on free trade much more difficult.

Meanwhile, the agreement among EU members to create a €750 billion spending programme, with the issuing of mutually guaranteed debt, has underlined the reality that Britain could not conceivably contemplate being part of EU budgetary arrangements from 2021 onwards.

In the UK, then, we can see clearly that the events of 2020 have reinforced a direction that was already established. On the face of it, that direction does involve a retreat from several aspects of globalisation. Britain after Brexit is likely to be a less attractive home for businesses, with complex supply chains stretching across the continent of Europe. It is less likely to have regulations and standards in common with neighbouring countries.

The UK will not be participating in new European initiatives and is being excluded from some key ones in which it was involved, such as the Galileo satellite programme. Most migrant workers from EU countries will find it harder to move to Britain.

It is hard to deny that much of this represents a reaction against globalisation. Many of the people who voted for Brexit were indeed rebelling against global economic trends, loss of national sovereignty, and apparently easy migration. There was a nationalistic element in the campaign to leave the EU. When President Trump imposed tariffs in an effort to protect the U.S. steel industry, the leading Brexiteer Nigel Farage asked, "Is there anything wrong with protectionism?"

Yet in the leadership of the pro Brexit movement, there was always a stronger strand of support, not for nationalism, but for a different form of globalism. Boris Johnson argued in May 2016 that "If we vote 'Leave' we will be able to forge bold new trade deals with growing economies around the world. These are deals that the EU has tried and failed to achieve due to protectionist forces in Europe." The Leave campaign argued that their success would be the opposite of isolation. The UK would use freedom from EU law to develop a strengthened international voice and "to promote more effective and faster international co-operation, often at a global level."

Differing Forms of Globalism

While observers around the world are entitled to be sceptical about whether the UK outside the EU will be more rather than less global in its outlook, there is no doubting that such a goal is the sincere intention of the people who promoted Brexit – and who are now leading the British government. It is certainly their objective to make the UK more attractive to global businesses – adding credibility to that by announcing that future financial services regulation will be designed to promote the competitiveness of businesses based in Britain as well as guard against systemic risk. They are significantly expanding government funding for research in life sciences, clean energy, space, design, computing, robotics, and artificial intelligence. A fast track immigration system is to be introduced for the best and brightest scientists and researchers.

These actions are in support of an ambitious goal. The programme set out after the decisive Conservative election victory in December 2019 states, "We are committed to making the UK a global science superpower that attracts brilliant people and businesses from across the world." The British government is also pursuing plans to establish new Freeports. In 2021 it will be hosting the Cop 26, the major global conference on climate change. And it is seeking free trade agreements around the world that are at least as radical as those that it would have enjoyed through EU membership.

While partly originating as a revolt against globalisation, Brexit and its aftermath might therefore produce consequences which are much more complex to interpret and bring new opportunities for businesses, as well as threats. The UK thus illustrates our third point: that serious setbacks suffered by globalisation should not necessarily be seen as a wholesale retreat.

The European Union itself has also illustrated a capacity for innovation and resilience in the face of crisis. It began 2020 very badly, with widespread fury in Italy at the apparent abandonment of the country as it became the first victim of COVID-19 on the continent. At the same time, the German constitutional court issued a ruling that struck at the very foundations of the legal order underpinning the Eurozone. Populist and nationalist forces have risen strongly in Europe over the last decade and should not be underestimated. A prolonged crisis, accompanied by very high unemployment, could strengthen those forces further.

Yet overall, the EU has taken a bigger step forward than anyone could have expected a year ago. A major change of policy in Germany concerning the issuing of common debt has established a crucial new precedent. Europe faces immense strategic challenges, often lacking cohesion in deciding how to react to Russia and China, and way behind the U.S. and China in technological leadership. Like the UK, however, it is showing a capacity for policy innovation. The result is that even at a time of a retreat from globalisation, a German banker working in Milan will feel no less European than before, just as an Indian scientist working in Oxford will feel no less part of a global community.

Absence of Global Leadership

Truly global institutions are finding it much more difficult to innovate in the face of their declining effectiveness over recent years, and the acceleration of that trend brought by the COVID-19 crisis. Perhaps the most striking feature of the onset of the crisis was the absence of global leadership and cooperation, with even friendly countries closing borders without consultation and seeking to buy up medical supplies to the exclusion of others. The crisis has revealed that a decade of decline had already taken place in global governance. Coming on top of that, it has accelerated the deterioration.

"Truly global institutions are finding it much more difficult to innovate in the face of their declining effectiveness over recent years, and the acceleration of that trend brought by the COVID-19 crisis."

The World Health Organisation is an obvious example. Having struggled to respond to the Ebola crisis of 2014, it had succeeded in implementing some internal reforms but remained poorly funded for the scale of its task. Voluntary contributions account for a large proportion of WHO spending. Most of these are earmarked for specific issues and projects, allowing little coherence for how it spends its budget. The failure to contain the initial spread of COVID-19 has led to the denunciation of the organisation by the United States as "a political, not a science-based organisation." At the time of writing, the U.S. is committed to withdrawal from the WHO and working towards the creation of an alternative global health structure outside the boundaries of the UN system.

In the global financial crisis, the G20 became the most important instrument of international coordination. In this crisis, its response has been limited, light, and limp. G20 leaders took weeks to consult each other and have been much criticised for lack of vision. Former British Prime Minister Gordon Brown has particularly focused on the absence of decisive action to help developing countries, saying the G20 have gone AWOL – "absent without lending" – with their inactivity, meaning that allocations from the IMF and the World Bank to poorer countries will remain a fraction of what is required.

Proceedings on the UN Security Council have illustrated both the poor state of global governance and the reasons for it. The council took over 100 days to agree on a resolution calling for a global ceasefire in the light of the pandemic. The issues which delayed its adoption included a row between the U.S. and China over whether the WHO should be mentioned and endorsed, concerns on the part of Russia about the impact on its position in Syria, and worries in the U.S. about what a ceasefire could mean for anti-terrorism activities.

In the meantime, the global arms control regime has been steadily deteriorating. Key pillars of the Cold War nuclear agreement have either collapsed (such as the INF treaty) or are set to expire (such as the New START Treaty). There is increasing rivalry and suspicion concerning military activities relating to space. The difficulties are compounded by arms control issues becoming three-way. Even with political will, it would be difficult to agree to consistent frameworks between the U.S., Russia and China, all at very different levels of military strength and development. In the absence of any political drive to solve these problems, there is very little chance of progress.

In an interview in June, the UN Secretary General Antonio Guterres gave a blunt analysis of the situation – "we see that the very dysfunctional relationship that exist today between United States – China, United States – Russia, makes it practically impossible for the Security Council to take any meaningful decision that would be fundamental to fight COVID-19 effectively." Summing up the situation across the board, he said "even where we have in the multilateral system some teeth, as is the case of the Security Council, it has shown very little appetite to bite."

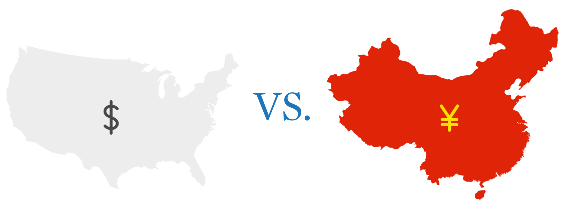
The same is true of the World Trade Organisation. It is struggling to provide all three of its main functions – administering multilateral trade rules, serving as a forum for trade negotiations, and providing a mechanism for settling trade disputes. Again, the huge issue of how to accommodate China has proven to be a fundamental problem. Demands from western countries for transparency from China are seen in Beijing as a challenge to its model of economic growth. The strong stance taken by the Obama administration has been succeeded by the militant approach of President Trump.

Even before the pandemic, growth in world trade was faltering. The long-established relationship between world economic growth and trade growth seemed to break down in recent years, and trade between the U.S. and China fell by nearly 17% in 2019. The value of world merchandise exports peaked in 2018, and there were signs already of the emergence of a new trend towards localisation in the world economy, with businesses looking for ways to bring manufacturing closer to their consumers.

U.S.-China Relations

Emergence of a New Economic Superpower

Tensions between the U.S. and China continue to grow



If this was indeed an emerging trend, 2020 will have given it a very big push. Many governments have set out ambitions for more concentrated national supply chains in goods that are deemed essential to national health or security. Several western countries are legislating for much tighter restrictions on Chinese investments and acquisitions on security grounds. The strategic rivalry that has built up between the U.S. and China has started to reach into the corporate world, as shown so dramatically in events surrounding TikTok, and felt ever more keenly by financial institutions based in Hong Kong.

The emergence of China as a great power of the 21st century would always have been a challenging event for the United States, even if the two countries' political systems were similar in nature. But what really makes this strategic rivalry so momentous and globally divisive is that it is between two societies based on a fundamentally different idea of the relationship between the state and the individual. In turn, this leads to opposing concepts of how technology can be used at a time of rapid technological innovation and competition. The stakes become too high to permit the other power unchallenged technological leadership, leading to a withdrawal of cooperation that spreads rapidly across industrial and financial sectors. It is this seemingly inescapable problem that is turning the tide against globalisation.

Grounds for Hope

This is a bleak prognosis. If globalisation has brought lower costs, minimal inflation, stronger growth, and higher employment around the world, it must be likely that its reversal will bring the opposite in each case. Consumers will be worse off, business subject to greater uncertainty and restriction, and politics always in danger of lurching towards nationalism. Yet there are at least three grounds for hope – factors that could mitigate these effects, as well as providing many new opportunities for the future.

The first is that new groupings of nations and novel forms of cooperation between them are likely to arise in the absence of effective global governance. There is considerable support among leading democracies, for instance, for the G-7 to expand into the D10, encompassing Australia, South Korea and India. While this will be more difficult than it sounds – India guards its independence in foreign policy very jealously – the idea is an indication of how new geopolitical groupings might develop. In trade, the drive for new bilateral and multilateral agreements goes on, as evidenced by the recent EU-Japan deal and the formation of the Transpacific Partnership, even without the United States. If the UK succeeds in joining the latter, it will be an encouraging indication that new and innovative trade agreements are possible.

"A major crisis is often a spur to innovation, and particularly so when it is accompanied by intense competition between great powers."

The second reason for hope is that a major crisis is often a spur to innovation, and particularly so when it is accompanied by intense competition between great powers. COVID-19 has already brought much innovation in healthcare and communication, and it seems likely that the threat of future pandemics will bring further changes to the way cities work and companies are organised. Large-scale corporate restructuring is underway. Supply chains will become more diverse and less concentrated. The McKinsey Global Institute has also noted in a study this year that "building supply chain resilience can take many forms beyond relocating production," including using new technologies.

And as the U.S. and China both seek to lead the world in the development of AI and quantum computing, there is vast scope for the combination of private sector ingenuity and public sector resources to bring major breakthroughs.

These factors point to the need for companies to build resilience, ride new waves of innovation, and be alert to the potential dramatic business implications of shifting global political alignments. In addition, there is a third basis for hope about the future of global cooperation and the opportunities that it can bring, but it is more speculative and too early to assess with any confidence. This is that the world is receiving a major psychological shock, and the long-term consequences of that can be beneficial just as the immediate consequences are very harmful.

The COVID-19 crisis is the most universal event in human history, affecting virtually every business and household in the world. It is underlining the extent and immediacy of global interdependence. It may well cause large numbers of people to think about the world and their responsibilities in a new way. In today's circumstances, you have to be an optimist to think that humanity can agree to live in a more sustainable way, while simultaneously developing new global working habits to reduce friction and conflict. You certainly have to be optimistic to think that the U.S. and China can develop a framework of cooperation that will set limits and safeguards to their new age of rivalry. Yet throughout history, the optimists have often turned out to be right. It is far from unimaginable, despite all the adverse pressures, that billions of people will find among themselves the ingenuity and leadership to reinvent global cooperation with all the benefits and opportunities it can bring.

The Era of Stakeholder Capitalism

Mark Weinberger

FORMER GLOBAL CHAIRMAN & CEO OF EY AND SENIOR ADVISOR, TENEO

In this interview, Mark Weinberger reflects on the stakeholder capitalism movement and the role it will play in shaping business, the economy, geopolitics, and greater society in the years ahead.

You are a champion of inclusive capitalism/ESG. What does that mean, and how important is it? How should companies be thinking about ESG when it comes to their overall business strategy? And given the current gray area when it comes to ESG standards, how should companies look to handle this?

ESG is a loosely defined term that is aimed at measuring non-financial activities that de-risk a business and lend to long-term sustainable profitability. In its broadest sense, it refers to the environmental, social and governance policies of a business. It is also often used to assess how businesses address "stakeholder capitalism."

I believe there are two reasons ESG is extremely important to society, and to businesses themselves.

"CEOs' license to lead corporations is at risk; we see this in attacks by governments, activists, customers, and even employees. With ample access to information and social media platforms, these stakeholders are finding their voices and exercising their opinions more readily."

First, CEOs' license to lead corporations is at risk; we see this in attacks by governments, activists, customers, and even employees. With ample access to information and social media platforms these stakeholders are finding their voices, and exercising their opinions more readily. Business leaders need to listen and understand the message these stakeholders are sending.

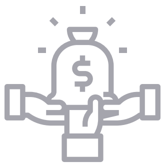
This is not surprising. Businesses have a critical role in society. Businesses create the products and services that sustain and improve our lives. In the U.S., many of the most important means to increase wealth and reduce income inequality are administered through business; practically all upskilling of workers post university, most savings plans, and much of the distribution of healthcare is managed through business. Businesses also create economic wealth for their investors, provide livelihoods for employees, and improve communities where they operate. Recognizing these contributions, business is given certain legal protections and licence to operate.

"Businesses have a critical role in society. Businesses create the products and services that sustain and improve our lives."

As a result, business has a significant responsibility to discharge its obligations in an appropriate way. Across the world, people are questioning whether business leaders are effectively executing all these important responsibilities. Workers, customers, governments, and communities are rightfully concerned about the increase in wealth disparity, social injustice issues, and anecdotes of CEO pay unrelated to results. Governments and social activists are challenging the status quo and asserting businesses needs to do more in order to enjoy the benefits they receive. In Europe, we have seen the most progressive changes to the system. In the U.S., we will likely see increased attention and efforts to address the issue. If business doesn't lead, then government may force change.

"The reality is these are not just social issues, they are business issues."

Second, and what I believe is a more important reason for business to focus on ESG issues, is that if you get these issues right, you will de-risk the business and create sustainable long-term profitability. The reality is these are not just social issues, they are business issues. Many studies back this up, and frankly, most business leaders – certainly the good ones I know – totally understand this. Yet, they don't always do a good job discussing the importance of ESG issues, why it's critical to their business, and the benefits they provide to stakeholders. Moreover, there is currently no good way for stakeholders to assess how a business is doing in these areas, and for businesses to be held accountable.



Inclusive capitalism is the only way to approach economic growth in the future

But companies need the right incentives, the right long-term strategies, and the right metrics to make this come together.

We know the value that companies create can't be measured by the balance sheet alone. In the 1970s, the vast majority of a business' assets were measured on their balance sheets in the form of tangible assets. Today, the majority of many companies' assets are intangibles – brand, workforce, culture, intangible property, etc. – which are not measured by traditional accounting approaches. This is absolutely critical – how can leadership, or an investor, know what an organization is worth if they don't understand the value of its brand, or of its innovation pipeline, its culture or of its talent?

Although these are difficult things to measure, we've come a long way in terms of understanding that stakeholder impact and ESG considerations absolutely contribute to the overall long-term value of an organization. CEOs are already leading this way, and now the frameworks and metrics are catching up. FCLT Global, a non-profit that develops research and tools to encourage long-term investing and business decision making, estimates that there are currently about 600 different frameworks out there. Investors, however, are beginning to demand more consistency, standard setters are beginning to work together, and the work the World Economic Forum has just completed – in conjunction with the Big Four professional services organizations – is a major step forward.

"FCLT Global, a non-profit that develops research and tools to encourage long-term investing and business decision making, estimates that there are currently about 600 different frameworks out there."

Inclusive capitalism is the only way to approach economic growth in the future – but companies need the right incentives, the right long-term strategies, and the right metrics to make this come together. It's a journey, but we are getting there.

Are CEOs sufficiently committed to the transparency of their corporate practices and the connectedness of their businesses to large societal challenges?

Yes, and I think that commitment is growing. Over the past decade I've spent a lot of time with CEOs from all over the world and across all sectors and while transparency and a focus on stakeholders was always part of the conversation, over the past few years it's come to dominate the conversation. Corporate leaders everywhere increasingly understand that their organizations don't operate in isolation, but as part of society and within complex ecosystems made up of diverse stakeholders. They realize that to succeed in that ecosystem, transparency is really important.

A great example of this emphasis on transparency is the heightened interest in ESG reporting standards we've seen recently. There's been great progress made over the past several years through initiatives such as the Embankment Project for Inclusive Capitalism and the World Economic Forum International Business Council's stakeholder capitalism metrics framework, which was launched in September. It contains reporting standards that include metrics covering a wide range of ESG criteria from carbon emissions to employee gender ratios to governance targets. As we see more and more organizations using these frameworks for their corporate reporting, it will really demonstrate just how committed CEOs are.

The Business Roundtable put a big stake in the ground by having over 180 large businesses publicly declare that they are committed to stakeholder capitalism and not just shareholder primacy. I was on the board of the BRT when they developed this position. Some have criticized it – often from the opposite sides of the political spectrum. I believe the statement was powerful and necessary. It acknowledged how CEOs were already leading their businesses. Now, businesses need to be held accountable for following through on their commitments.

Is the move towards stakeholder capitalism a temporary phenomenon caused by current events, or is this a permanent change in the way companies do business?

We're seeing a more permanent change, and our experience with the COVID-19 pandemic has helped to demonstrate that. We might have expected that with the sharp economic downturn we would see companies revert to a short-term focus. But we've actually seen the opposite – companies everywhere are embracing the broader role they play in society and looking to how they can work with all their stakeholders to help address pressing and often connected issues such as racial and economic inequality and environmental sustainability. There's recognition that when the pandemic ends, organizations will not be judged by their financial recovery, but on how they treated their stakeholders and reacted to events more broadly.

Is an "activist CEO" a benefit for a company, a risk for a company, or potentially both?

The question that every CEO needs to ask him or herself is not "What are the risks of being an activist?" but "What are the risks of NOT being an activist?" I'm not suggesting that a CEO should focus entirely on societal issues and neglect to run their business, nor do I believe a CEO should espouse personal political views. But CEOs have a great opportunity to add to the public debate about how policies affect their business and industries. They should speak up when external policies or events challenge their values, or the ability for their business to continue to provide value to its stakeholders. Stakeholders increasingly expect this from CEOs – as evidenced in the recent Edelman Trust barometer findings.

It's impossible today to just focus on a business without looking at the wider societal context and working with a broad range of stakeholders. CEOs who take an insular approach expose their companies to greater risks – in terms of reputation and growth – than those who run their companies while looking to address relevant societal issues.

"CEOs who take an insular approach expose their companies to greater risks – in terms of reputation and growth – than those who run their companies while looking to address relevant societal issues."

In what ways are customers and employees becoming greater drivers of company policy?

These days there's a much greater sense among customers that not only do they want the best goods and services; they want to do business with companies that share their values. It's similar in terms of employees: a good wage and benefits are still important, but people want to have a sense they're doing good in the world on top of doing well professionally and personally. Importantly, it's much easier for customers and employees to make these sentiments felt – and translated into policy.

First, in a globalized world, customers and employees have more choices than ever in terms of where they buy or for whom they work. If your policies or practices don't match their values, they can vote with their feet and find what they feel is a better match. Second, communication channels are much more open and direct. We've all seen things quickly get traction on social media, and while that's really raised the game in terms of speed of response, it gives a level of insight into stakeholder sentiment that we've never had before. Within organizations, the culture around communication has changed – connected to the immediacy and increasing informality of channels. Employees are far more willing to go directly to CEOs and board members on issues that are important to them. When I was starting my career, I'd never have dreamed of writing to the CEO about anything. Yet when I was Chairman and CEO of EY, I would receive lots of passionate, well-argued emails from people across the organization, many of them very junior, on important issues such as climate change or EY's work with the U.S. Administration.

All these changes are really positive – for stakeholder capitalism to work, all stakeholders must be engaged in an ongoing discussion about what's most important to them.

How do the values of a company affect its ability to attract and retain talent?

Employees – especially millennials and Generation Z – are looking to work for organizations that share their personal values and sense of purpose. If a company isn't clear about what those values are, if it doesn't talk about them and, most importantly, live by them – then it will struggle to attract and keep the best talent.

That's why EY places so much emphasis on its values and purpose – ***Building a Better Working World*** – and on helping its people understand them, feel part of them, and live by them. When that happens, current employees and potential recruits can definitely feel it. You can see the results for EY in its continual recognition for its great workplace culture from organizations such as Universum, Great Places to Work and *Working Mother* magazine. And it's why EY receives about 2 million applicants every year and hires around 70,000 – which works out to something incredible like one person about every eight minutes. Since we externally expressed our purpose of *Building a Better Working World* in 2013, our brand, employee engagement scores, recruiting and retention, and therefore our success in the market, grew to record levels. I am absolutely convinced that there was a strong correlation.

What are the risks for CEOs attempting to engage in stakeholder capitalism?

There are always risks, even when you're doing the right thing. For public company CEOs, for instance, there's the risk of clashing with activist investors who may have different views about value creation. There's also the chance that a company falls short of a CEO's rhetoric, which can expose the company and the CEO to charges of hypocrisy. Finally, there's always the chance of making an honest mistake as you raise your head above the parapet – offending people when you don't mean to, for example.

But, as I said earlier, CEOs who don't attempt to engage in stakeholder capitalism face greater risks than those who do.

What kinds of steps should companies be taking to better engage with their stakeholders?

A big part of it comes down to open, honest, two-way communication – being willing to engage with any group of stakeholders is the first step. Then it's about being true to yourself and true to your organization – otherwise there is the very real risk of being seen to be "greenwashing." You want to get involved in issues where your organization has a legitimate role to play. If you're a big FMCG manufacturer, then sustainable manufacturing processes and distribution are right in your wheelhouse. If you're an energy company, moving toward renewables is an important focus. If you're a Big Four professional services organization, tackling questions around ESG reporting is a good way to make the world a better place. Engaging with investors, employees, communities, supply chain partners, etc. on a regular basis is really important. Reaching out and engaging your stakeholders regularly helps you build trust – it helps you build capital when times are good. This will go a long way when you need their attention, trust, and patience, when times are challenging. You have to make the investment with your stakeholders consistently.

"If you're a big FMCG manufacturer, then sustainable manufacturing processes and distribution are right in your wheelhouse. If you're an energy company, moving toward renewables is an important focus. If you're a Big Four professional services organization, tackling questions around ESG reporting is a good way to make the world a better place."

What do companies look like 50 years from now if the trend towards stakeholder capitalism continues?

I'm not a futurist, and 50 years is a long time, especially with the world changing as fast as it is. That said, I am an optimist, and if the trend toward stakeholder capitalism continues, a lot of really positive things will continue to happen. As business plays a greater role in tackling society's greatest challenges, we'll see trust in business increase and – most importantly – some real social and environmental change. I think that business will play a hugely important role in tackling climate change, for example – not only because it's the right thing to do, but also because there will be sizable profits to be made.

"I think that business will play a hugely important role in tackling climate change, for example – not only because it's the right thing to do, but also because there will be sizable profits to be made."

What is your outlook for the economy, five years out?

Assuming that we will have a widely available vaccine against COVID-19, which it looks like we will, then I think the economy will rebound strongly. It may not be a straight line back to strong growth – it may be more of a sawtooth shape, but on the other side of the pandemic the conditions for growth are still strong.

There will be some different characteristics to the global economy in 2025. The pandemic has shown the fragility of certain industries and especially of global supply chains, so many companies will be thinking about how they can build resilience. That may mean less complex supply chains or allowing for more redundancy in different business processes.
The pandemic has accelerated a lot of companies' digital transformations, and that's a trend that will continue, and I hope will bring about a corresponding increase in productivity, which the global economy sorely needs.

Of course, during the pandemic, governments around the world have taken on a great deal of debt that they'll need to service and pay down. If government spending is focused on that, then it may force business to focus even more on its societal role.

Identify the key factors in what you are calling the Fourth Industrial Revolution?

I can't claim credit for coining the Fourth Industrial Revolution – that was Klaus Schwab of the World Economic Forum. For me, the most important aspect of Klaus' idea is what I'd describe as the "interconnectedness of all things." The combination of sensors that are so cheap you can put them in even the simplest machines, plus the computing power to crunch all the data that they provide, allows for some incredibly powerful technological use cases. Take commercial airliner jet engines, for example. Sensors on these are generating millions of data points as the planes fly around the world; data points that can help flag issues before they become problems, save fuel, or help engineers design new, better engines. These kinds of industrial applications are much more interesting and will have a bigger impact than some of the consumer "internet of things" applications that we hear more about. Your fridge ordering more milk for you is useful, but virtualizing machines such as jet engines, or industrial robots, is going to have a bigger impact on the global economy.

Which technological innovations will be the most transformative?

Well, as I say, the Industrial Internet of Things will have a huge impact. The other technology that has huge potential to improve productivity in a field like EY's, for example, is artificial intelligence. It's not about replacing people with machines – it's about people using machines to get more done, more accurately, than they could otherwise accomplish. I'll give you an example. One of the tools EY's AI team has created is something called Document Intelligence. Right now, EY's lawyers are using it – it can read hundreds of pages of contracts in minutes and then answer any question about those contracts the lawyers want to put to it. It takes a lot of the drudgery out of a task and gets to the answers needed faster and with fewer errors than a person could. It has lots of other applications, and the more it's used, the better the tool becomes.

We have obviously seen digital transformation and ecommerce accelerate in the past six months. That will continue. But we really need to see how much the changes in consumer trends and customer preferences are permanent versus reactionary. And government policy, during the pandemic and in response to actions taken during the pandemic, will have a major effect on business decisions going forward.

Is the upcoming generation receiving the educational preparation for managing the new economy?

I've spent a lot of time on college campuses over the past few years – both for work and because I have four kids who are university students or recent grads. So, this is a question I've thought about a lot – and my view is that it's a real mixed bag. Some universities are preparing some students really well for their careers, but I'm not sure that's true for all students. When I think about the people who work for EY today, for example, they may have trained as accountants, or consultants or lawyers – and those skills are still very important – but today all of those accountants, consultants and lawyers also need to have a really good understanding of technology and how it can help their clients. Do they need to be able to code in C++? No, not all of them, certainly. But EY's lawyers, for example, need to be able to use AI tools to scan through reams of documents, which involves a level of tech savvy they never used to need. There needs to be much more focus on technology when teaching these professional disciplines – as much from a mindset perspective as a skillset one.

Related to that, we need to think about education differently in the 21st century. The 20th century model is that you go to high school, then university, then into the workforce. First, I think in the future, hiring decisions will increasingly be based more on "skills" as opposed to "degrees/certificates." Everyone won't necessarily need to go to the top universities and get multiple degrees and certifications to earn a livelihood. I think this will be good for business, for the individuals, and frankly for improving opportunities for children who today can't afford the time or cost of those credentials. There is a huge opportunity to transform our education systems and workforce training programs here.

"I think in the future, hiring decisions will increasingly be based more on 'skills' as opposed to 'degrees/certificates.' Everyone won't necessarily need to go to the top universities and get multiple degrees and certifications to earn a livelihood."

Second, things are changing so fast now that we really need to think in terms of life-long learning. People are going to have to be prepared to change careers as new opportunities open, or old ones close down. While I was at EY I was really proud that we started a learning program called "EY badges," which are based on completing accredited courses that result in recognizable, portable credentials in topics ranging from machine learning to analytics to design thinking. It can't be that our education finishes at age 21 or 22 and then we work until we retire.

You have been a member of Russia's Foreign Investment Advisory Council. What is the outlook for Russia and is the relationship with the U.S. likely to remain adversarial?

This is a very complicated relationship – and a complex situation for business to be in. When the FIAC was founded, there was a lot of optimism about the transformative, cooperative, and collaborative impact of foreign investment. This has, of course, come under significant strain as the U.S.-Russia relationship has deteriorated. Sanctions have also had a significant impact on the Russian economy. The reality is, however, that even in the most trying times business relationships can be a way to keep a dialogue going – to spark a positive turn in an otherwise adversarial relationship. During the height of the Cold War, several key U.S. companies were part of Russian lives. The current U.S. Ambassador is also an advocate for increased business relationships in areas that are not impacted by sanctions. It's hard to make a call about the future of the U.S.-Russia relationship, but we do know that foreign investment and business collaboration can provide an incentive for policy makers to find common ground…and, we could use that in the volatile world we live in today.

It's Not a Black Problem. It's an Everyone Problem.

Ursula Burns

SENIOR ADVISOR, TENEO, FORMER CHAIRMAN OF THE BOARD & CEO, XEROX CORPORATION,
CURRENT MEMBER OF THE BOARD OF DIRECTORS OF UBER, NESTLÉ, EXXONMOBIL, FORD FOUNDATION, WAYSTAR & IHS TOWERS

Seizing the Moment

Typically, companies stay away from open and broad discussions around racial justice; they just don't get involved. But the killing of George Floyd by Minneapolis policemen in May 2020 was a different moment. Corporate CEOs and boards were trying to figure out what they could do. They saw the nation and large parts of the world consumed by an alarming level of unrest. My phone was ringing nonstop with companies looking for advice: "How do I diversify my company?" "What is the problem?" "I think I get it, but can you give me more insight?"

These companies were trying to do the right thing, and I wanted to help. I touched base with other people who were in the same situation. Darren Walker, the President of the Ford Foundation, and others, were getting calls as well. A lot of the African American leadership were getting calls from their peers asking for help.

I realized that these calls would continue, and if we didn't seize the opportunity, we would lose the opportunity. If we did not grab the chance to turn this desire to help into something more proactive and permanent, we would be missing our chance at finally achieving real change.

The Birth of the BDAA

I reached out to the network that I have and from those discussions, we formed the Board Diversity Action Alliance (BDAA). The BDAA is interested in supporting all diversity, but we thought it was important to put our initial focus on Black directors. As such, our preliminary goal was to increase the numbers of Black directors. If you have one, get two; if you have zero, get one. But that initial goal was a bit simplistic and not necessarily realistic, so we also tried to do some benchmarking, looking to see how companies are performing today when it comes to board diversity. It turned out, surprise, surprise, there's no place to go for this data. There is not a central place where you can find out the answer to the question, "How many African American directors are there on boards?" Basically, there is a dearth of reporting. We realized it's just not about asking to increase the numbers, it's also about recording the data and then continuing to track it to see how corporations are doing. We then decided to add formalized data tracking and the promotion of additional accountability measures to the BDAA goal sheet.
The numbers are definitely very important. I've long been against quotas, but I also have looked at the results of activities in California and in the UK, where quotas are helping to transform the diversity of boards. But we also understood that there was another aspect we needed to address in order to truly be successful, and that is encouraging companies to educate their own boards about diversity and inclusion. It's not just about getting the numbers and then counting, it's also about putting a process and environment in place to ensure we do not fall behind in the future.

Ultimately, we are focused on the numbers, plus an infrastructure behind them that allows stakeholders to keep track of how a company is doing to assure that we can improve how we're working and how companies are working. It's not just about a company getting a "one and done" token diverse member. It's about getting one or two or three, coupled with data and assistance that will lead to progression and a maturing of corporate boardrooms and companies around diversity, equity, and inclusion, for the long term.

The Challenges of Change

Achieving the aforementioned goals is not impossible, but there are many hurdles ahead. One of the biggest is the hesitation to engage on the part of company leadership; this is for a number of reasons.

The biggest sticking point for many CEOs and other company leadership is the fear of failing. "If we commit and don't do this, what's the downside? What are the ramifications?" Second is the issue of time. Most CEOs need to get approval from their boards of directors and governance committees to instigate such changes; if you're a public company, you have the committees to handle, and it's probably a really good idea that you get these guys involved, but this definitely slows the process. The third is the question of whether or not the talent is actually out there. I often hear this complaint, "We've been trying this for a while, and we can't find anyone."

How have I responded to these concerns? First, the BDAA effort is not about shaming. If you don't want to be engaged, just don't be engaged. I'm not interested in chasing people who don't buy in. If you don't want to sign, you don't have to sign. I think it's a good idea that you do sign, but if you don't want to sign, no problem. I think your customers, your shareholders, and your employees will have far more impact than I can possibly have by shaming you if you don't pick up where the whole nation is heading, which is towards a diverse, inclusive, and equitable society. Change takes effort and time; I am not saying it will be easy, but I truly believe that companies that choose not to engage will be left behind.

The oft used excuse regarding talent or lack thereof is simply untrue. I am a broken record on this. If you define the talent requirement as, "you had to have been a CEO," or that "you currently have to be a CEO," many boards would have zero members. I get the same question from a vast majority of the people I speak with: "Can you find me a diverse director?" And I say "Okay, what's the spec?" And their response is "Well, we need a sitting or past CEO." And my response is "You don't need me to tell you the number or the names of the African American sitting and past CEOs. There are not that many of them, so you could actually call them all in probably an hour and a half, and you will find that they're all taken up; they're either not interested, or they have two or three boards already."

The problem that many companies and boards have is that they are defining the job specifications in an incorrect way that is not only inhibiting the achievement of true diversity, but is also overlooking candidates that could bring a lot of value to the organization. I will also mention that most company boards are not made up of 100% CEOs, so it makes little sense to me when companies are looking to fill board seats that the search criteria first starts with, "I would like to have somebody who's a CEO or CFO." Boards and companies have to change the specifications. The talent is out there, but you have to make sure that you are inclusive in your specifications and open to looking beyond the normal pipeline. And let me be clear - this is not about lowering standards. Are the only viable African American candidates out there those who meet the standard of having been either a CEO or CFO? Of course not. That can't be true. So, it's really, really important to look at how your board and your company truly define what a "good candidate" looks like and make adjustments to account for the changes they want to make.

The Commitment

I want to focus again specifically on the BDAA, and the commitment we are asking of signatories/"member corporations." Member corporations are committing to having at least one African American director on their board. If a company already has one, our desire is further diversification, but at least one. We want to make sure companies aren't making this a token; they shouldn't stop at just one diverse board member.

The second thing that these organizations are committing to is working with other partners in the Alliance, as well as working with the people and organizations who are trying to develop methods of tracking and collecting data. We want to increase the disclosure of self-identified race and ethnicity of directors on corporate boards. This is not something that is currently systematically tracked, which is a surprising thing. Greater disclosure is a good thing.

Finally, we want signatories to work on expanding their thinking and level of accountability for diversifying their company beyond the board. The talent is there. Find talented people who meet gaps that you have in your governance structure or in your future strategy and put them on the board. A lot of

the calls I get are first-grade calls. "How do I get one person?" they want to know.
No, we're in high school now. The question should be not only "How do I get?" but also, "How do I keep? How do I nurture?" The place to start is close to home, with your employee base and management team and by working with your shareholders. It starts with your communities.

The BDAA is asking companies to contribute more broadly than they have before. And so much of what the BDAA is able to achieve will be based on the actions of the signatories. An organization like the BDAA can only shine the light on the facts. We can give you hints and tips about how to improve, but we don't have the desire or the power to force you to change.

A Tidal Wave

The protest movement of this last year has been one of the largest and broadest in U.S. history. I don't need to say much about the pandemic; the most marginalized people are the ones most affected. We are confronting an amazing conflagration of events in the world and in America. We are living through a fundamental cracking of portions of our society, a breaking of the social contract that individuals have with their governments, that individuals have with each other, and that individuals have with their companies. This is all happening, and we don't yet have a good, solid discourse around that. Our government is definitely not presenting a path to a viable solution, and all of this is affecting the most vulnerable people, the poorest, and also the people who do some of the most important jobs that we all rely upon to live.

"This idea about inclusive capitalism is a tidal wave coming."

We also have mass unemployment, which is a huge stress on our social systems. The social systems are under stress because their funding is under stress. Then we have this unbelievable continuation of murder of Black people by police, and parts of the U.S. and the world are literally burning. The United States is at a turning point, we can make it and go forward, or break it; I have never felt this clear about the choices that we're dealing with in our country. We are at a precipice; if we don't change the discourse and the approach to how we integrate with each other, we are going to have to lay forth a new way for keeping the peace, a new way for caring for our citizens, a new way of protecting ourselves if you are rich or have any privilege, because we have let loose, I think, a level of discomfort and unhappiness that has to be quelled somehow or the other.

And this idea about inclusive capitalism is a tidal wave coming. Everyone is watching: employees, communities, governments, and definitely shareholders. They are all closely watching companies to see how they are going to manage their way through this phase.

I don't see things going back to "how they were." I don't think the "let's let it quiet down a little bit; it'll blow over, like the other events have blown over" logic is going to work this time. We're not there. We are definitely on a course for something big.

We, as individuals, as business leaders, as companies, are going to have to pick a point of strength and push hard to get an active set of solutions laid out. And we're all going to have to get involved in things we didn't engage with before, or we didn't get really actively involved with before. We're going to have to look at social structures, we're going to have to look at the not-for-profit, arts-based institutions to figure out how we help them survive, even more than we did before. We're going to have to look at policing in our communities.
This idea that there's going to be this other group of people, "the government people," this higher order, who are going to fix all of these issues is long gone. We are way down the path and I think too broken for that.

Everyone has an ownership here. It is not a Black problem. It is everyone's problem.

"Everyone has ownership here. It is not a Black problem. It is everyone's problem."

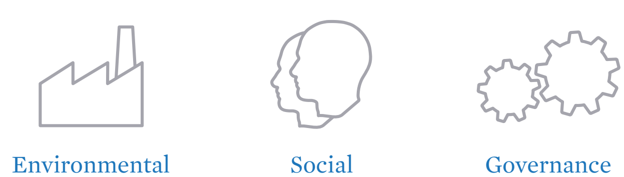
Markets

Corporate Leadership in the Stakeholder Era

Sydney Carlock, SENIOR VICE PRESIDENT, TENEO
Martha Carter, VICE CHAIRMAN & HEAD OF GOVERNANCE ADVISORY, TENEO
Matt Filosa, MANAGING DIRECTOR, TENEO
Sean Quinn, MANAGING DIRECTOR, TENEO
Megan Shattuck, PRESIDENT, TALENT ADVISORY, TENEO

The rise of environmental, social, and governance (ESG) investing and stakeholder capitalism – both accelerated by a global pandemic and racial inequality – have forever transformed the demands on boards and CEOs. For boards, the principle that only the interests of shareholders matter has given way to expectations that the interests of all stakeholders be considered. In addition, investors expect boards to oversee a growing number of ESG issues that help promote sustainable financial growth over the long-term. As for CEOs, they are increasingly expected to not only manage the interests of all stakeholders, but to articulate the company's values and provide vocal leadership on issues affecting society.

To succeed in this new environment, both groups must acknowledge this tremendous shift and reassess their strategy. For example, does the current board have the right skillset to manage ESG issues? Does each member have enough time to address this expanding list of duties? CEOs must plan for the long-term and manage relationships with multiple constituencies who sometimes have competing interests. Further, both groups must understand their respective roles and responsibilities, collaborate seamlessly, and communicate effectively to meet the challenges of this new era of stakeholder capitalism.



Background of ESG and Stakeholder Capitalism

"Stakeholder capitalism" can be defined as an investment philosophy asserting that the best way to create and preserve long-term value is to consider the interests of all stakeholders (including employees and the environment). Over the past year, stakeholder capitalism has been broadly endorsed by major companies and investors from around the world. In 2019, over 180 public company CEOs signed a revised Business Roundtable corporate purpose statement outlining a fundamental commitment to all stakeholders. Earlier in 2020, BlackRock also emphasized this "fundamental reshaping of finance" towards sustainability in its annual letter to CEOs.

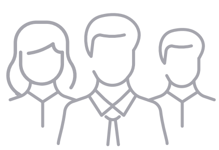
The 2020 proxy season began with rising acceptance of stakeholder capitalism and investors' heightened focus on ESG concerns. The impacts of the COVID-19 pandemic and social unrest related to racial inequality on the governance landscape accelerated discussions on ESG issues. The early weeks of the pandemic saw hundreds of voluntary and, at times, required pay reductions[1] for top executives and non-employee directors. Market turmoil eroded the value of outstanding equity awards and rendered some incentive goals unrealistic and potentially demotivating. In addition, as a result of the tremendous momentum behind the Black Lives Matter movement, investors and stakeholders have pushed companies to move beyond diversity statements and towards concrete actions to increase their racial/ethnic profiles as well as transparent disclosure of data and progress.

The crises faced in 2020 will not only result in a continuance of the stakeholder capitalism movement, but an acceleration of it in 2021. Politicians have already been pressuring companies on their response to the crises in the context of stakeholder capitalism, and the investment community is beginning to do the same. Some examples include:

- BlackRock commented it would not be easing up on its sustainability priorities, including a mandate that companies disclose to the SASB and TCFD frameworks by year end;
- A group of over 200 institutional investors published a set of expectations of all companies during the coronavirus crisis, including fair treatment of employees and limits on executive compensation;

1 Per the Senate Stimulus Bill (H.R. 748, Sec. 4116), companies receiving loans under the CARES Act*, were required to freeze pay and cap severance for employees making more than $425,000 and reduce pay for those earning more than $3,000,000.

- U.S. proxy advisor Glass Lewis recently advised that all governance issues will be impacted, indicating that there is no better way to observe the effectiveness of governance than in a crisis;
- JUST Capital announced a Coronavirus Corporate Response Tracker - a rating of how well companies are managing their stakeholders throughout this crisis; and
- ESG ratings firms have signaled that a company's response to a crisis will materially impact their ESG rating.



200+ Institutional Investors

Published a set of expectations of all companies during the coronavirus crisis, including fair treatment of employees and limits on executive compensation

Investor scrutiny will be in sharp focus across many ESG issues. Compensation committees of boards will be challenged with not only aligning pay and performance during a period of tremendous volatility, but also with the company's employee experience. Governance committees will be reminded of any lack of diversity in the boardroom. Despite the prevalence of diversity statements and policies at U.S. companies, racial minorities in C-suites and boardrooms remain few and far between. While board gender diversity has been a key investor priority in recent years, comparatively little attention has been paid to racial and ethnic diversity. CEOs and their executive teams are faced with challenges of cash flow and liquidity, along with resetting strategy for a new reality and demonstrating good corporate responsibility. Sustainability reports that lack robust EGS data and transparent ESG goals will no longer be sufficient. ESG rating, rankings, indexes, and disclosure frameworks will increase in importance, aiding investors and other stakeholders to determine a company's sustainability profile. Expect investors to call for companies to make progress on issues relating to employee health & safety, diversity & inclusion, climate change, and pay equity.

With the endless amount of possible ESG issues, where should boards and CEOs focus to be ready for the increasing expectations from all stakeholders?

Expansion of Board Mandates in ESG

Boards are the overseers of risk in a corporation and have an important and expanded role in assessing risks and opportunities of ESG – both in how environmental and social changes impact the company and in how the company impacts its stakeholders. Connecting environmental, social and governance issues to business operations, strategy, and long-term value are key to creating a sustainable business strategy.

It has always been an imperative 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 events of this year highlight the need for high performing, effective boards. 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. They are expected to proactively and continuously reevaluate their board structure and resources, and plan for succession, in order to be in the best position to provide thoughtful, best in-class governance and a way of working together that supports the chief executive officer and ultimately the company.

ESG Topics on the Board Agenda

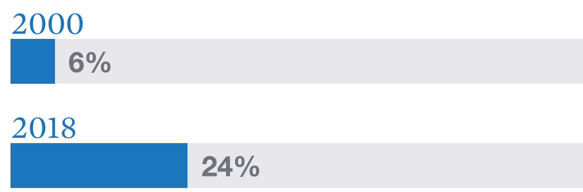
ESG topics are finding their way more frequently on to the agendas of board meetings. The ability of a board to carry out its fiduciary duties depends not only on a clear articulation of expectations, but an understanding of risks and how the risk priorities change. Operational risk, reputational risk, financial risk, activism risk, and cyber risk have all been impacted by the events this past summer.

Stakeholder capitalism, however, can be a challenge to manage for boards. 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.

The increase in ESG topics considered by investors, as measured by shareholder proposals, has been on the rise for decades. In 2000, median support for E&S proposals was approximately 6%. By 2018, that had increased to about 24%. E&S proposals increasingly focus on disclosure, risk assessment, and oversight. Proposals receiving at least 30% support have been on the rise: in 2000, none met that threshold; in 2018 over one-third were above 30% support.

Median Support for E&S Shareholder Proposals



During the pandemic and protests over racial injustice, boards responded by overseeing sweeping changes in the way companies work and articulating statements in support of racial equality. Board attention will be expected on a range of issues, including the company's culture, its management of human capital, the safety and well-being of employees, and the pursuit of diversity and inclusion, as well as the rising issues around climate risks.

Diversity and Inclusion

Boards' mandates on diversity and inclusion have expanded greatly in the wake of the protests over social injustice and the Black Lives Matter movement. Shareholder proposals requesting companies to disclose diversity data (some asking for publication of EEO data) were well received in 2020. Seven proposals were voted this year, with four receiving majority support. As these proposals would have been filed in 2019, there will likely be more diversity-themed proposals on ballots in 2021.

How boards oversee diversity and inclusion topics varies across companies. Currently only a few companies in the S&P 500 have separate Diversity and Inclusion committees of the board. More prevalent is that other committees have diversity and inclusion as part of their charters – nominating and governance committees, corporate responsibility committees, sustainability committees, and ESG committees.

Proactively managing the challenges of stakeholder capitalism and increasing focus on ESG can help with oversight of the risks and opportunities. A few actions that boards can take to navigate the current landscape include:

- Understand the ESG investing ecosystem of ESG ratings, rankings, indexes, and disclosure frameworks;
- Understand how the company is being rated on its sustainability initiatives by the primary ESG ratings firms and understand the impact such ratings are having on access to capital and the AGM;
- Review whether the company is aligned with the primary ESG disclosure frameworks promoted by major investors and identify any gaps in your company's current disclosure;
- Understand which ESG issues your top investors are most focused on, as well as any formal proxy voting policies related to such issues;
- Interface with management – request an ESG assessment and prioritize risks;
- Rethink board succession and different matrix skills needed;
- Benchmark policies and practices;
- Ensure appropriate disclosures and communicate effectively;
- Work to integrate sustainability with strategy; and
- Incorporate ESG metrics in executive incentive plans to provide a clear signal to stakeholders that sustainability is essential to corporate strategy. Currently, more than half of the S&P 500 incorporate ESG measures or considerations in executive incentives, most often in the annual incentive plan. Despite the long horizon of environmental and social measures, these are rare in long-term incentive plans, although some leaders in the space have begun to adopt multi-year sustainability incentive measures.

C-Suite Leadership in the New Reality

CEOs and by extension, their executive leadership teams, have had to quickly pivot to a multitude of changing demands and priorities over the course of 2020. At the same time, there is an increasing call from their investors to rethink or transform their social license to operate. While many CEOs adopted the Business Roundtable view of stakeholder capitalism in 2019, the concepts were put to the test in 2020.

After the pandemic hit, many companies and their leadership found themselves navigating multiple challenges – complete shutdown, liquidity, cash flow, employee health and safety, plans for reopening, etc. Some companies needed to pivot to rethink their business strategy. Along with this is the need to collaborate on strategy setting with boards and communicating effectively with shareholders and all stakeholders.

Executive Compensation

As the 2020 proxy season wound down, the potential impacts of COVID-19 on executive compensation were only beginning to be seen. The first weeks of the pandemic saw hundreds of voluntary and, at times, required[2] pay reductions for top executives and non-employee directors. Extraordinary stock market volatility has affected the value of outstanding equity awards, while some incentive goals have been rendered unrealistic and potentially demotivating. At the same time, proxy advisors and large institutional investors have indicated that they will continue to hold companies to higher environmental, social and governance (ESG) standards throughout the crisis and have not become more lenient in their policies. Compensation committees now face the difficult task of motivating executives while not aggravating their investors and employees.

Positive adjustments to executive pay against the backdrop of illness, layoffs, furloughs, and extreme stock price volatility draw greater scrutiny from investors and the public at large. Companies with poor records on diversity and inclusion face additional scrutiny, as the recent protests have highlighted pay and income disparity as an issue of racial justice. The complex ESG environment and enhanced level of shareholder scrutiny necessitates a

[2] Companies receiving loans under the CARES Act*, were required to freeze pay and cap severance for employees making more than $425,000 and reduce pay for those earning more than $3,000,000.

clear view of stakeholder perspectives and a full understanding of how any action will be viewed.

Key investor concerns in compensation that will play out as engagement discussions in the latter part of 2020 and at the ballot box in 2021 include:

- Offsetting executive salary cuts with discretionary awards or payouts;
- Granting significantly more shares of stock or options at historically low prices;
- Poor disclosure on incentive metric or goal modifications or the use of discretion;
- Replacing at-risk incentives with time-based awards;
- Failure to consider ESG performance metrics;
- Above-target relative-TSR-based payouts during periods of negative stock price movement;
- Problematic stock option repricing;
- Overuse of discretionary retention awards;
- Excessive focus on top-level employees; and
- Failing to engage with shareholders regarding COVID-19 related pay actions.

Looking ahead, the coronavirus crisis, like the 2008 economic crisis, has the potential to change the executive pay landscape. First, clear and robust disclosure will become even more crucial. Many investors and proxy advisors have indicated that they are more accepting of discretion or pay modifications, but they will expect robust disclosure of the rationale for any changes. As such, companies and compensation committees will be challenged to elucidate the thinking behind their pay decisions beyond standard pay for performance statements. Second, paying for performance takes a new meaning during extraordinary market volatility. Corporate resilience, rather than financial growth, has become a key focus for many companies. The shift could be reflected in new incentive metrics, such as free cash flow or ESG measures like diversity or employee health and safety. Lastly, investors increasingly expect that executive pay is aligned not only with shareholders' experiences, but also with broad-based employee experiences. Recent events have led stakeholders to view pay and income disparity through the lens of racial and social justice. Companies with high pay packages but lackluster records on diversity and inclusion will be particularly vulnerable to criticism, as will those who laid off or furloughed employees during the pandemic.

While some companies have put in place supplemental plans to incentivize and retain top employees for the balance of the year, other companies are taking a wait and see approach when it comes to coronavirus-related pay decisions. The true impact of the crisis will not be fully disclosed until the 2021 proxy season at the earliest. Shareholder and public scrutiny of pay decisions is unlikely to lessen and some companies will see a degree of pushback on changes. Careful consideration of investor views, public perception, and employee experiences, along with robust disclosure and shareholder engagement on any changes will serve boards and management well as they determine the best course of action for their unique circumstances.

Investors are increasingly demanding that companies enhance their ESG disclosure in-line with the following third-party disclosure frameworks:

- **Sustainability Accounting Standards Board (SASB):** The SASB standards are a set of industry-specific ESG disclosures that are believed to have a material impact on a company's financial performance. Large institutional investors are increasingly calling for companies to publish ESG data according to the SASB standards.
- **Task Force on Climate-related Financial Disclosures (TCFD):** TCFD is a disclosure framework that seeks to demonstrate how a company is managing its climate risks. The 2020 proxy season saw several large investors vote against directors on boards at companies that did not disclose according to the TCFD framework.
- **Global Reporting Initiative (GRI):** The GRI is a framework that promotes disclosure about how a company's activities impact its stakeholders (including the environment and communities). It is the oldest and most frequently used ESG disclosure framework.

Continued Focus on Stakeholders and ESG

Important actions that C-suite and board leaders can take to align with the new reality and prepare for 2021 include:

- Transform a separate sustainability strategy to an integrated sustainable business strategy;
- Consider options for disclosure under the various ESG frameworks;
- Track the ESG rankings and ratings, which could influence portfolio construction and access to capital;
- Engage with investors on key ESG topics; and

- Plan and implement an effective communication program around all aspects of ESG that can have a material impact on the business.

In our current environment, shareholders have signaled strongly that they are going to continue to put pressure on companies to meet increasing ESG demands. As the world puts the global pandemic in the rearview mirror, the ESG momentum will continue, and corporate leaders must plan accordingly.

"As the world puts the global pandemic in the rearview mirror, the ESG momentum will continue, and corporate leaders must plan accordingly."

Earned Media Reach: The Implications of Knowing What Media Moneyball Will Look Like

David Lurie, SENIOR VICE PRESIDENT, TENEO
Seth Martin, SENIOR MANAGING DIRECTOR, TENEO

When Billy Beane, the former General Manager of the Oakland A's, began using sabermetrics – the application of statistical analysis to baseball records – to inform how he managed his team, it catalyzed an analytics revolution in the sport that had been on the cusp of exploding for years. Teams began valuing on base percentage over batting average, stealing bases and bunting less, and finding value in previously overlooked players. Sabermetrics, or "Moneyball," categorically changed the way teams were built and baseball was played, and its principles soon pervaded other sports. It is only a matter of time before this type of thinking infiltrates other industries that are on the cusp of their own analytics revolution. While big data has changed the nature of most corporate functions, we believe that in the communications world, this revolution will take hold over the next 12 months.

"While big data has changed the nature of most corporate functions, we believe that in the communications world, this revolution will take hold over the next 12 months."

Bill James began writing on sabermetrics in 1977, but it took 30 years and a scrappy General Manager to popularize data-driven decision-making in baseball. So why do we think we will see disruption in communications in 2021? Why now?

It will be a confluence of factors. New technologies are enabling media professionals to finally understand, with precision, how many people they are actually reaching as a result of their efforts. Further, much like basketball adopted the sabermetrics approach from baseball, communications pros will borrow ideas from the advertising profession – a cohort that has already embraced the digital analytics revolution. And finally, we believe the economic conditions will prompt (or require) practitioners to find better ways to quantify their activity and show the impact of the outcomes they drive.

The Problem of (and Opportunity within) Earned Media Measurement

“Distinguishing the signal from the noise requires both scientific knowledge and self-knowledge: the serenity to accept the things we cannot predict, the courage to predict the things we can, and the wisdom to know the difference.” – Nate Silver

Communication has metrics that mislead, just as baseball does. Metrics such as impressions, placements, or engagements are as useful as the common stats Billy Beane disregarded early in his tenure. In some cases, they are directionally helpful, but are predicated mostly on convention – not on whether a measure is an indicator of quality outcomes.

The foundation of communications measurement is simple. To determine the effectiveness of a communications campaign, we must determine if our message is reaching the key stakeholders we care about, and to what extent. This seems obvious but measuring this reach has eluded earned media pros over the years. Even in an era where all media is digitized, trackable, and measurable, there hasn’t been a reliable way to measure how many people see or read a particular story.

The nature of earned media – the trusted weapon of choice for the communications profession – makes it particularly challenging. In earned media you are, in essence, working through a third party to reach your audience. These third parties – the broadcast outlets, newspapers, and digital news sites – “own” the relationship with these audiences. They are the ones with the capability to understand the media consumption habits of their customer – increasingly so in the digital age. That same data is simply not passed on to companies and corporate communications professionals, who have largely operated in the dark with good guesses and bad assumptions as a result.

There are some directional metrics used; those that the outlets publish – data such as “circulation” and “impressions” and “uniques” – but those figures are high-level. They, for the most part, indicate total reach. For instance, the *New York Times* daily circulation is 500,000. If a company is featured in a *Times’* story, the default is therefore to assign 500,000 “impressions” to the story, without knowing how many people actually read it. Further, this tact won’t help us understand if key investors or key customers saw the story. These are critical questions companies need the answers to in order to understand the effectiveness of their public positioning work.

Recently, we’ve seen two sophisticated approaches that are getting us closer to this capability. The first requires agreements directly with publishers to access and resell page view data. This approach gives professionals certainty about data – as it is coming directly from the source – but lacks detailed audience information some professionals might need. For example, this approach can tell you that a recent *Fortune* story on your company was read by 100,000 people, but it cannot provide information on whether the majority of those users were your likely customers, or simply online users that clicked on the story because they liked the pictures.

The second approach is to tap into advertisers’ programmatic tech stack to give professionals a sense of how their earned media is reaching key audiences without signing agreements directly with publishers. This approach requires taking aggregate advertising bid data that provide indications of how many page views a particular story gets. While the data from this approach does not come directly from the source, it does come with audience-level data. This means the data will not only include page views, but also demographic information about readers of the particular story.

The future will be a hybrid approach that uses publisher level data to zero in on specific page views with inarguable accuracy, and programmatic advertising data to provide specifics on who the audience is. This will be critical to unlocking the analytics revolution, and it is fast approaching.

In the past, there was less at stake in making assumptions about reach, because the average consumer’s path to news was more standardized. You could assume that if your company's message appeared on a nightly broadcast, that it had reached the masses. You could also assume that within a very large mass audience a significant portion of your target audiences – i.e., investors, customers, and prospective employees – were present. But a dramatically decentralized landscape is making this assumption increasingly prohibitive. There are too many different pathways to news for the consumer.

The Implications of (Actually) Knowing Earned Media Reach

In 2021, the dog will catch the car. We will have a precise sense of how many people are reading each news story and have a much-improved sense of whether they are in our target audiences. So, what will the implications be? We have a few predictions:

> *"In 2021, the dog will catch the car. We will have a precise sense of how many people are reading each news story and have a much-improved sense of whether they are in our target audiences."*

1. We will come to terms with the fact that not as many people read our earned media pieces as we thought – to a very extreme degree. In many cases, where we assumed millions saw a piece, we are likely dealing with thousands.
2. We will also come to terms with the fact that, of those people that read stories, many do not read it as closely as we would have hoped. We would not be surprised to have less than 20% of readers spending enough time on a page to read a whole story.
3. Embarrassed by the lack of reach, many will hide this data from their CEOs. The innovators will look the reality in the face and say, "How do we win?"
4. Innovators who accept #1 and #2 above will begin to put digital-first or digital-only content producers on the same playing field as "top-tier media," leading to new access to new outlets.
5. With regard to understanding our audiences precisely, communications professionals will realize that we are decades behind those in advertising who have been targeting and tracking audience impact since the 90s.

6. As part of the process of learning from advertising, we will embrace their norms as it relates to both reach and frequency. A successful earned media story must not only reach a large majority of its target audience, it must reach them with frequency. This will lead to exponential growth in paid amplification of earned media stories.
7. In the short term, budget restraints and internal politics will prevent many communications teams from getting the paid budgets they need to properly amplify their earned media as mentioned above, so they will begin to build audiences organically through email and social media. We will begin to see the reach of corporate communications email newsletters and social handles increase as a bridge to larger paid budgets.
8. As a result of #6, media outlets will see a notable shift in the amount of traffic being driven to their sites by corporates, leading to potentially perverse incentives for publishers.
9. With better measurement of earned media, advertising pros will realize that despite their multi-million-dollar creative budgets, a well-placed earned media story is a much more effective media instrument than any ad could be.
10. As an industry, we will gain more appreciation for the long-tail evergreen stories which pay dividends day after day, and as a result we will realize that the first page of a Google search may be more important than the front page of *The Wall Street Journal*.

Adapting to Survive: The Future of Retail

Christian Buss, SENIOR MANAGING DIRECTOR, TENEO
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Suraj Ramaprasad, MANAGING DIRECTOR, TENEO

The traditional model for retail is rapidly becoming uncompetitive, as the digitization of design, manufacturing, distribution, and demand is exposing its inherent inefficiency. Businesses reliant on large, physical retail footprints, long lead-time design and production, capital-intensive inventory, and storage/distribution assets in order to generate margins now find themselves being outmaneuvered by nimble, agile, and innovative competitors. Individual consumers also expect more – more choice, more convenience, rapid delivery, and a more personalized service. Without adaptation to these new realities, retailers cannot thrive, and in many cases will not survive.

The End of an Era

The traditional retail model, which has been suffering for many years, is now at the point of failure with ever more consumers moving their shopping online. This comes at a time where there is a substantial – and growing – over-capacity of physical retail locations, particularly in America. Across the United States, there is approximately 23.5 square feet of shop space per capita, over five times more than in most Western European and Asian markets. As in-store sales continue to decline, retailers find themselves with a high-cost network of shops that attract fewer and fewer customers and generate ever lower revenues. As a result, average operating margins across the sector have declined by 20-25% in the last five years. As margins have shrunk, businesses have responded by cutting costs across all areas of the business, reducing service levels as expert staff are replaced with automated systems and front-line staff with lower levels of expertise. This cost-based agenda has created a less flexible operating model that is unable to respond to the current period of quickly evolving consumer demand and instead delivers a lower-quality customer experience. And, with more rapid change in consumer preference, aging of inventories has accelerated, leading to discounting for endemic liquidation of excess stock, further depressing margins.

"As in-store sales continue to decline, retailers find themselves with a high-cost network of shops that attract fewer and fewer customers and generate ever lower revenues. As a result, average operating margins across the sector have declined by 20-25% in the last five years."

At the same time, store traffic has been steadily trending down as customers consolidate shopping trips and turn to ecommerce. The online share of global retail has doubled in the last five years. The largest players in the ecommerce space are online retailers who operate almost exclusively through digital channels that go direct to consumer. Digital engagement is becoming increasingly important for all parts of the customer purchase journey, from brand engagement, browsing and product selection, right through to payment.

COVID-19, and the global lockdown response, has only served to accelerate this trend. Digital consumption has not only increased dramatically, but customers are also reporting higher levels of satisfaction, with 45-55% of them expecting to continue their new or increased use of digital services post-COVID.

Consumers are reporting higher levels of satisfaction, with

45 - 55%

of them expecting to continue their new or increased use of digital services post-COVID.

Furthermore, as the economy begins to recover from the initial pandemic shock, the high street is likely to look very different. With heightened health-related concerns and suppressed consumer spending, many retailers will struggle to recover. Meanwhile, the stores that remain open will do so with reduced capacity in order to satisfy current social distancing requirements. In many cases, this will erode the social and experiential aspects of these stores, further embedding the digital shift.

To respond to the break-neck pace of changing preferences and the dramatic shift to digitally-mediated demand, retailers must fundamentally reimagine their propositions. They must go beyond just providing goods, and must also figure out how to cultivate deeper relationships with their customers through personalized services, unique experiences, and special offers, all buoyed by a digital-first approach that permeates all aspects of their business strategy.

Leading With a Digital-First Approach

In order to provide the personalized shopping experiences that customers increasingly expect both online and in-store, companies must understand how best to align their ecommerce, sales, and marketing teams. This means moving away from the traditional "split" in the retailers' mindset between brick-and mortar and digital and "bridging" both into a single, combined "brigital" experience. This shift requires much more than merely setting up a website or opening a "digital store." Competing effectively requires a fundamental change in a company's business model, with digital capabilities and data-led decision-making becoming central to all aspects of a retailer's operations.

Alignment of the brick-and-mortar experience in-store, with the digital mobile or on-line experience has the potential to create a seamless process where the customer can interact with the retailer flexibly, choosing the engagement that best suits them, thus combining the convenience and speed of shopping online with the interpersonal and experiential elements of shopping in-store.

"In order to provide the personalized shopping experiences that customers increasingly expect both online and in-store, companies must understand how best to align their ecommerce, sales, and marketing teams."

On the flip side, online retailers are also experimenting with physical retail. These digital natives are beginning to pilot stores built on digital rather than physical infrastructure. This approach allows them to add targeted physical locations, based on analysis of both their customers' needs and their supply chain's capabilities. This new thinking of the physical store as a complement of the digital proposition, as opposed to the traditional thinking of the digital capability as a complement of the physical store, is winning in the marketplace.

The physical/digital convergence will have retailer operating model and people implications. It will require frontline retail teams to be retrained and/or restructured, focusing on establishing new priorities that are relevant across multiple types of shopping experiences. Reallocating associates to act as online/video product experts, remote customer support or order fulfillment expeditors are some likely options.

Personalizing the Shopping Experience Using Data

Consumers are increasingly being marketed to by a broad range of organizations (including retailers) via the delivery of personalized experiences in a variety of the digital environments they frequent, including newsfeeds, entertainment and social platforms. Through digital advertising and individualized consumer targeting, retailers have found creative methods of remaining competitive by offering tailored and unique shopping experiences that both drives engagement and builds customer loyalty.

Companies are also beginning to provide personalization through product customization. By leveraging new technologies, retailers can offer a “mass-customization” option to consumers, which enables brands to offer a bespoke product without sacrificing speed or margins. For example, with the adoption of 3-D printing, companies are able to offer customers the option of providing input into the design of the product they want to order. Sporting goods retailers – including New Balance, Reebok, and Adidas – have partnered with tech companies to offer custom shoes which incorporate 3-D-printed components, delivered in a matter of days, not weeks or months.

The demand for personalization goes beyond product choice, as consumers seek unique experiences that fit their preferences and lifestyles. As capabilities evolve, smart retailers will employ advanced analytics in order to gain deeper insights into consumer preferences, allowing more effective customer segmentation while also building feedback loops to ensure design and allocation decisions are aligned with their consumers’ needs. Where data was traditionally leveraged solely to drive stock and marketing decisions, increasingly detailed customer profiles and “segments of one” have expanded the personalization opportunities from targeted emails to entirely customized online interfaces and unique assortment building for individual shoppers.

The ability to execute at this more granular level has been accelerated by the explosion of data in the last few years as mobile penetration has increased. Previously, demographic and point-of-sale data were the main drivers of consumer analytics, however, retailers can now combine multiple other data sources, including psychographic and ethnographic data, geo-analytics and device data, wallet and loyalty program data, and service consumption and customer service interaction data. These data sets will increasingly be employed to build the "360-degree view" of individual consumers, which will then be utilized to micro-target potential customers.

Retailers will not only personalize their online business using big data. The "brigital" model also requires use of deep analytic capabilities to re-configure physical stores into "experience centers," allowing the creation of a differentiated, "in-store experience" to drive retention and loyalty. This means converting stores into a curated set of brand experiences. One early example is the way Apple has designed its Apple Stores, which offer a signature brand experience focused around the provision of expert-level customer service through the in-store "Genius Bar." This creates demand for customer support, while simultaneously encouraging customers to more deeply engage with their products. In order to survive, brick-and-mortar retailers will have to quickly grapple with how to reposition their physical offerings, identifying what their customers want, and ultimately reconfiguring store formats and locations to adhere to these new demands.

Prioritizing Socially Conscious Retailing

As retailers seek to create deeper relationships with their customers, they are increasingly being judged in the context of social and ethical priorities of their consumers. With product discovery and brand preference established in a wider context than ever before, retailers must place a greater focus on the implementation of their CSR and ESG agendas. Rising social consciousness, combined with greater product variety, means customers are deliberately choosing to support companies that align with their social values. For a growing number of consumers, supporting specific retailers is becoming a political, ethical, and social statement, not just a simple product choice.

"As retailers seek to create deeper relationships with their customers, they are increasingly being judged in the context of social and ethical priorities of their consumers."

As a result, companies must position themselves favorably among their target customer base, actively using social media channels to push positive brand narratives. Nike is in the vanguard for this, releasing regular campaigns that address current social issues, including taking a leading role in the Black Lives Matter movement well before other major corporations engaged in the topic.

Beyond social and ethical considerations, consumers are demanding more in terms of environmental sustainability. Many have started voting with their wallets, leading to the rapid growth of secondhand retail. For example, the clothing resale market in the U.S. has grown 21 times faster than new apparel retail in the last three years, as customers have sought alternatives to "fast fashion."

The Digital Demand Chain

For companies trying to reposition their customer propositions for the booming digital economy, traditional retail supply chains are a bottleneck. Their long lead times, high capital investment, and substantial inventory requirements no longer provide the tools to compete. This has only become more apparent during the pandemic as retail traffic has plummeted. Consequently, many retailers who had already placed orders for their summer stock in Q1 2020 (or before) had to alter or cancel releases. This excess inventory created stock gluts, drove greater discounting, and placed under-capitalized firms at the risk of insolvency.

To successfully adapt, retailers must transform their supply chain into a "digital demand chain." This model of ongoing demand sensing will enable retailers to align real-time consumer insights to agile, flexible sourcing that can adapt to the ever-changing retail environment. The demand chain avoids the main problems of the traditional model – inventory and markdown risk – by better understanding customers' preferences and leveraging digital tools to enable shorter planning windows.

At the heart of this understanding sits the improved integration of customer data, collected and analyzed in real-time across all physical and digital engagements. With the wealth of customer information already being captured to drive personalization, retailers can leverage their analytics capabilities to inform their manufacturing, inventory, and logistics operations.

Digital marketing has similarly opened up a plethora of opportunities, both for data collection and location-agnostic customer engagement. Campaigns run on the internet, and social media can be targeted to the appropriate audience and interwoven into their personally curated feeds. Consumers interact with these advertisements immediately, placing orders digitally within minutes. This shortens the time between campaign inception and sale of product, creating a real-time feedback loop regarding customer preferences for both marketing and sales teams - a critical input for a company's flexible back-end operations.

The digital demand chain also rewards businesses for speed. In the old model, it can take more than nine months to deliver products from design to the store. Reliance on demand forecasting, often up to one year in advance, results in inflexible operations, with decisions made with limited visibility into demand, high inventory intensity, and significant warehousing investment to hold the inventory. Unexpected negative shocks to this model of operation have serious implications on the economics of the business, as they can be left with a significant amount of aged inventory.

This inefficiency has led to margin degradation and the rise of self-competing off-price retail that continues to gain share of consumer wallets. Countering this risk requires investment in faster fulfillment capabilities, adjusting design calendars while cutting production lead times by 40-60% to reduce inventory intensity and markdown risk. The growth of the internet, drop in cloud storage costs, and increasing use of API-based integration between systems enables real-time information flow which makes agile adjustments in production and logistics schedules across the supply chain increasingly feasible.

But this alone is not enough. Businesses are also able to further drive down lead times by enhancing sales through their online platforms and shipping directly to the customer rather than waiting for inventory to be sold in-store. This shifts the distribution from a "push" to a "pull" model, allowing demand to drive production, with supply chains shifted to facilitate loose-pair and drop-ship distribution.

However, this cannot be achieved with retailers' existing logistics operations. Instead, companies must review and reconfigure their distribution footprint to cater to specific categories and geographies. In many cases, as the need to hold inventory declines with better demand sensing, this will mean closing large central warehouses and relying instead on multiple, smaller distribution centers closer to the end consumer, including re-designating some stores (or parts of some stores) as local distribution centers, cutting down delivery times and delivering on the consumer's expectation for speed.

Amazon has set the standard for rapid response delivery, but in so doing has raised customer expectations, both on speed and price. This is a challenge for many retailers, for whom low AURs and compressed gross margin cannot cover the costs of a competitive delivery model. Instead, they must seek alternatives. One answer could be recent innovations around collection – e.g. curbside pick-up and in-store collection – which blend the physical and digital shopping experiences, while still providing the convenience of rapid delivery. These can draw customers into redesigned physical stores that provide the experiences and services central to future retail success. We will see the more forward-looking retailers driving digital- and data-led innovation in order to drive further cross/up-sell at the curbside as it becomes an increasingly relevant and salient customer touchpoint.

Smaller organizations will likely continue to struggle to keep up with this decentralized delivery model, as they lack access to the distribution networks of their larger competitors. To address this, niche players can partner with the larger platforms who provide various infrastructure such as payments and distribution architecture.

Additionally, businesses should also look to refine their manufacturing and production centers. By leveraging the recent technological advancements which are cutting down production times, companies can further reduce the design-to-store cycle and create the ability to restock their supply chain based on a real-time view of customer demand.

Lastly, the impact of COVID-19 has highlighted the value of manufacturing diversification. The global pandemic has brought into focus the risks of consolidated supply chains susceptible to localized disruption. As such, spreading risk is becoming an increasing priority in order to protect against future shocks. Indeed, this is becoming a matter of public policy, as well as retailer concern. For example, the Japanese government has decided to financially support diversification by committing $2bn to moving large parts of Japanese multinational corporations' manufacturing operations out of China.

Conclusion

As the digital economy booms, customers are changing the way they shop and interact with retailers. COVID-19 has further exposed the weaknesses of the traditional retail model, which relied on high footfall, high inventory intensity and a multi-tiered warehouse-centric distribution model. Retailers must adapt to remain relevant by re-imagining their physical and digital propositions; adopting a digital-first approach to create a unique customer experience by offering personalized products and services; and re-designing their supply chain into a fast, flexible demand-sensing chain that continually adapts to changing consumer preferences. This is likely to mean a radical overhaul of the existing logistics operations and a comprehensive review of footprint configuration (across store, warehouse, and supplier footprints), accelerated closure of redundant locations, the restructuring of back-end teams, and increased reliance on data and analytical capabilities to enable real-time insights and agile decision-making.

The Disruption and Transformation of Business Travel

Matt Lovering, SENIOR MANAGING DIRECTOR, TENEO

The twentieth century heralded a revolution in personal mobility. In 1900, the average American travelled under 700km per annum. By 2000, that had increased to over 25,000km per annum, with over a quarter of the total increase coming in the last 25 years of the century, driven almost exclusively by higher levels of income rather than significant technological change.[3] At the turn of the century, there was a consensus across transport planners that the demand for travel was linked to GDP, and as the world became wealthier, so the demand for travel would continue to increase.

"In 1900, the average American travelled under 700km per annum. By 2000, that had increased to over 25,000km per annum."

The first 19 years of this century challenged that assumption. Overall levels of travel per head – at least in the most advanced of economies – appeared to be levelling off and there were even suggestions that Europe may have reached "peak car" as the demand for travel began to fall and people began to return to more sustainable modes. For example, in England the average person made 6% fewer trips in 2018[4] than in 2000, despite GDP / Capita increasing by 20% during that time.[5] It became clear that the demand for travel might not continue to increase with income.

But if there was a gradual realisation at the end of the last decade that the demand for travel may not increase forever, nobody anticipated that it would collapse completely. The COVID-19 lockdown brought reduced levels of personal mobility not seen since the introduction of the railway. During lockdown periods, travel fell between 50% and 80%

3 Long-Term Trends in Domestic U.S. Passenger Travel: The Past 110 Years and the Next 90 Andreas W. Schäfer
4 UK National Travel Survey 2018, table NTS0101. Total trips per person fell from 1051 in 2000 to 986 in 2018
5 UK ONS UK Real net domestic product per capita CVM SA. GDP / Capita increased from £22,043 in 2000 to £26,497 between 2000 and 2018

across every major city in the world. Even as economies began to reopen, the overall demand for travel remained curtailed; people were advised to avoid public transport and the world's airline network remained a fraction of the pre-lockdown levels.

The COVID-19 lockdown brought reduced levels of personal mobility not seen since the introduction of the railway.

During the lockdown periods, travel fell between 50% and 80% across every major city in the world.

Initial market research suggests that many people have been happier to give up short distance, day to day travel than expected. For example, research by the University of Amsterdam has found that over 60% of people who previously drove to work say they have not missed having to commute, over half of people who had not previously worked from home had become more positive about the experience as a result of the lockdown, and (perhaps most significantly) only 60% think they will go back to working full-time from the office when the crisis is over.[6] Flash polling and market research shows similar sentiment across Europe and North America.

In short, the pandemic pushed significant parts of people's work and social lives online, removing some of the need to travel in the process. As the pandemic recedes, people will re-engage with the physical world, but the changes of 2020 can be expected to have a material legacy. Now, the question is not whether the demand for travel has plateaued, but rather how to adjust to a world where travel becomes optional.

The Key Trends Shaping Demand for Travel

The pandemic-induced lockdown highlighted the difference between those who could work remotely, and those whose duties required physical presence. The likelihood increased that higher paid white-collar jobs would be completed remotely, whilst lower paid blue-

6 What can we learn from the COVID-19 pandemic about how people experience working from home and commuting? - by Ori Rubin, Anna Nikolaeva, Samuel Nello-Deakin and Marco te Brömmelstroet, Centre for Urban Studies, University of Amsterdam

collar jobs required people to continue to travel. This distinction is likely to continue to hold in the post-lockdown world, where travelling to work becomes an option for people on higher incomes but a necessity for those in frontline and manual jobs. As a result, it is likely that those people with the lowest incomes will become those who have to pay for transport, and the market will become more price sensitive as a result.

45%

of people think they will work more flexibly in the future, either choosing to work fewer than five days a week from the office or alternatively changing the times when they work

Even when people do begin to return to offices and reengage with the physical world, travel patterns are likely to be more flexible. Research by YouGov indicates that 45%[7] of people think they will work more flexibly in the future, either choosing to work fewer than five days a week from the office or alternatively changing the times when they work. This creates a double-edged sword for transit agencies and transport operators. The risks are obvious; that increased flexibility will reduce farebox revenue and create significant downward pressure on revenue. However, the opportunities could be substantial. Across transit agencies in the U.S., demand in the peak hour tends to be more than double that seen during the off-peak hours, and agencies incur massive infrastructure costs to meet that peak. If flexible working offers a way to spread demand more smoothly across the day, then capacity crunches can be avoided, massive infrastructure spend can be deferred, and the business case for transit schemes would be revolutionised as a result.

However well these schemes are managed, the fundamental reshaping of demand will create significant pressures on farebox income across all modes of transport. The revenue challenge will be particularly acute given the challenges that transit systems were already under. In 2016, transit systems in the U.S. covered only 36% of operating costs through farebox revenue[8] and even in Europe, where ridership and fares are higher, few systems exceed 70%.[9] Systems were already being disrupted by new mobility – transit agencies in the U.S. found that the introduction of rideshare systems such as Uber reduced the demand for conventional

7 Almost half (45 per cent) of workers expect to work more flexibly after lockdown restrictions on UK businesses are lifted, according to research; The survey, conducted by O2, ICM and YouGov, predicted employees will be reluctant to give up working remotely after lockdown, with many believing their employer will permanently change their approach to flexible working as a result of the crisis. A third (33 per cent) of respondents expected to work from home at least three days a week after lockdown, and 81 per cent expected to work remotely at least one day a week.

8 2016 National Transit Summary and Trends, Office if Budget and Policy, October 2017

9 See detailed network by network sources consolidated https://en.wikipedia.org/wiki/Farebox_recovery_ratio

mass transit by 1.3% per annum.[10] Against this uncertain backdrop, the combination of the initial demand shock from COVID-19, the likely economic impacts of the forthcoming recession, and the long-term reduction in the demand for travel could precipitate a user funding crisis for mass transit. However, facing significant fiscal shortfalls from falling tax revenue and an increased welfare bill, it is not clear that city authorities will be able to step in and fill the gap.

It is not only mass transit that has been significantly disrupted by the pandemic and can be expected to change as a result. During the three months of the lockdown, car traffic in New York fell by up to 60%, in London by up to 70%, and in Tokyo by 40%.[11] With the fall in traffic came a corresponding fall in nitrogen dioxide and other pollutants. The health benefits of this reduction will be remarkable. The Centre for Research on Energy and Clean Air estimate that the 40% reduction in nitrogen dioxide levels seen across Europe will have saved 11,000 lives and prevented 6,000 cases of asthma in children.[12] Achieving such benefits during the lockdown highlights the negative externalities of the internal combustion engine. The pressure to maintain “clear air” whilst supporting a return of mass car travel can be expected to force significant change upon the car industry. Any such change will also highlight that the current funding solution is untenable, and that a reliance on fuel tax is unsustainable as engines become more efficient and inconsistent with a commitment to support the rollout of electric vehicles.

The most significant changes to travel are likely to be felt in the commuting and shopping markets, and the urban transit networks which have sprung up to serve that demand. However, long distance travel will not be immune. Over the next couple of years, economic uncertainty and the pressure on incomes are likely to suppress the demand for travel as has been the case in previous recessions, but as the economy recovers, so leisure travel may be expected to return. The future of business travel is more uncertain. Physical meetings, conferences, and events will restart once COVID is controlled, and business travel will return as a result. However, the nature of that demand will change. Ninety-five percent of C-suite executives think that COVID-19 is going to cause companies to reconsider the need for travel or in-person meetings,[13] and even if the vast majority of business activities go back to face to face interactions, volumes may

10 Understanding the Traffic Impacts of Uber, Lyft University of Kentucky
11 COVID-19 Mobility Trends Report, Apple
12 “11,000 air pollution related deaths avoided” CREA, Lauri Myllyvirta and Hubert Thieriot
13 Azurite Consulting, Study on the Impact of Covid-19 on Business, Decision Making, Spending & Recovery. Survey of 4,5000 Respondents collected between April 17th and April 24th 2020

not fully return to pre-pandemic levels. Where passengers are still travelling, airlines, airports, and their supply chain partners will need to tailor their offerings to reflect a more discretionary and cost-conscious customer base.

95%

of C-suite executives think that COVID-19 is going to cause companies to reconsider the need for travel or in-person meetings

Implications for the Business World

Duty of Care

The increased awareness that only frontline workers have to travel, combined with the ongoing financial pressures on public authorities to deliver safe and reliable transport to and from work, will escalate the issue of mass transit up the CEO's agenda. Businesses will no longer be able to take for granted that their employees will have a cheap and reliable way to get to work, and business leaders will need to get more involved in the transit debate as a result. The "duty of care" concept may extend to begin the moment that staff leave home, rather than when they arrive at the workplace, and companies will have to get more involved in ensuring that there are safe, affordable, and sustainable travel options for their frontline staff. As businesses think more about how their frontline staff get to work, their expectations from public stakeholders will increase as well. Cities, which are courting desirable high-growth businesses – as was seen with Amazon's second HQ in 2018, for example – will need to demonstrate how their transport network will be resilient enough to provide for the future workforce.

"The 'duty of care' concept may extend to begin the moment that staff leave home, rather than when they arrive at the workplace, and companies will have to get more involved in ensuring that there are safe, affordable, and sustainable travel options for their frontline staff."

Demand Management

As companies and cities take a bigger role in determining how people travel to work – and indeed travel around cities – one might expect an erosion of personal freedoms about how travel decisions are made. Keen to "smooth the peak" to avoid costly infrastructure investment, cities will take a more active role in managing demand, whilst the CEO's "duty of care" obligations will lead them to have greater influence over the travel choices of their staff. These forces, when combined with the increased sophistication of journey planning tools, will create a greater emphasis on managed mobility. Rather than being presented with a map and left to fend for themselves, travelers will be provided with detailed journey plans for their trips, ensuring that they take the optimal route to reflect the available capacity, and presented with higher prices should they wish to deviate from the recommended option. As with any major technological innovation, the benevolent forces of such a change could be dramatic, driving a step change in the accessibility, usability, and capacity of mass transit networks. At the same time, these opportunities will need to be balanced against the risks to privacy and personal choice, and the scope for increased stratification of society that will come with active demand management.

Revenue Streams

As the need to travel to work becomes more concentrated on lower income groups, the cost of transit will rise on the political agenda. Transit agencies facing funding crises will no longer be able to rely on higher income commuters covering the shortfall through higher fares. Even where they attempt to increase the revenue contribution of the farebox, agencies are likely to find that passengers simply cannot afford to pay and either find alternative ways to travel or exploit increasingly inventive approaches to avoid paying. Without recourse to additional public funds, transit agencies will need to look to third party revenue streams to create additional income. To achieve this, passengers will no longer be seen simply as customers, but rather be regarded as a captive audience – ready to receive a wide array of highly personalized advertisements and happy to sacrifice their data on personal travel movements in return for subsidized travel. As the ability to manage people's travel is combined with the rights to monetize their travel experience, transit will become a new battleground for the giants of big tech and receive a funding lifeline as a result.

High-Speed

Globally, the pandemic may accelerate the adoption of high-speed rail. Over the last 15 years, China has placed high-speed rail at the heart of its strategy for economic growth, building the biggest network in the world with over 25,000km of dedicated high-speed rail lines since 2008. Whilst there may be a case to focus on emerging technologies such as hyperloop, high-speed rail offers an intermediate solution which will deliver a step change in connectivity necessary to stimulate growth, whilst at the same time reducing the carbon costs of long-distance travel. Already in the UK, the controversial HS2 scheme has been approved during the pandemic, with the notice to proceed given to contractors on 15th April 2020 (22 days into the UK's lockdown), whilst the Vienna Institute for International Economic Studies has recently put forward proposals for major expansions to the European high-speed network[14] and there are now proposals in the U.S. being advanced by Rep. Seth Moulton for a $240bn investment in a national high-speed rail network to create over 2.6m jobs.[15] The combination of a strong lobby movement, proven technology, and a number of "shovel-ready" proposals means that the sector is likely to continue to gain momentum.

Sustainable Aviation

Any expansion in high-speed rail would also have implications for the aviation sector, and indeed, there is already evidence of this shift in emphasis. For example, in France, one of the conditions of Air France's €7bn bailout has been that it stop operating domestic services which could be served by the TGV[16] network. When combined with the potential for further growth of the Flygskam "flight shaming" movement, the economic, social, and environmental pressures could precipitate major changes in aviation – especially on

[14] How to Spend it: A Proposal for a European Covid-19 Recovery Programme, Jerome Creel, Mario Holzner, Francesco Saraceno, Adrew Watt and Jerome Wittwer, Wiener Institut fur Internationale Wirthschaftsvergleiche

[15] Plans released outlining $240 billion investment into U.S. high-speed rail, Global Railway Review, 21st May 2020

[16] Coronavirus aid: Air France 'must cut domestic flights to get state loan', BBC Website 4th May 2020

shorter routes. As the industry looks to maintain government support to survive the short-term economic headwinds and needs to adapt to meet the expectations of its customer base in the long term, so the goals of the industry as a whole to become carbon neutral will need to become more ambitious and substantive and the willingness of some airlines to become "first movers" could become a major source of competitive advantage.

Considering the trends in transport at the beginning of 2020, one might have been able to foresee most of these trends, as the growth of digitization and the increased importance of environmental concerns were evident for much of the last decade. But each of these factors would have previously been viewed as a long-term consideration which could have begun to have an impact by 2030. The events of the pandemic will accelerate this timescale in a way which would have been inconceivable in January.

The Year of the Virus: Testing the Resilience of Global Supply Chains

Tim Burt, VICE CHAIRMAN, TENEO

Manishimwe Claudine has never heard of Helsingborg, much less visited the town on Sweden's south coast. After all, it is almost 7,000 kilometres between her farm in Rwanda and the Zoégas coffee factory in Scandinavia.

But Swedish coffee drinkers can read all about 20-year-old Manishimwe's organic farming methods using Blockchain technology. On their packs of Limited Edition Summer 2020 Blend, Zoégas customers can scan a QR code to get information on where the coffee beans have been grown, when they were picked, when and where they were shipped, and finally when they were roasted and packed in Helsingborg.

The initiative between Nestlé, owner of the Zoégas brand, and the Rainforest Alliance, is one of the latest examples of growing digitization and transparency in global supply chains. As a result, the project is being monitored with interest by commodity traders around the world.

If supply-chain transparency is shown to influence purchasing decisions for coffee – the second most heavily traded commodity after oil – then producers of other high-consumption products could follow suit. "The benefits include the ability to share data among farmers to support decision-making, the ability to identify supply chain risks, and the potential to enhance the quality of certification audits," says Marcus Schaefer of the Rainforest Alliance.

The digitization of supply chains has been accelerating since the beginning of the Millennium. From coffee to oil, and from car parts to aerospace, the first 20 years of the 21st century has seen supply chains transformed with data-collection and digital tracking being used to develop more sophisticated purchasing systems; to enhance just-in-time deliveries; to rebalance logistics and inventory management; and to provide greater visibility on sustainability and ethical sourcing.

But the prevailing orthodoxy of supply-chain management – to lower costs and improve margins – has this year been challenged by the global economic shock of the coronavirus pandemic.

"Not long ago, optimizing cost and time was the overarching objective in the design of global manufacturing footprints, supply chains, and logistical support. Often, that meant concentrating production in high-volume factories in one or two low-cost nations. Inventory and excess capacity were equated with waste," says François Candelon of Boston Consulting Group.

The Pandemic Effect

In a recent report on the supply-chain impacts of the pandemic, he added: "Recently, rising economic nationalism and trade barriers began forcing companies to rethink their supply chain strategies and rediscover the merits of redundancy. The COVID-19 crisis, which has disrupted global supply chains, has moved redundancy higher up on companies' agendas as a means of reducing risk and weathering the next global shock."

The pandemic has forced supply-chain managers and purchasing executives to rethink sourcing to minimize the threat of parts shortages. But this rethink is not virus induced. It was already underway before the full economic impact of the pandemic became clear.

In multiple sectors from telecommunications to retail, original equipment manufacturers have been preparing for an era of disruption unrelated to the looming pandemic-induced healthcare crisis.

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For more than a year, purchasing managers have been drawing up plans to revise sourcing and secure vital inventory to offset inter-related geo-political issues.

Growing tensions between the U.S. and China, with reciprocal trade sanctions imposed by Washington and Beijing, has forced a reassessment on sourcing.

"Companies have been diversifying supply chains away from China in recent years to limit tariff risk, and some are also working to reduce product manufacturing costs or passing along cost increases to customers to mitigate tariff expense," according to Fitch, the credit ratings agency, which also told clients recently: "Risk is also somewhat mitigated by lower inventory requirements across many categories as retailers adjust to lower levels of demand in the near term."

Similar reviews have been taking place in Europe, with the UK preparing to exit the EU single market and customs union. Likewise, companies in the U.S., Mexico, and Canada were already preparing for changing import-export regulations with the new U.S.MCA system replacing the long-running NAFTA arrangements.

Alongside preparations for these changing trading relationships, some sectors went into the pandemic already adjusting inventories for slowing consumer demand. Other sectors have been changing their ordering patterns to meet new regulations, particularly with regard to environmental and sustainability legislation.

If companies were already digitizing supply chains ahead of the pandemic, and if multiple sectors were already preparing for disruption caused by trade sanctions and new tariff regimes, it raises the question about the state of readiness and levels of exposure in different industries for the scale of the shock caused by the prolonged lock-downs in many countries.

Clearly, the pandemic has hit supply chains in different countries and industries to varying degrees.

Lessons to be Learned

For companies looking for lessons to learn, and what to avoid, the best-case studies probably lie in bellwether industries that are, one way or another, leading indicators of wider economic activity.

Taking different ends of the consumer spectrum, it is instructive to look at the pandemic impact on supply chains in food production – arguably the fastest of all fast-moving consumer goods – and on car production, with vehicles tending to be an intermittent, high-value purchase.

In both industries – one involving generally low-priced items; the other the most expensive item of expenditure after a person's home – the respective supply chains are long, geographically dispersed, and ultimately dependent on crucial and sometimes scarce commodities.

In food production, immediacy is the key. Supply chains are determined by speed of low-value products from farm to shelf, which carries its own range of data and logistics issues.

In car-making, by comparison, the supply-chain process is driven much more by reliability of long-term supply of high-value components, involving huge interdependency of so-called tier-one to tier-three suppliers.

The supply chain between farmers and food stores has long been an exercise in precise time management, with large-scale distributors acting as intermediaries between producers and sellers to ensure that supply meets demand.

As McKinsey noted in a recent paper on food industry reactions to the pandemic, "The distributors run an optimized and stable supply chain, with upstream orders coming in that anticipate downstream orders going out."

In this sector, the consultants rightly concluded that margins depend on there being a steady flow in both directions and having only a subset of products in inventory awaiting orders. But this routine has been thrown into disarray by consumer behaviours during the coronavirus shutdowns. With fewer customers visiting supermarkets, and with demand spikes for certain products such as toilet roll upending all previous modelling, it has become much harder to manage stocks and adjust supplies of perishable foodstuffs.

In farming, at the top of the food supply-chain, changing consumer spending habits could force landowners to change what they produce. "The dilemma farmers face is whether they should change crops; plough ahead with planned crops, hoping for a return to normal; or exit production entirely," says McKinsey. "For many value chains, crops can be returned once rotations are complete. For value chains in areas such as dairy, it can take years to recover production after farmers decide to reduce herds."

In some countries, farmers are reportedly taking extreme measures to deal with excess product that they can't sell: breaking eggs, spilling milk and ploughing under crops. Analysts warn that if farmers go a step further to reduce capacity, such as eliminating hens or culling herds, this could impact overall supply-availability, with a knock-on impact on prices when consumer demand returns.

Scarcity of Migrant Labor

All of the aforementioned challenges have been compounded by the pandemic coinciding with new immigration policies in some industrialized countries, which is both reducing and disincentivizing migrant labor.

Ahead of Brexit, farmers in the UK have warned of a reduction in low-wage crop-pickers from eastern Europe as Britain prepares to introduce a new points-based system for foreign workers.

In the U.S., large parts of the farming industry and food-processing sectors are dependent on migrant workers. With borders locked down and visa programs becoming more restricted, industry experts predict it will be challenging to find workers, even at a premium, as people avoid close-quarters activities and limit their own exposure risk. Since worker wages are already a significant cost factor for farms, the pandemic may further strain farm economics if they have to replace low-wage migrant labor with higher-cost domestic workers.

At the other end of the industrial spectrum, large industrial manufacturers are also re-examining their supply-chain systems. In multiple production sectors, companies are checking that supply chains can adjust for the unexpected way that the pandemic has reduced component availability and restricted cross-border trade.

> *"In multiple production sectors, companies are checking that supply chains can adjust for the unexpected way that the pandemic has reduced component availability and restricted cross-border trade."*

Even before the virus hit, leading automotive manufacturers have spent years trying to cut costs by removing complexity and by seeking to automate component purchasing as much as possible. That process is logical in times of reliable and competitive parts availability. But when any one part of the interconnected supply chain ceases to function, the whole system can grind to a halt.

"Supply-chain disruptions can cause a cascade of downstream process delays and bottlenecks due to lean inventories," according to credit-rating analysts at Fitch. It warned recently that manufacturers such as Ford and GM could be forced to extend production shutdowns because of their dependence on component suppliers in Mexico, where the government this summer limited employee attendance to 50%.

Auto Sales Resumption

Ironically, the imposition of the shutdowns may not prove to be the biggest threat to the automotive industry. Instead it has enabled purchasing managers to revisit the efficiency with which supply chains are managed. With no cars being sold from dealer forecourts, with assembly lines halted and with sharply reduced inbound component-deliveries, purchasing managers could use the breathing space to consider what may be a potentially bigger challenge: how to restart production and resume sales.

Fortunately for carmakers, the resumption of production has so far been gradual with only selected plants returning to work. This meant that suppliers could adjust components specifically for the models that dealers were calling for. "The priority is to make sure that we can build the cars that are being called for by our sales channel," says the head of purchasing at one leading automaker. "We first must determine which models can get sold and then ensure we can resume sourcing of all the necessary parts. There's no point in producing a car that's got a bit missing – it just needs one part missing and the car's no good to anybody."

Automakers are, therefore, taking additional steps to reduce supply chain complexity and to reconsider the range of options that they offer to customers. Jaguar Land Rover, for example, found that customers in Brazil typically only ever ordered vehicles in six different colors although it offered them more than 50 shades of paint.

Taking the opportunity created by the pandemic, Jaguar Land Rover is looking to reduce complexity on future models. Ian Harnett, global head of purchasing at the British carmaker, says: “The real time you save the money is on the new models. Once you’ve actually introduced a color and a template and an option, you’ve spent all the money on making the tools, doing the development, doing the tests, the validation work and you’ve got the parts. But the real saving is by not doing it in the first place. So, this is where we’ve got to really take learning on what customers really want and embed that into the new models. If we do that, it saves on engineering time and effort, saves on supplier time and effort.”

Harnett argues that major crises often prompt such re-assessments and rethinking of product complexity, and whether certain supplies are really necessary.

He cites the 2011 Japanese tsunami and earthquake, which flooded the only plant in the world producing specialist metallic paint-pigments. Jaguar Land Rover reacted by introducing new chemical processes to reduce their dependence on the Merck-operated paint factory, which was offline for months due to its proximity to the explosion of the nearby Fukushima nuclear reactor.

“We got our chemists to thin out the amount of pigment that went into the paint, so we had enough to get through without halting production,” recalls Harnett. “And with less pigment we were able to claim the cost savings. We got cheaper paint, so a good thing came out of something bad.”

Other manufacturing companies are now examining whether there are lessons to be learned from what many are calling the “messy rebalancing” of global supply chains.

It seems clear that the economic shock of 2020 will accelerate several major trends that were already well underway before the pandemic, and this will continue as companies shift their focus to recovery. As a result, management consultants are predicting that some manufacturing industries will shift from heavily concentrating sourcing and production in a few low-cost locations to build more redundancy into their value chains.

But that spells a problem for most purchasing managers, who equate redundancy with waste, especially if it involves holding excess inventory or dual tooling. In order to minimize such costs, companies in different sectors are now accelerating their use of artificial intelligence and machine-learning to manage supplier arrangements.

One leading automaker is applying algorithms and AI to streamline purchasing decisions, enabling its specialist managers to focus on securing higher-value materials. Others are building resilience into manufacturing operations and supply chains, while at the same time minimizing cost and seeking to protect margins.

The Promise of AI

Analysts say that smarter application of AI will enable manufacturers to optimize cost in each factory through predictive maintenance and better planning. It could also allow them to operate a larger number of small, efficient facilities nearer to customers, rather than a few massive factories in low-wage nations. These smaller facilities are likely to involve greater deployment of advanced manufacturing technologies such as 3-D printing and autonomous robots that require fewer workers. New data systems are also being introduced to ensure supply-chain resilience in ways that protect business continuity, technical capabilities, data security, and inventory practices.

Among such systems, Bureau Veritas, the European provider of testing, inspection, and certification services, recently launched what it calls its “Supply-R” solution to help companies ensure supplier network reliability. It says that the data tool will provide a customized risk assessment of supply chains. The system is based on field data collected from independent on-site verification of critical suppliers, which will provide visibility to support business decisions and minimize the risk of shortages.

In a similar step, C.H. Robinson, the U.S. logistics group that has almost $20 billion in freight under management, and which makes 18 million shipments annually, has recently teamed up with Microsoft to deploy its Azure software to measure factors such as temperature, shock, tilt, humidity, light, and pressure in shipments to give customers intelligence about goods as they move through the supply chain. Minnesota-based C.H. Robinson predicts that the supply chain of the future will be smarter, less volatile, and can be navigated with a new level of visibility, which it claims will offer its logistics customers a greater competitive edge.

Taking these innovations together, the first half of 2020 may be remembered as a period of acceleration and deepening of supply-chain digitization. Of course, no company is celebrating the great pandemic of 2020 as a golden business opportunity. The crisis has, first and foremost, been a healthcare and human disaster.

Notwithstanding the terrible loss of life, and the ensuing economic disruption, businesses are now looking beyond the virus to consider how best to manage their supply chains of the future. This means refocusing technology from simply being a cost-reduction tool to being a platform for a more fundamental reorganization in the way supply chains are operated.

Technologies such as Blockchain will be used increasingly to improve verification and responsible sourcing of products, whether it is cobalt for future electric vehicles or for the Rwandan coffee beans that ultimately end up in the Zoégas coffee factory in southern Sweden.

Having piloted such supply-chain digitization with coffee, Nestlé is now applying Blockchain tracking in supply chains for commodities from palm-oil to baby-formula milk. “This open blockchain technology will allow anyone, anywhere in the world to assess our responsible sourcing facts and figures,” says Benjamin Ware, Global Head of Responsible Sourcing at Nestlé. “We believe it is another important step towards the full disclosure of our supply chains, raising the bar for transparency and responsible production globally.”

Board Leadership and Diversity: More Action. Less Talk. What Will it Really Take to Drive Meaningful Change?

Radina Russell, MANAGING DIRECTOR, TENEO
Megan Shattuck, PRESIDENT TALENT ADVISORY, TENEO

As protests in response to racial injustice erupted across the United States and around the world in late spring, many corporate leaders and directors responded by speaking out publicly. Today, there is an expectation for CEOs and directors to do more than speak out.

Combined with the rise of environmental, social, and governance (ESG) investing, the growing acceptance of the implications of stakeholder capitalism and a global pandemic are challenging corporate leadership and boards to do even more to effect lasting change. Today there is heightened public scrutiny and an increased focus on not only the importance of racially and ethnically diverse talent within organizations, but also the racial and ethnic diversity of the board of directors. Investors and stakeholders are demanding companies move beyond diversity statements and toward strategic, concrete actions with demonstrated results to increase racial and ethnic diversity.

"Combined with the rise of environmental, social, and governance (ESG) investing, the growing acceptance of the implications of stakeholder capitalism and a global pandemic are challenging corporate leadership and boards to do even more to effect lasting change."

While some corporate boards have prioritized gender diversity as part of succession planning efforts to choose candidates for board seats, racial and ethnic diversity have not received the same attention. Will the renewed focus on racial equality, public scrutiny, calls for transparent disclosure of accurate data, and the possibility of quotas drive meaningful change in the composition of corporate boards?

Every board has its own dynamic. It is extremely important to have the right kind of leadership “leading leaders” to go beyond “words” and truly improve on diversity. To make an impact and effect lasting change, boards should proactively hold themselves accountable for intentional action into progress regarding diversity in the boardroom.

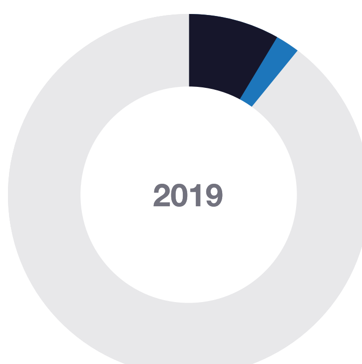
Leadership Starts at the Top

Corporate diversity and board diversity go hand in hand. As of September 2020, there were only four Black CEOs in the ***Fortune 500***. If companies seek to achieve greater diversity, the work must start with the board. The heightened focus on racial and ethnic diversity and pressure to implement meaningful change presents an opportunity for corporations and boards to distinguish themselves and take a leadership role.

Attention, resources, and legislation have been committed to improving gender diversity, and significant progress has been made, with female directors reaching a record 20.4% of director seats on the ***Russell 3000 Index***, according to the Gender Diversity Index report.[17]

The same progress has not been achieved when racial and ethnic diversity is considered – the rate of change is substantially slower. According to the Harvard Law School Forum on Corporate Governance, in 2019 45% of new directors in the ***Russell 3000 Index*** were women (46% of the new class of S&P 500, 432 in total),[18] while only 15% of new directors were ethnic minorities. In addition, in 2019, only 10% of ***Russell 3000 Index*** board directors belonged to an ethnic minority group, up from approximately 8% 11 years prior in 2008, according to the same Harvard study. The number of Black directors, specifically, stood at 4.1% in 2019.

Russell 3000 Index 2019 Director Diversity Numbers



10%
Board directors who belong to ethnic minority

4.1%
Board directors who are Black

The Harvard Law School Forum on Corporate Governance

[17] Gender Diversity Index, 2020 Women on Boards, 2019
[18] 2019 SSBI Index

Boards can expect to be criticized for a lack of diversity and for having similar board members, with similar backgrounds, geographical location, education, and networks. A willingness and interest in diversity does not equal results. To show action with demonstrated results, boards must have available openings. There is still legacy thinking that board service is for a lifetime and a lack of willingness to have the "difficult conversation" to transition a fellow director and "friend" off the board. Even with tenure limiting mechanisms, retirement age limits or maximum terms of service, many directors still look at board appointments as "lifetime" appointments.

A proactive, results-oriented, board succession planning process is not as common as it should be. To accelerate real change at both the board and corporate level, a concerted enterprise transformation approach to diversity with measurable results must be initiated. Companies can and should do this by making concrete commitments and setting timelines for action.

Keeping Score

Over the past decade, study after study has highlighted the lack of gender and ethnic diversity on corporate boards and slow progress in the C-Suite. At the same time, shifting demographics, investor pressure, and a growing body of research has shown that diverse boards and executive teams are more effective and drive better business outcomes. There have been gender diversity quotas in Europe for the past 15 years. For years, governance and academic experts have doubted that quotas will take hold in the United States.

The state of California proved that keeping score works. In 2019, 126 California public companies added 138 women to their previously all-male boards ahead of a December 31 deadline for a new law requiring companies headquartered in the state to have at least one female director. The state has also recently introduced legislation around racial and ethnic diversity.

Announced in January 2020, Goldman Sachs will not take companies public unless the company has at least one diverse board member, with a focus on women, as of July 2020.

Boards' mandates on diversity and inclusion have expanded greatly in the wake of the protests over social injustice. In July 2020, Institutional Shareholder Services (ISS) called on United States companies to disclose the ethnicities of their directors and senior executives. Campaigns to collect ethnicity data for executives and board members at all public companies are being launched by top investment funds. If words do not translate into action, it is not unrealistic to expect legislation and quotas to follow. Additionally, in August 2020, the NYC Comptroller sent letters to a majority of S&P 100 companies, requesting their commitment to disclose the Consolidated EEO-1 Report.

The New Matrix

Most boards do not have a well-articulated succession plan. The scrutiny on board composition and diversity means boards must develop near-, mid-, and long-term succession plans and demonstrate action into results. Boards must also look to shift their talent-sourcing criteria, as the current, and somewhat archaic, standards have resulted in a small and homogenous pool of candidates that misses out on a broader and more diverse pool of talent. Experience as a chief executive officer or experience on a public company board has historically been a must-have credential. While there are merits to having a sitting or recently retired chief executive officer on a board of directors, this has contributed to a lack of diversity in the boardroom.

Boards must look beyond sitting and recently retired CEOs as the primary pool for director talent. Considering executives with experience in technology, human resources, marketing, and risk management, among others, is an action that will have results for underrepresented groups.

“Considering executives with experience in technology, human resources, marketing, and risk management, among others, is an action that will have results for underrepresented groups.”

The current “talent matrix” tool is a widely-used, simple process to identify director skills and experience so gaps can be identified, and the director succession planning process can be managed. While investors are becoming more vocal with their expectations of boards to proactively drive a process that identifies gaps in skills and experience, and an approach to deal with those gaps, the actual matrix has not changed.

Although the climate companies operate in constantly evolves, the matrix remains constant, with active and retired CEOs, CFOs and financial executives, and governance experience prioritized. Skills and experience such as risk management, marketing, legal, and human resources have not shown great gains. Chief Customer and Marketing Officers bring experience in digital transformation, customer relationship management and loyalty, mobile platforms, and omnichannel strategy. This is, for example, very relevant experience for any consumer-facing company.

Today, boards are very focused on issues around talent, culture, and executive compensation. This was not the case two years ago. Boards are increasingly expected to be proactive in setting the tone at the top and shaping a corporate culture that does not tolerate bad behavior, including sexual harassment. As another example of a skillset that has not been prioritized, the Chief Human Resources Officer can help guide management on the potential impacts of COVID-19 on executive compensation across stock market volatility, incentive goals, pay reductions, and motivating employees. Most boards do not have directors with human resources expertise and do not consider that experience as part of its board recruitment process.

BlackRock: “We encourage boards to disclose their views on the mix of competencies, experience, and other qualities required to effectively oversee and guide management in light of the stated long-term strategy of the company…”

Vanguard: “Based on your company’s strategy, what skills and experience are most critical for board members, now and in the future? How does the board plan for evolution and future director selection (that is, for strategic board evolution)?”

The “new talent matrix” will include skillsets previously dismissed. This is an action that can have an impact on diversity in the boardroom. If actioned, we will see more first-time directors bringing experience across human capital, legal, marketing and brand, e-commerce, and risk management.

What Boards Can Do

Leverage an ongoing board evaluation process:

- Review board structures and board processes for compliance of governance requirements.
- Agree upon how to prioritize committee work (high, medium, low).
- Agree upon key criteria, skills, and capabilities for lead director, committee chairs, and full board.
- Review contributions of individual directors, group dynamics, and committee effectiveness.
- Ensure lead director and committee chairs are chosen – and performing - in alignment with agreed upon key criteria and clear expectations for the work expected.

Ongoing succession planning:

- Rotate committee members (including the chair) after five years.
- Rotate committee members based on retirements of directors on the board.

Boards that proactively drive a board succession process will be in a stronger position. This kind of work requires strong leadership by the lead director, non-executive chair, and chair of nominating and governance. Done intentionally, this work will have positive implications on diversity in the boardroom.

Signs of Change on the Horizon

The outlook for long-term change in the corporate world is hopeful. Companies, business leaders, and many others have increasingly progressed towards meaningful action that champions genuine and profound change. One current example of this is the recent launch of The Board Diversity Action Alliance.

The Board Diversity Action Alliance (BDAA) is a new initiative with a mission to take action to increase the representation of racially and ethnically diverse directors on corporate boards of directors, beginning with Black directors. More specifically, the BDAA is leading a focused and aligned effort to quantify, convene, and amplify the work being done to promote board diversity, by building partnerships with the corporate and non-profit community to increase awareness and expand influence. To best serve all stakeholders, companies need to understand their employees' communities and have a clear point of view.

Companies that join the alliance as "signatories" will accelerate change by committing to support a concerted enterprise transformation approach to diversity by integrating talent, accountability, and engagement. More specifically, signatories voluntarily commit to: increase the number of Black directors on its corporate board of directors to one or more; disclosure of the self-identified race and ethnicity of directors on corporate boards; and report on diversity, equity, and inclusion measures on an annual basis.

Teneo is pleased to be a founding member of the BDAA, along with founding partners Ursula Burns, Gabrielle Sulzberger, The Ford Foundation, the Boulé and The Executive Leadership Council.

Diversity of background, thought, and experience at the board and C-Suite level leads to better decision making. Yet, despite the years of focus on diversity, the pace of change has been glacial. If there is to be real change, the "call" to diversify the C-Suite and corporate boards must be more than simply a "call."

If companies seek to achieve true and lasting change, their actions and work will matter more than words. And that work has to start with the board.

Business Survival in a Pandemic Age

Jerome Hauer, Ph.D., SENIOR ADVISOR, TENEO

CEOs are refocusing their businesses to adjust to the world in which we live now. Along with uncertainties about managing digital-era workforces, CEOs fear economic clampdowns that might be prompted by pandemic flare ups. Returning to something close to a pre-pandemic state will not happen soon, if ever. Once vaccines are safely in hand, distribution will be a challenge. Only when 60-70% of the population is immune can there be some level of assurance that a widespread outbreak can be prevented. Decisions made during the pandemic will go through reevaluation as the current environment and horizon change. Continued reduction in revenue, stress on the economy, reduction in workforce, ongoing evaluation of benefits, particularly healthcare, will play out for the foreseeable future. Businesses will need to be nimble in order to survive.

Only when 60-70% of the population is immune can there be some level of assurance that a widespread outbreak can be prevented.

How the Pandemic Began

In late December 2019 a cluster of atypical pneumonia in Wuhan City, Hubei Province, China was reported. There appeared to be an apparent link to a market that sells live animals. Early reports, mostly inaccurate, suggested that the virus was transmitted to humans from civets, snakes, pangolins or anteaters and chickens.

Current thinking is the reservoir for the virus is bats. This was not the first time a corona virus caused infection in humans. Novel corona viruses have been responsible for infections in humans, including an outbreak of severe acute respiratory syndrome (SARS-CoV) in 2002 and Middle East Respiratory Syndrome (MERS-CoV) in 2012.

In record time, Chinese officials identified the virus causing the pneumonia-like illness on January 7. On January 13, Thailand had the first reported case outside of China, and seven days later, the United States had its first reported case. By the end of February and the beginning of March, the number of reported cases spiked in South Korea, Italy, and Spain among others. In Italy, the increase in cases was so dramatic the government placed 60 million people on lockdown or home quarantine. The WHO declared the worldwide outbreak a pandemic on March 11, 2020, at which point the president banned all travel from 26 European countries. Two days later he declared a national emergency. The virus spread was so rapid that by the end of March, there were over 80,000 cases in the United States and Italy, and on April 2, there was more than 1 million cases worldwide.

Like disease outbreaks in the past, there has been an overlay of politics in this pandemic. Unfortunately, dynamics between countries peppered with mistrust, accusations, and leadership vacuums have been seriously impacted. The World Health Organization was accused of being too closely aligned with China and withholding information; an accusation that was later shown to be false. Fortunately, the public health and medical communities maintained open lines of communication to share information. This communication has been critical in managing the outbreak and learning how to better treat patients with the disease.

The speed at which the virus spread caught many government officials off guard, while others failed to heed the warnings of public health officials. In the United Kingdom, the prime minister was slow in implementing public health control measures, causing a sharp rise in the number of cases. In the United States, the president told the public the virus would disappear “like a miracle” and downplayed the threat to the public. With one or two exceptions, governors and mayors failed to take quick action, allowing spread of the virus to continue.

With mixed messages from Washington, governors, and mayors, there was no uniform response by businesses, and most were caught flatfooted with no preplanning for an epidemic or pandemic. Not until governments issued emergency orders were businesses forced to close, most in less than a week’s time. IT departments were forced to ensure their systems had the programs and bandwidth and laptops to allow those employees, who could, to work from home.

Businesses defined as “essential” worked to put policies in place for employees needed to maintain operations.

Price gouging became a problem and remains for some personal protective equipment, hand sanitizers, and disinfectant cleaning products, with counterfeit and untested products flooding the market.

The cost of reopening for some companies has been in the millions. An example is a company that closed offices and manufacturing and warehouse/distribution facilities for over two months. Reopening meant setting up temperature checks and health screening at all facilities. Temperature checks for employees entering facilities were done by trained medical professionals with health screening done through an online application or in a trailer outside of the manufacturing and distribution facilities.

Early in the reopening planning, the company began ordering disinfecting wipes, individual hand sanitizer, automatic hand sanitizer dispensers, and large volume containers of disinfecting solution for use in the offices and stores. Disposable gloves were purchased along with safety goggles for staff handling liquid disinfecting solutions. Masks alone cost over $500,000.

All locations were outfitted with signage reminding staff about handwashing and travel paths in the warehouse and the distribution facility. Signage proved to be expensive, as did putting arrows for travel direction and squares for distancing on floors. In the corporate office, plexiglass shields were placed at desks, and work schedules were arranged so that no employee sat within six feet of another.

Employees were offered the option of continuing to work from home or be placed in a daily split shift that was further split into alternating weeks. At no point was more than 25% of the workforce in the office at any one time. Meeting rooms were only used if a virtual meeting was not practical for the purpose. Visitors were prohibited, and outside meetings were prohibited. The company paid for bicycle parking at their Manhattan locations.

Facility cleaning became an extraordinary cost. Matrons were contracted to do ongoing cleaning of common areas, including restrooms, common areas and high-touch areas. Employees were provided disinfecting wipes to clean their workstations before and after their shift. At the end of each day a cleaning service performed a general office cleaning with disinfecting solution. Daily cleaning at their stores was less of a challenge.

Counters and any other area used by the sales associate were wiped after each customer encounter.

Cleaning at the manufacturing and distribution facilities was challenging and costly. Cleaning staff did thorough cleaning during all shifts in common areas. More thorough cleaning was done at night. High tech electrostatic spray cleaning is only done in areas where cleaning by hand is difficult. We question the effectiveness for spray cleaning, but in limited areas it can be useful.

MERV 13 or higher filters for building ventilation systems were recommended. MERV is the Minimum Efficiency Reporting Value rating system. Ranging from 1-16, it is an indicator of how efficient ventilation system filters are at trapping small particles. The use of ultraviolet light systems in ventilation systems may have some benefit, but data is limited. One gym has investigated the use of ultraviolet light at entry points and throughout the facility. Ultraviolet light is used in hospitals to reduce pathogens. To date there has not been enough data to validate widespread use of ultraviolet light.

Lessons to Heed

The pandemic will hopefully serve as a lesson to corporations. Historically, companies plan for highly-likely events and pay little attention to events like a pandemic that are low probability and poorly understood. If one were to ask corporations with facilities on the east coast of the United States about their planning for earthquakes, few would have such an event listed in the threats they plan for, just like a pandemic. This pandemic may be a preview of a future influenza outbreak similar to the one that devastated the world in 1918. Corporations cannot, once again, turn a blind eye and fail to plan.

Planning to emerge from the current event means reimagining their workforce and facilities. Do staff members really need to be in the office on a daily basis, or can they work from home with an occasional day in the office or a visit to customers when necessary? In the current environment, distance is safety. How do you permanently redesign your manufacturing or warehousing facilities to optimize employee safety by reducing the chance for virus spreading?

What does a permanent personal equipment outfit that meets necessary OSHA requirements and protection from catching the virus from a fellow employee look like?

There's no question that companies are looking at the costs of redesigning and maintaining the new office environment. Permanently reducing the real estate footprint of office space is an option providing a significant cost saving in capital and operational expenses. Providing employees with the necessary IT infrastructure, which would have been provided in the office, is a break even in cost.

Supply chains have been broken, particularly those from Asia. Planning for domestic sourcing, supply lines from multiple regions around the world, or manufacturing your own components will protect from future disruptions. Perhaps pooling your needs and creating domestic supplies with companies in similar industries is a strategy for the future of business.

You now know how you have restructured for the current pandemic. Corporations will need to continue to adjust to changes dictated by public health guidance and rules. Rebound in the number of cases caused by ongoing circulation of the virus could cause new restrictions, including scaling back or once again closing operations for all but essential businesses. In the midst of influenza season, the threat to public health becomes greater, compounding the potential need for public health restrictions.

Significant progress has been made with vaccines. When vaccines are available, the challenge will be achieving widespread distribution, not only in developed countries, but to underdeveloped nations where poor public health practices result in an ongoing reservoir of virus. We have also seen great advances in treating COVID-19, such as better use of drugs and advances in other therapeutics like high concentration hyperimmune globulins used to develop an antibody response. These have saved many seriously ill patients who would have succumbed to the disease early in the outbreak. There is concern that poorer nations will not be able to afford the newest therapeutics, or countries making these drugs will hoard them, limiting availability to the market in general.

"When vaccines are available, the challenge will be achieving widespread distribution, not only in developed countries, but to underdeveloped nations where poor public health practices result in an ongoing reservoir of virus."

Once a vaccine is ready for widespread distribution, compliance with recommendations for vaccination for SARS-CoV-19 and seasonal influenza will impact infection rates and ultimately the number of people who become ill. Unfortunately, there is a large anti-vaccine movement that spreads false information about the adverse effects of vaccination. These anti-vaxxers, as they are called, have convinced some parents that diseases such as autism are caused by vaccines. Many parents have not vaccinated their children against diseases of childhood, and rates of influenza vaccination are lower than desired. A low rate of vaccination against this virus will impact developing herd immunity.

History tells us that a virus jumping from animal to man can be the beginning of a pandemic. The fact that we are negotiating a path through the current pandemic should not lull us into thinking we can let our guard down. In fact, we should aggressively plan for the next outbreak. It could be ten years down the road, or ten months from now. Complacency is no longer an option.

Resilience is a Competitive Necessity: Why the Security Landscape Has Changed Forever

Courtney Adante, PRESIDENT, SECURITY RISK ADVISORY, TENEO
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When these two authors reflect on global events since our last chapter in Teneo Vision 2020, we did not anticipate that a global public health crisis would have dominated the agenda for corporate leaders and thrown economies around the world into tumult. While our observations on continued cyber threat, social unrest, violence, and natural disaster held true, pandemic and health security risk reared their head in a most unanticipated way, confirming once again to always expect the unexpected. As a matter of fact, that mantra should be the foundational approach of any executive with an eye toward risk management.

2020 has exemplified how one silent and invisible threat can re-write the social contract, business best practices, and political and economic priorities on a global scale. While pandemic risk previously seemed to be science fiction fodder, enterprises, governments, and citizens around the world found themselves simultaneously developing, implementing, and enforcing new health security habits and norms, which for some was completely unchartered territory. A new calculus for navigating the public health, operational, and reputational risks of a global pandemic also emerged. From the clinical and epidemiological terminology like "r-naught" values, "co-morbidity," and "moving average" that have entered our vernacular, to the mental gymnastics of deciding whether a subway trip, grocery store run, or a meet-up with family and friends merits the associated exposure risk, we have all become risk managers.

"2020 has exemplified how one silent and invisible threat can re-write the social contract, business best practices, and political and economic priorities on a global scale."

This newfound role for corporate leaders necessitates a new approach towards business continuity planning and resilience. Unlike in the past, when organizations typically based business continuity planning on responding to an assortment of external threats, the events of 2020 make it clear that today's approach must set forth a framework and governance structure that contextualizes an organization's risk exposure based on its specific operations, locations, vulnerabilities, and business objectives and thus its ability to handle an assortment of external threats, as opposed to managing a register of external potential trigger events.

The dynamic and all-encompassing nature of the COVID-19 pandemic revealed the need for a more proactive, systematic, scalable, and multi-disciplinary approach to business continuity planning. While many companies previously tended to develop incident response and business continuity plans specific to particular threats or types of threat, such as terrorism, natural disaster or cyber-attack, such a reactive and "outside looking in" approach left many leadership and operational teams scrambling to implement and scale the appropriate strategies and responses specific to their workforces, facilities, and operations.

This became especially true as the threat landscape expanded beyond public health to include crime and public safety, civic unrest, and reputational risk. Thus, instead of building business continuity plans around specific types of threats, leadership teams must instead adopt a more holistic paradigm, driven by the organization's specific vulnerabilities, rather than the universe of external threats—an inside-out, rather than outside-in approach.

By mapping out the vulnerabilities intrinsic to a company's operations, employee demographic (in the case of COVID-19, "essential vs non-essential") geographic footprint, supply chains and third parties, personnel and business model, leadership teams will gain a more comprehensive understanding of all the strategic considerations and associated communications and operational responses that any business continuity or incident response plan will need to address. With those in mind, they may develop a set of generalized thresholds or triggers for response and corresponding strategic, operational, and communications considerations or actions. While such a framework may require additional expansion to reflect the nuance of specific types of external threats or conditions unique to particular business lines and facilities, it ensures that the enterprise has a baseline ability to respond and flex to address a modicum of threats, varying in impact and likelihood. It also forces the leadership team to identify key challenges and considerations specific to mission-critical operations.

An "Inside-out" Approach

In the sections that follow, we apply this "inside-out" approach to outlining the key tenets of business continuity planning, and then we go on to identify and define the key phases of business continuity and associated elements that business continuity planning and documentation should address. While we draw upon learnings from COVID-19, we've ultimately expanded those learnings to the broader context of natural, manmade, technological, or operational failures or threats within the corporate environment.

Teneo Risk's model conceptualizes resilience as an enterprise or system's ability to recover and rebound from both "acute shocks" and "chronic stresses." Acute shocks refer to the severe impacts on an enterprises' core facilities and infrastructure, personnel, or technology systems, while chronic stresses test the enterprise differently, building over time, often outside the organization's physical boundaries. These more prolonged strains ultimately create long-term challenges for the company's operations and organizational culture.

In today's world, substantial and traumatic events can take the form of anything from climate change-related issues or natural disaster in the form of wildfires, floods, earthquakes, volcanic eruptions, and hurricanes, to a major health pandemic, or terror or cyber-attack. Alternatively, chronic stresses, such as economic downturns, high unemployment rates, sustained high crime rates, or insufficient mobility and transportation systems, tax an enterprise and its workforce slowly, creating vulnerabilities, which, when exploited by acute shocks, can paralyze and ultimately inhibit the organization's ability to fully recover without significant investment of time, resources, and both financial and human capital. Acute shocks may also lead to chronic stresses; for instance, the acute shock of the COVID-19 pandemic has inflicted chronic stresses on to companies, political systems, and the global economy alike as lockdown restrictions persisted, and citizens faced growing uncertainty, fatigue, and personal financial struggles.

Thus, enterprises already facing acute shocks, in turn charged with deploying and managing new health security measures and compliance with a patchwork of public safety regulations, soon faced the compounding challenges of chronic stresses. They had to ensure the health and safety of employees and physical assets in areas with sustained protest activity, while also addressing employee, consumer, and public outcry for social change and greater accountability. These compounding and evolving acute shocks and chronic stresses highlight the need for a business continuity plan and posture that enables a business to manage through new, unforeseen, and increasingly complex and multidisciplinary shocks and stresses. This necessitates a more holistic view of risk, derived from a company's intrinsic attributes and resulting vulnerabilities, rather than focusing more heavily on external threats.

The Resiliency Test

Broadly, a given system's resiliency hinges upon its inhabitants' cohesion. For a company that depends upon its workforce and associated organizational culture, equally important – if not more important than rebuilding buildings, restoring utilities, and repairing infrastructure – is the resolve and willingness of an organization's people to weather both acute shocks and chronic stresses and come together and rebuild, despite an oftentimes painful recovery period. Therefore, the organizational culture and communications that unite a company are just as important as the processes and infrastructure. Therefore, today's truly resilient organizations possess a strong culture, mission, vision, and set of shared ideals that mobilize, engage, and unify a diverse workforce, its consumer base, as well as its other stakeholders.

> *"Equally important – if not more important than rebuilding buildings, restoring utilities, and repairing infrastructure – is the resolve and willingness of an organization's people to weather both acute shocks and chronic stresses and come together and rebuild, despite an oftentimes painful recovery period."*

Answering the Challenge

Resiliency planning should take into account three main objectives:

1. risk assessment, proactive monitoring, and identification;
2. mitigation and agile response; and
3. forward-looking planning.

These three objectives ensure resilience is a continual process, in which anticipatory intelligence—in addition to considerations of an enterprise's unique, internal attributes—figures heavily into future planning. Developing an appropriate governance structure to set standards and provide relevant oversight for the resiliency planning process is key. In order to address the evolving scope of external threats and intrinsic vulnerabilities, the individuals who spearhead and oversee resiliency planning must represent each of a company's cross-functional teams and understand how to make planning and intelligence actionable. Because of the complexity and interconnectedness of various types of shocks and stressors, addressing risks to both traditional physical structures and the growing ubiquity of "connected devices" via the Internet of Things (IoT) — as well as identifying unique ways to leverage the current operating environment and resources available to maximize employee and external stakeholder engagement, innovation, and sustainability — requires perspectives and collaboration from across the organization.

Resiliency development should assess an enterprise's ability to engage frequently, accurately, and transparently with a broad range of stakeholders in order to create a sense of shared ownership in outcomes and decisions. It should also develop a broad understanding of potential sources of acute shocks and chronic stresses to an organization's people, processes, and technologies; identify associated infrastructure and actions for mitigation and recovery with limited support from external organizations or stakeholders; and develop the data sets and platforms for continuously monitoring threats and vulnerabilities within the organization and external ecosystem of consumers, governing bodies, and third parties. Mindful of the importance that a company's intrinsic vulnerabilities play in the "inside-out" approach to resiliency, we note below key areas of focus in the risk assessment process.

- **Geographic segmentation:** Various geographies and locations may be impacted differently or for varying durations and with differing degrees of public sector support or regulation. As a component of the risk assessment process, companies should map out daily operating activities, functions, and geographies — along with interdependencies among people, processes, technology, data, facilities, third parties, and locations, to understand the impacts of localized or global shocks and stressors, and to define the scope of subsequent monitoring and mitigation strategies.

- **Geographic distribution:** Identifying single points of failure, lack of diversification, and resulting risk exposures is key to ultimately filling those gaps. Areas of geographic concentration around operating activities and function, or over-reliance on particular third parties, may inform business continuity planning, calling for the need to segment critical functions or create alternate locations, sites, and staffing plans. Broadly, companies should look to diversify their supplier bases, customers, and third-party service providers across geographies.

- **Current geopolitical tensions or other existing chronic stressors:** Understanding local and global dynamics may prioritize monitoring efforts and location-specific resiliency planning based on locations or operations facing existing or escalating environmental, political, or humanitarian crises or tensions. Against the backdrop of geopolitical "chronic stressors," shocks may be particularly acute—exacerbating existing issues or causing shifts in the balance of power between governments and constituents that would disrupt company operations, supply chains, or consumer bases.

- **Current physical security and cybersecurity vulnerabilities:** Understanding an enterprise's physical and cyber security posture may reveal areas that bad actors may exploit in the event acute shocks or chronic stressors create or compound gaps or divert key resources and attention away from securing them.

- **Workforce attributes:** Specific characteristics or qualifications of an organization's employees may hamper its ability to staff for critical operations or recruit talent in the event of acute shock or chronic stress. Issues such as ability to work-from-home, access to transportation and childcare — as well as employees' potential concerns around health, safety, or company leadership — may increase potential perceived or actual risk exposures for particular subsets of an organization's workforce and jeopardize their ability to perform critical functions.

- **Consumer attributes:** Acute shocks or chronic stresses may impact demand for an organization's goods or services, change the ways that they are distributed to market, as well as the ways consumers interact with the organization's brand. In addition, acute shocks or chronic stresses may change consumer or public sentiments, requiring organizations to revisit their mission, vision, values, and how those are communicated externally.

Mitigation and Agile Response

Upon understanding the full spectrum of an organization's intrinsic vulnerabilities, companies must develop mitigation and response strategies which balance the need for an overarching, fully-inclusive, and widely applicable framework with the location and incident-specific nuances. To achieve the right balance, business continuity planning exercises should start with scenario planning—outlining high-level operational definitions for escalating "tiers" or levels of incident or crisis and associated operational and communications responses, designed to address the vulnerabilities identified during the risk assessment phase. To balance generality and specificity, operational definitions for such tiers should focus on escalations in the degree of a given incident's impact to the organization's operations and reputation. They should also address the inflection points or triggers, either internal or external, that will force a company to react, either activating the business continuity plan; exercising heightened situational awareness or activating specific incident response plans without activating the business continuity plan; or de-activating the business continuity plan and returning to normal operations.

For each escalating threshold or tier, preliminary planning should address critical operational actions to maintain critical operations and communications. Operational actions might include building redundancies in supply chains, designating both physical and digital back-up locations, establishing relationships with relevant public agencies, ensuring proper insurance coverage is in place, and equipping the company network and employees for remote-work, both from an information technology and cyber security standpoint.

When it comes to forming a basis for scenario planning, as well as informing the operational and communications responses to a range of triggering stressors or shocks, we have provided an illustrative list of focus areas that companies should consider. Again, in keeping with the paradigm that prioritizes a company's intrinsic attributes, operations, and workforce—rather than the universe of highly varied and constantly evolving extrinsic threats—we outline below illustrative areas that scenario planning and mitigation steps should address, as well as associated guiding principles for navigating the dynamic and increasingly complex situations that compounding acute shocks and chronic stresses may create.

- **Employee well-being and safety:** COVID-19 created greater operational and reputational pressure and accountability on employers to create more robust support systems for employees. In fact, an organization's productivity, culture, and identity lie within its people—making their safety, sense of well-being, and comfort the pillar of maintaining business operations. As employers moved to support employees in procuring childcare and offering extended work-from-home to address concerns about mass transit, childcare, and school re-openings, COVID-19 set a precedent for prioritizing employees' mental and physical well-being in all aspects of business continuity planning and return-to-operations. To understand employees' needs, sentiments, and concerns specific to different types of scenarios, companies should consider implementing pulse surveys or opening lines of communication by which employees may make inquiries or provide feedback. While COVID-19 has made particularly acute the importance of individual employees' circumstances outside the office environment, these considerations are critical to weathering any type of crisis. Additionally, ensuring that employees and management teams have two-way communications may enable leadership to gain early warning of potential emerging issues, while also fostering more collaboration and a sense of connection long after the crisis ends.

- **IT/cyber infrastructure and security:** The COVID-19 pandemic foregrounded the necessity of remote-work infrastructure, as well as bad actors' propensity to capitalize upon externalities for their own ends, with pandemic-related cyber scams costing more than 18,000 Americans a total of $13.4 million since the beginning of the year. In addition to investment in remote-work infrastructure and virtual collaboration capabilities, companies must implement network stress tests, install endpoint protection and spam filters, and conduct comprehensive and continued employee training on cyber hygiene to ensure continuity of operations. In any type of crisis, employees working remotely on unsecured networks, utilizing legacy or non-employer-issued hardware, or exercising lower levels of cyber hygiene and inhibition increases a company's susceptibility to debilitating attacks.

- **Supply chain and global trade:** Developing an understanding of critical third parties—as well as fourth and fifth—and their vulnerability to acute shocks and chronic stresses and respective resilience programs will avoid back-up in operations and single points of failure. Mitigation plans should include strategies for in-house substitutions or contractual clauses in third-party agreements, prioritizing delivery of products and services to the organization over other clients or competitors. Enterprises should also work with counsel to review contracts for potential uncertainty in rates, payments, regulatory, or data-sharing requirements in the event additional work or servicing is necessary for continuity of operations. Additionally, understanding customers' access to services, delivery channels, and demands for products will inform strategic and operational priorities.

Pandemic-related cyber scams affected over 18,000 Americans and cost a total of

$13.4 million

In addition to prioritizing employees' physical health and safety, employers must also consider their mental health and wellness, workforce productivity, and issues unique to the C-Suite, as they lead the organization through crises. This pandemic crisis tested the resolve and leadership skills of the best executives. The leaders that resonated most with employees, investors, and the media were those executives who demonstrated authenticity, provided transparency, and acknowledged the uncertainty of the situation while making hard choices about staff and operations. Those organizations that embraced the crisis as an opportunity found new ways to communicate and innovate in the face of adversity and identified improved ways of engaging talent and managing workforces through technology, new policies and procedures, and simple, open dialogue about the future of their businesses.

The patchwork landscape of state and local public health regulations against a backdrop of public health and federal guidelines during COVID-19 heightened the onus on the private sector to reconcile government guidance and enterprise decision-making. On a global scale, travel restrictions, as well as varying paces of re-opening recovery around the world, also forced enterprises to account for split workforces, subsets of which were working remotely, while others returned to or continued to work from offices. Executive leadership teams should understand broadly which sets of guidance take legal precedence, as well as the political dynamics underpinning relevant legislation or guidance. In turn, that guidance and legislation should serve as an input or factor in developing company-specific thresholds or triggers for company responses—such as restrictions on employee travel, in-office work, and other course-of-business activity—based on strategic priorities, geographic footprint, and employee needs and sentiments. Enterprises also need to understand how local or national level policies impact consumers and their access to or demand for goods and services. And finally, business continuity planning may also merit companies establishing liaison and communication with relevant local law enforcement, public health, or other government agencies. Such relationships may be critical for getting the latest information, resources, and advisory in the face of a crisis, as well as ensuring regulatory compliance or adherence to best practices.

The economic and operational challenges that COVID-19 has catalysed highlights the importance of understanding insurance coverage, as well as the entirety of a company's contractual relationships—particularly force majeure, termination, and non-performance clauses. Depending on the magnitude of the crisis and the degree of oversight, governments or regulators may also increase scrutiny, and employees may also demand greater transparency around the legal or privacy implications of company mitigation measures.

Forward-Looking Planning

Setting forth a governance structure and accountable parties for strategic decision-making, operational execution, and intelligence is critical to ensuring an enterprise's business continuity. An organization should designate an executive team, comprised of the CEO, CFO, and other C-Suite representatives from Security, Operations, Communications, Legal, Human Resources, Marketing/Public Relations, and Investor Relations groups—as well as back-ups for each of the primary representatives. To account for incidents requiring an operational response, a separate incident response team, often comprised of the deputies or operational staff of the executive team members, should be charged with carrying out the tactical or operational responses based on the executive team's decisions. Lastly, the company should consider designating a team dedicated to the communications response, to include representation from internal and external communications, public / media relations, investor relations, and digital / social media. Depending on the triggering incident and company operations, critical third parties, such as public relations agencies, external counsel, or other consultants performing mission-critical functions, should also be included on the response or communications teams.

Each of these teams or task forces—as well as their members' designated alternates—should be trained on their respective roles, with the executive team members prepared to execute timely decisions, determine whether or not to activate the response and / or communications teams, and convey those decisions to the right team for execution. Similarly, each member of the communications and response team should be designated a set scope of responsibilities related to carrying out those decisions. They should also be equipped to develop guidelines of policy expectations, frameworks for responding to, and escalating new information in ways that will meet the needs of the executive team and updating and maintaining the business continuity plan. Table-top exercises or simulations are one means of providing individuals training and also understanding points of coordination and interdependency between teams or functional groups and to assess the effectiveness of resilience and business continuity planning.

The Planning Necessity

Although we are unlikely to realize the full breadth and significance of the COVID-19 pandemic and its aftermath for years to come, it has already heightened the accountability placed on enterprises to place resiliency and business continuity as cornerstones of corporate policy, operations, and culture. It has also underscored the inescapable truth of life in the increasingly interconnected, fast-paced world: we will always be living with risk—and that risk can grow exponentially in complexity and impact—meaning that risk management and resiliency will become more focused upon mitigation than prevention. How quickly and effectively the leadership team responds to acute shocks, chronic stresses, or the combination of triggers that today's risk landscape presents will define an organization's success or failure. Thus, the table stakes of business continuity planning have been elevated to those of the largest and most high-profile transactions. Employee lives, in addition to the company's viability, depend on it.

As the public health crisis and its prolonged economic and political fallout illustrated, these times demand a new, more proactive, and cross-functional approach towards business continuity planning and resilience, which moves away from an "outside-in" model, in which leadership teams react to a laundry list of potential external threats, and towards mitigating risk from the inside out.

Drawing upon the illustrative areas of focus set forth here, companies must continue to look inwards—understanding how acute shocks and chronic stresses might exploit or test their specific operations, locations, consumer and/or investor base, workforce, and supply chains. Those dynamics, in conjunction with the strategic, operational, and communications responses and the governance and infrastructure that support and facilitate those responses, will form the backbone of a holistic resiliency model, which can flex and grow to meet the magnitude, complexity, and velocity of any number of threats. And in an operating environment where those threats are here to stay, systematic business continuity planning, vigilance, and preparedness are not only competitive advantages, but necessities.

"In an operating environment where those threats are here to stay, systematic business continuity planning, vigilance, and preparedness are not only competitive advantages, but necessities."

Geopolitics

The First 100 Days: A Biden Presidency

Orson Porter, SENIOR MANAGING DIRECTOR, TENEO

Joe Biden thought about running for President in 1980. He was only 37 at the time and rightly decided to reconsider. Today, the former Vice President is 77 and is the Democratic nominee for President. With many decades of public service under his belt since his first thirst for the Oval Office, look for those experiences to not only shape the tone of his possible presidency, but to also be a roadmap to his first 100 days in office.

Before being selected as President Obama's Vice President, Biden served in the United States Senate for 36 years. His tenure has been described as being aligned with the moderate wing of the Democratic Party, and Biden was known as a fighter for the middle class, women's rights, and environmental reform and a hawk as the Chairman of the Senate Foreign Affairs Committee. Some of his core legislative achievements and votes included funding for mass transit, the Violent Crime Control and Law Enforcement Act, the Violence Against Women Act, and support for Operation Desert Storm in 1992.

"Biden was known as a fighter for the middle class, women's rights, and environmental reform and a hawk as the Chairman of the Senate Foreign Affairs Committee."

As Vice President, Biden was a vocal supporter of the Patient Protection and Affordable Care Act, served as one of the leading representatives with NATO leaders on the Administration's policy in Syria, and played a key role in the passage of the American Taxpayer Relief Act of 2012.

So, what does all of this tell us? Will Vice President Biden stay core to his moderate roots? Or, should we expect a significant policy shift due to a new economy and the deadly pandemic that has created a new normal on Wall Street and at the kitchen table?

If Vice President Biden is elected in November, it is my belief that he will maintain his center lane but will find ways to achieve common ground with both the left and the right spectrum of the political divide, especially if the Democrats only control one chamber of the Congress.

Vice President Biden's first 100 days will likely focus in on the following five major categories:

Economy/Jobs

The best way to speak directly to his election mandate and constituencies will be a swift push for a major jobs recovery bill that will likely be anchored by a robust infrastructure package, similar to the American Recovery and Reinvestment Act that Biden helped shepherd and implement in 2009. These projects might include: a focus on school construction, clean water investments, 5G and other new technologies, and green energy and transportation. Even without congressional action during this effort, look for the Biden Administration to make early calls toward supporting an increase of the minimum wage to $15/hour, strengthening unions, and creating a national paid leave policy.

COVID-19

With the likelihood of a prolonged COVID pandemic, the Biden team will look to use the recovery effort to secure additional funding to ramp-up any COVID-19 response efforts and procure additional medical supplies, school funding, state and local support, PPE, treatments, supply chain readiness, and vaccines. The Vice President will also likely make a major push on remote learning and broadband expansion to ensure kids have an opportunity to safely continue learning.

Race

Racial justice has quickly become a key issue in the election cycle, and Vice President Biden has positioned reform and racial unity as a major platform in his candidacy. It will be debated, but the selection of Senator Kamala Harris as his Vice President spoke directly to his view on the need to empower African American voices in his administration and communities of color. Recent events have forced both candidates to address the topic directly, and voters are listening carefully on how each will govern. Biden has also said that he will use his first days in office to address the issue of race and will likely create a commission to develop a list of recommendations for his Cabinet to quickly adopt and to be used as a skeleton for proposed congressional legislation.

> *"The selection of Senator Kamala Harris as his Vice President spoke directly to his view on the need to empower African American voices in his administration and communities of color."*

Immigration

A Biden White House can be expected to make shoring-up the DACA program and the restoration of DAPA one of its first actions upon taking office, assuming the current Administration has not yet succeeded in fully rolling back the program. Biden would likely use this announcement to reverse other policies on asylum and deportation and lay out a roadmap for Congress on comprehensive immigration reform that supports more pathways for citizenship.

The Environment

The Vice President has said he will rejoin the Paris Climate Accord and push for stronger international agreements. Also look for his team to reverse many of the environmental regulatory rollbacks from the Trump Administration at the EPA, Interior Department, and other agencies. These items could include, restoring limits on methane emissions from oil and gas drilling and CO2 emissions from power plants and manufacturing, pausing drilling on public lands and offshore, restoring national monuments and parks, and protecting areas such as ANWR, as well as resuming aggressive enforcement of environmental laws.

While likely to extend beyond the first 100 days, look for a Biden White House to begin to sow the seeds early for these other signature issues that his team will likely look to accomplish before the 2022 midterms:

Health Care

One of Biden's top priorities for his Administration will be restoring the ACA and creating a public option. Democrats campaigned heavily on health care in 2018 and 2020 and will look to fulfill their promises to the party's base, especially in one of the areas where the party has moved to the left in the past five years. Biden's health care agenda would also include ending surprise billing; allowing Medicare to negotiate drug prices; establishing a body within HHS to determine reasonable prices for new specialty drugs and treatments; and limiting price increases on generic, biotech, and brand drugs.

Tax

Vice President Biden campaigned heavily on raising the corporate tax – calling to increase it from the 21% set by the TCJA to 28%, which is still below the levels seen during the Obama Administration. Biden would also establish new rules to discourage shifting profits or operations overseas and establish a minimum corporate tax.

"Vice President Biden campaigned heavily on raising the corporate tax – calling to increase it from the 21% set by the TCJA to 28%."

The Vice President is hopeful that the revenues from these changes can go towards funding Democratic priorities such as health care, paid leave, investments in education, and reductions in college tuition.

In summary, a Biden Administration will largely track the previous Obama presidency. His Cabinet will also have strong ties to the former team, and their policies will largely seek to strengthen past achievements. What will be different from both the Trump and Obama White Houses will be the Vice President's ability to read Congress and negotiate across the aisle. Biden also has long-term relationships with international leaders that might help him in pending trade talks and geopolitical hot spots. Because the economy will likely be in turmoil, the new Biden Administration will not have a lot of time to act before the public may grow more tiresome of Washington's inability to get things done.

Beyond these policy issues and his strong grasp of DC's legislative and regulatory levers, don't underestimate Biden's desire to look to use his presidency to make history. Biden is aiming high and making history with the selection of Senator Kamala Harris as his running mate. Especially given that Biden may face pressure to limit his presidency to one term, expect Biden to look quickly for other ways to define his legacy and highlight his values in areas including: personnel decisions, foreign policy, infrastructure, labor policies, immigration, and more.

"Don't underestimate Biden's desire to look to use his presidency to make history."

He didn't run in 1980, but the young maverick from Scranton, Pennsylvania did dream big when he won his Senate seat at age 29. If he can manage some highly-recognized advancements in his 100 days, he and his team might have an opportunity to claim a true election mandate, enabling them to address some of the key policy issues that have been stuck in partisan gridlock for the last 15 years or more.

A New Era in the Middle East

Jon B. Alterman, SENIOR ADVISOR, TENEO

In Greek mythology, Cassandra's curse was that she could foretell the future but wasn't believed. Middle Easterners who have been warning their countrymen that the oil age is ending have experienced some of that curse, but much less since oil markets tanked in March amidst a collapse in demand and a price war among the largest producers.

"While oil will remain important to the world economy for decades, its privileged geostrategic role is declining."

While oil will remain important to the world economy for decades, its privileged geostrategic role is declining. The concept that oil is a scarce commodity to which access must be protected at all costs feels like it is starting to belong to another time. It seems as though we are headed towards a post-hydrocarbon future, and the coming change will shake the Middle East to its core. After the spring of 2020, it is no longer hard to imagine a world awash in surplus oil. What is hard to imagine is understanding how the oil age will end and how Middle Eastern societies will transition to the post-oil world. The coming year will give us a taste.

Not every country in the Middle East is an oil exporter, but oil runs through the economies of the entire region. The countries without oil generally export labor to the countries that have it, and oil-rich countries invest in the region's non-oil economies and subsidize their governments. Directly or indirectly, oil is the lifeblood of economies and of governments from Morocco to Iran.

When oil runs the world, money from oil sales helps run the Middle East. But what happens when oil demand plummets? The COVID shock shrunk global oil demand almost 30% in April, and traders wondered where they were going to store all of the oil. On April 27, deep in Oklahoma oil country, traders paid others $37/barrel to take oil off their hands.

The COVID shock shrunk global

oil demand almost 30% in April

Twenty years after vigorous debates of whether the world had reached "peak oil" and economies would strain against limited supply, the opposite case has prevailed. Questions emerged, instead, whether the world had reached "peak demand." The COVID-19 pandemic may be changing structural aspects of the global energy market. Workplaces may never be the same as they were before the pandemic, business travel may permanently decline, and car manufacturers are pouring billions into alternatives to the internal combustion engine. All suggest a sharp drop in demand for refined products.

However, hydrocarbons are not going away. Internal combustion-fueled cars and trucks will be on the road for decades, and jet planes will still ply the skies. Petrochemicals—not only textiles like nylon, polyester, and spandex, but also products such as plastics, solvents, and explosives—are all derived from hydrocarbons. The Middle East will be pumping oil and gas for decades.

The world's integrated oil and gas majors, of which Saudi Aramco is the largest, are not waiting passively, either. They are investing heavily in alternative and lower carbon fuels and simultaneously driving down the cost of production.

Middle East producers have an advantage. Even when demand shrinks, the costs of production in the Middle East are among the lowest costs in the world. When the last barrel of oil is pumped from the ground, it is likely to be pumped in the Middle East. Yet, oil's days as "black gold" are almost certainly behind it.

"When the last barrel of oil is pumped from the ground, it is likely to be pumped in the Middle East. Yet oil's days as 'black gold' are almost certainly behind it."

A Lighter U.S. Military Footprint

The shift is increasingly visible in how the U.S. government looks at the Middle East. After almost two decades (and some would say four) of U.S.-led wars in the Middle East that have neither solved the region's domestic problems nor healed its international rifts, a bipartisan consensus has emerged that the United States must lighten the U.S. military footprint in the region. The military sees the counterterrorism mission, which became so central in the years after 9/11, as a Sisyphean task that skews U.S. forces, erodes readiness, and depletes equipment.

For U.S. allies and partners in the Middle East, any shift in the U.S. role is unsettling. For over a half-century or more, they have purchased U.S. weapons, and alongside them U.S. maintenance and training to use those weapons. They have built their militaries around the idea that the United States would be a security guarantor. Their security challenges, whether from regional rivals or domestic threats, have scarcely diminished. They see the U.S. beginning to leave before the job is done.

Some will seek to take matters into their own hands, as the Saudis and Emiratis have done in Yemen, and the Egyptians and Emiratis have done in Libya. The campaigns they have waged there have struggled to accomplish their political objectives (which, of course, U.S. efforts have struggled to do in Iraq and Afghanistan). Others will seek to engage with their adversaries, as many of the regional states have done with Iran in the last year, especially in the wake of unanswered Iranian attacks on regional energy assets in the summer of 2019. Many will seek other relationships to supplement, if not supplant, the dwindling U.S. interest.

China and Russia

China has a rising presence in the region. China's Middle East trade is exploding, and there are hundreds of thousands of Chinese workers in the Middle East, largely divided between professionals, traders, and construction workers. The Chinese government not only portrays itself as a reliable trading partner pointedly disinterested in domestic affairs, but also as a powerful model of guiding dramatic economic development without social unrest. Middle Eastern states, seeing China as both a rising global power, as well as a rising energy consumer—at a time when most countries' oil imports are declining—see opening to China not merely as an opportunity, but as an imperative. As the COVID crisis subsides, China will renew its Middle Eastern push.

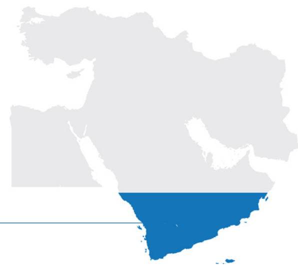
China, which has far less domestic energy than the United States, seems lashed to the Middle East for longer than the United States. That unsettles U.S. allies in Asia, such as Japan and South Korea, which share China's reliance on Middle Eastern energy in the near and medium term and fear U.S. abandonment in the region—paradoxically, intended to allow the U.S. to rebalance toward Asia. To further its interests, China's regional weapons sales (especially drones) are increasing. In addition, many U.S. government officials believe growing Chinese electronics sales give China a back door to widespread surveillance.

Russia is also extending its footprint, although more slowly. While some of Russia's advance is through straightforward weapons sales, Russia also looks for opportunities to invest economically and militarily in distressed nations at a discount. Russia has used a surprisingly low-cost intervention in Syria to lock in long-term military basing rights. Russia has been exploring closer ties with Egypt, for example, agreeing to finance and build a nuclear plant on the Mediterranean coast, in addition to selling advanced jet fighters. Unlike China, Russia is not an economic powerhouse—its GDP is lower than Canada's—and its regional ambitions are more limited. A rising Russian regional profile, however, will serve as a reminder that the United States has retreated from its own dominance of the region.

The sudden drop in global oil demand, combined with a sense of imminent U.S. abandonment, highlights the third leg of regional challenge: the need to create high-quality jobs. The Middle East has been demographically young for decades, and governments have traditionally hired large numbers of young people. This has been true not only in oil-rich countries, where government employment was often considered a right of citizenship and a part of the social contract. It has also been true in poorer countries such as Egypt and Jordan, where public sector jobs have been a key form of patronage. Youth unemployment has been rising for years in the Middle East, running close to 30% in rich and poor countries alike.

It often takes years for young men, and increasingly young women, to find their first jobs.

Middle East
Youth unemployment
+30%
in rich and poor countries alike.



Regional governments have been counting on an enlarging private sector to pick up the slack. National programs, from Jordan's "Vision 2025" to Saudi Arabia's "Vision 2030" to Kuwait's "Vision 2035" to Abu Dhabi's "Ghadan 21," seek to boost private business activity and entrepreneurship, ultimately changing governments' roles from patrons to partners. The plans were ambitious before the 2020 drop in global oil demand, and the shifting economic context makes them both more necessary and harder at the same time.

All countries embarking on such plans have had to grapple with the enormity of the tasks ahead. They start with improving primary, secondary, and university education; include improving the regulatory and legal environment; and necessarily require an adjustment in societal attitudes toward work. In oil-rich societies, the tasks require a transition from relying on low-cost, high-productivity foreign labor, replacing it with high-cost, low-productivity local labor.

These tasks encompass the work of decades, but the collapse in global oil demand is making clear that time is limited. Rapid transitions might threaten domestic stability, and governments have shown an instinct to revert to subsidies when they sense unrest. Yet, the old pattern of relying on subsidies forestalls the forthcoming economic transition and threatens greater instability when it actually occurs.

A Variety of Approaches

What we are likely to see then is a variety of approaches to the change looming on the horizon. Some countries, such as Saudi Arabia, are advertising their commitment to vigorous change and ambitious megaprojects that aim to change mindsets. The leadership is betting that the country's wealth and its access to capital markets will allow it to power through the transition, carried along by young peoples' embrace of change.

Other countries, such as Kuwait, are taking a more cautious role. While the government made headlines in mid-2020 when it called for the eventual departure of half of the country's expatriate workforce, it generally has been slow implementing economic change. Kuwait's parliament, a U.S.-imposed legacy of the country's 1991 liberation from Iraq and the most independent parliament in the Gulf, has been aggressively protecting constituents' benefits from governmental reform efforts.

Iraq is in a genuinely difficult position, reliant on oil revenues but with a massively higher population than most of its Gulf neighbors and without their accumulated resources. Iraq's transition to a resilient and diversified economy will be especially fraught.

Egypt is projected to have the region's only growing economy in 2020, boosted by more than $2.75 billion in IMF loans and a $5 billion standby arrangement, on top of $7 billion in Eurobond offerings in the last 12 months. With long-term yields over 8%, some investors worry that too little of the money flowing into Egypt is creating jobs, and the country will fall into a debt trap. The government argues, correctly, that short-term financing is necessary to blunt the effects of decreased tourism, remittances, and Suez Canal tolls, all due to COVID-19.

While most projections suggest a broad-based recovery in the Middle East in 2021, populations and their leaders cannot un-see what they witnessed in 2020. Certainties that had been accepted for generations are now uncertain. At the same time, the threat of a world with more than enough oil is more real than it has ever been. How quickly that future comes, and how well countries adapt, remains unclear. There is no question, though, that it is coming, and 2020 was only a taste.

"While most projections suggest a broad-based recovery in the Middle East in 2021, populations and their leaders cannot un-see what they witnessed in 2020."

Chinese Supply Chains

Mike Cooper, CONSULTANT, TENEO
Paul Haenle, CHAIRMAN, ASIA PACIFIC REGION, TENEO

Over the past three decades, China's importance to global trade has grown significantly — as a primary producer of high value products and components, a large customer of global commodities and industrial products, and an attractive consumer marketplace. At the time of its accession into the World Trade Organization (WTO) in 2001, China generated only around half the real manufacturing value-added output of Japan and one-quarter that of the U.S.[19] Only eight years after joining the WTO, China passed Germany to become the world's largest exporter of goods. Now China accounts for 35% of global manufacturing output, and its factories generate more real manufacturing value added—$3.9 trillion in 2019—than the U.S., Germany, South Korea, and the U.K. combined.[20 21 22]

China is the World's Largest Exporter of Goods

35%
of global manufacturing output

$3.9 trillion
real manufacturing value added in 2019

Recently, however, geopolitical volatility and severe supply chain disruptions caused by the COVID-19 pandemic have raised questions over the future of China's dominant role in global production. Economic nationalism is on the rise around the world, due in part to the challenges many countries faced in securing shipments of critical medical supplies and other products during the pandemic. Manufacturers worldwide are facing greater political pressure to ramp up their domestic production, grow employment in their home

19 BCG, "China's Next Leap in Manufacturing", October 2018
20 McKinsey Global Institute, "China and the world: Inside the dynamics of a changing relationship", June 2019
21 Associated Press, "China Becomes World's No. 1 Exporter, Passing Germany", June 2010
22 The World Bank, Manufacturing Value Added Data, September 2020

countries, de-risk and diversify critical supply chains, and revise lean manufacturing strategies to increase the amount of inventory held in their global supply chains. The changes that result from these pressures could be significant, as McKinsey estimates that 16% to 26% of all exports – worth $2.9 trillion to $4.6 trillion in 2018 – could be "in play" for relocation in the next five years.[23]

As companies prepare for a post-pandemic world, it is crucial to recognize the significant advantages that China still possesses as a major center of production, despite the challenges posed by rising geopolitical tension. Complete relocation of supply chains out of China is both impractical for most companies and irrational from a cost-benefit perspective. Instead, companies should focus on increasing the resiliency of their supply chains by diversifying them. For many companies, this means hedging risks by keeping China as the largest hub of production but adding additional supply elsewhere for redundancy purposes – an approach often referred to as "China plus".[24]

Trade War Instabilities

Prior to the pandemic, a protracted trade war between the U.S. and China had already created challenges for companies reliant on China for production of goods. Tit-for-tat tariffs imposed by the U.S. and China cast a cloud of uncertainty over bilateral trade. Uncertainty over the outlook for negotiations between the two countries made it difficult for supply chain managers to plan. In late spring 2019, it appeared as though the two sides had achieved a breakthrough and were closing in on a comprehensive deal. But in a dramatic turn of events, after Chinese negotiators sent back a final document covered in a "sea of red" revisions that removed commitments to key structural issues core to U.S. concerns and the deal fell apart.[25] Both sides blamed each other for the deal's collapse, further eroding trust on both sides.

By the fall of 2019, tariffs were in place or planned for nearly all goods traded by U.S. and China. With average tariff rates reaching over 20% on both U.S. and Chinese exports, multinational companies faced pressure to find ways to offset the additional costs.

23 McKinsey Global Institute, "Risk, resilience, and rebalancing in global value chains", August 2020
24 AmCham China, "Supply Chain Challenges for U.S. Companies in China", April 2020
25 New York Times, "How Xi's Last-Minute Switch on U.S.-China Trade Deal Upended It", May 2019

Many companies explored alternative options for production in order to avoid tariffs. Some found ways to sidestep tariffs by tweaking assembly and shipping processes rather than relocating supply chains.[26] Most companies, however, had no choice but to absorb the higher production costs. Very few companies emerged from the trade tensions unscathed. According to an October 2019 survey by AmCham, 90% of respondents said that the U.S.-China trade dispute had impacted their supply chain operations.[27]

By the time that the U.S. and China finally signed a "phase-one" trade deal in January 2020, U.S. businesses and consumers had paid an estimated $46 billion in tariffs since the trade dispute began in 2018.[28] Along the way, China dropped from the largest trading partner for the U.S. prior to the trade war to its third largest.[29] Perhaps most importantly for the longer-term prospects of doing business in China, the conflict shook supply chain managers' and company executives' confidence that China could be a reliable source for manufacturing and production of goods.

"By the time that the U.S. and China finally signed a 'phase-one' trade deal in January 2020, U.S. businesses and consumers had paid an estimated $46 billion in tariffs since the trade dispute began in 2018."

Over-dependence on China?

Despite the collapse of the May 2019 iteration of the Phase-1 deal and rising tariffs, Washington and Beijing were able to reach a "Phase-1 Lite" deal in January of 2020, focused primarily on Chinese purchases of U.S. goods and implementation of new intellectual property measures. However, just as the ink was drying on the phase-1 trade deal and it looked like the détente might quell fears of excessive reliance on China for production, the novel coronavirus pandemic began in Wuhan, China. The outbreak posed

26 Wall Street Journal, "Companies Find Ways to Bypass Tariffs on Chinese Imports", February 2020
27 AmCham China, "Supply Chain Strategies Under the Impact of COVID-19 of Large American Companies Operating in China (Appendix A)", April 2020
28 Reuters, "Trump's tariffs cost U.S. companies $46 billion to date, data shows", January 2020
29 U.S. Census Bureau, Foreign Trade Data, December 2019

a major threat to supply chains in China. Wuhan's crucial role in supply chains made the impact of shutdown measures particularly acute for many multinational companies.

A city of around 11 million people, Wuhan has been an important manufacturing base for decades. Known for its production of steel and automobiles, it has been referred to locally as "China's motor city." Efforts in recent years to transform the city into a high-tech modern manufacturing hub appear to be successful, as the output of Wuhan's high-tech industries exceeded RMB 1 trillion (U.S.D 143 billion) in 2018.[30] Additionally, Wuhan is a critical transportation hub for many industries. It has China's largest inland port which connects the city with Shanghai via the Yangtze River and handles close to 1.5 million containers a year.[31]

In the ensuing weeks and months, the stringent lockdown measures extended far beyond Wuhan. Production across many parts of the country was shut down as workers were unable to return to factories following the Lunar New Year holiday. Once workers were eventually able to return, they were subject to lengthy quarantines before they could resume work.

By mid-February, less than a quarter of companies (21.8%) reported having sufficient staff to run a full production line, according to an AmCham Shanghai survey.[32] The cumulative effects of factory closures, quarantine requirements for workers, and disruption of shipments caused shortages of products and components. Shipping volumes plummeted, as executives reported that large container ships were leaving Chinese ports with as little as 10% of their full capacity.[33] The impact of the virus was so severe that China's manufacturing activity contracted by a record magnitude in February and reported its first GDP contraction since 1992.[34]

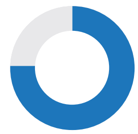
Similar to the trade war, the coronavirus outbreak exposed the risks of being overly dependent on one country for production. A survey conducted by the Institute for Supply Management (ISM) when production in China ground to a halt in January and February found

30 Xinhua News Agency, "Motor city rising as China's high-tech hub", December 2019
31 Wall Street Journal, "China Holds Back Some Ships from Calling at Wuhan", January 2020
32 AmCham Shanghai, "Supply Chains & Factory Openings: An AmCham Shanghai Mini-Survey", February 2020
33 Wall Street Journal, "China's Shipping Nears a Standstill Amid Coronavirus Disruption", February 2020
34 South China Morning Post, "China's factory activity plunges to all-time low, worse than global financial crisis, February data show", February 2020

that nearly 75% of U.S. companies were facing supply chain disruptions due to the virus. The ISM survey also found that more than 44% of respondents said they did not have a plan in place to address supply disruption from China.[35]

Survey Results from the Institute for Supply Management

When production in China stopped in January and February of 2020 due to COVID.



75% of U.S. companies faced supply chain disruptions

44% of survey respondents said they did not have a plan in place to address supply disruption from China

Delinking, Not Decoupling

Escalating tensions between China and the U.S. over trade and other issues in the past several years have fueled speculation over whether the world's two largest economies are decoupling. Tit-for-tat actions on the closure of consulates in Houston and Chengdu, expulsions of journalists, and restrictions on visas and commercial flights are undoubtedly a cause for concern over the trajectory of U.S.-China relations on a diplomatic level.

Multinational companies, however, should not conflate the actions taken by both sides to "delink" the U.S. and China with full-scale economic decoupling. Despite the recent downturn in U.S.-China relations on many fronts, the two sides have proven they are at least capable of compartmentalizing trade relations. Both sides appear to recognize that maintaining a stable trading relationship is mutually beneficial, both for political reasons and in order to not exacerbate the economic damage already wrought by the pandemic.

U.S. companies are not fleeing from China due to COVID-19 disruptions, offering hope that commercial interdependence of the U.S. and China might once again serve as a ballast for otherwise tense bilateral relations past 2020. According to a joint survey conducted by the AmCham and PwC in March 2020, 74% of businesses sourcing in China stated they had no plans yet to move sourcing out of the country due to COVID-19.[36] In the months

[35] Institute for Supply Management, "COVID-19 Survey: Impacts On Global Supply Chains", March 2020

[36] AmCham China, "Supply Chain Strategies Under the Impact of COVID-19 of Large American Companies Operating in China", April 2020

following the survey, China also demonstrated the ability to effectively control the epidemic and manage resurgence of the virus. Especially when compared to other countries, China appears to be a comparatively stable supply hub.

74%

of businesses sourcing in China stated they had no plans yet to move sourcing out of the country due to COVID-19

Although it has fallen behind on commitments made to increase purchases of U.S. goods as part of the phase-1 trade deal, China has followed through on its promises to further open financial markets and remove non-tariff barriers. For example, the liberalization of China's financial services industry as a result of new policies announced in June 2020 by China's National Development and Reform Commission and the Ministry of Commerce has eliminated ownership limits on securities, fund management, futures, and life insurance companies.[37] In response to these changes, a number of American financial services companies have already taken advantage of the new opportunities to take full or majority ownership in these sectors.[38]

Cross-border capital flows are also a bright spot amidst the escalation of broader U.S.-China tensions, as both foreign direct investment and portfolio capital have increased over the past year.[39] Direct investment by American multinational firms increased to $14.1 billion in 2019, up from $12.9 billion in 2018.[40] Foreign ownership of Chinese stocks and bonds has increased steadily in recent years, from RMB 744 billion (U.S.D 122 billion) in 2013 to RMB 4.2 trillion (U.S.D 592 billion) by the end of the first quarter of 2020.[41]

37 Xinhua News Agency, "China releases new negative lists for foreign investment", June 2020
38 Wall Street Journal, "China Grants Approval for Goldman Sachs, Morgan Stanley to Control Securities Units", March 2020
39 Xinhua News Agency, "U.S.-China financial decoupling "not happening" despite rhetoric: veteran China watcher", July 2020
40 Rhodium Group, The U.S.-China Investment Hub, December 2019
41 Peterson Institute for International Economics, "Rising foreign investment in Chinese stocks and bonds shows deepening financial integration", July 2020

Mitigating Future Disruptions

In the near term, recovering from the global pandemic is of the utmost concern for the majority of company executives, while supply chain diversification is more of a longer-term priority. In the initial stages of the coronavirus outbreak, over one-third of CFOs surveyed by PwC named supply chain disruptions as a top-three concern. By the time the outbreak had become a full-blown global pandemic, however, that figure had dropped to only 17% as manufacturing activity rebounded in countries hit early by the virus.[42]

As CEOs and executives begin to formulate post-pandemic plans, it is important for companies to take steps in advance to soften the blow of future disruptions. Many different types of events can trigger shocks to supply chains, including natural disasters, pandemics, economic crises, and geopolitical conflict. One important lesson from COVID-19 is that while no company is immune to these events, those that prepare for shocks can at least mitigate the impacts of costly disruptions.

Prioritize resilience over short-term profits: Investments in building supply chain resiliency might be costly in the short term but frequently pay off in the long term when disruptions inevitably occur. If businesses evaluate the current situation strategically, they may be able to boost future growth, while also mitigating the impact of future disruptions.

Most companies have made improving supply chain resiliency a goal for the future. Following the disruptions caused by the U.S.-China trade war and COVID-19, 93% of supply chain executives surveyed by McKinsey in May 2020 reported that they plan to make their supply chains more resilient.[43] It is possible, however, that when push comes to shove and companies consider the financial costs required to build the resiliency of their supply chains, they might not follow through on these plans. Failure to do so will likely have consequences down the line.

Businesses cannot afford to be caught flat-footed when the next major shock occurs. McKinsey estimates that disruptions cause companies to lose 42% of one year's EBITDA every decade, adjusted for the probability and frequency of disruptions. If disruptions impact both production and distribution channels, losses can be significantly higher.[44]

42 PwC, "COVID-19 CFO Pulse", June 2020
43 McKinsey Global Institute, "China and the world: Inside the dynamics of a changing relationship", June 2019
44 Ibid.

"Adopting a 'China plus' approach to manufacturing goods might be the best option for many companies seeking to reduce risk exposure."

Consider a "China plus" strategy: Over-reliance on a single country or individual supplier for components leaves companies vulnerable to disruptions. Building redundancy into supplier networks is one way to safeguard against shocks that could shut down production in entire countries or regions. Adopting a "China plus" approach to manufacturing goods might be the best option for many companies seeking to reduce risk exposure, as China still remains an attractive place to anchor supply chains. China's large, highly flexible, and technically trained work force is unmatched by any other country in the region or the world.

Companies that retain supply chains in China will have to navigate a complex and often turbulent geopolitical landscape, but those that do so effectively will benefit. With its large domestic market, increasing productivity due to widespread integration of advanced manufacturing systems, and well-established local supply chains, China has the potential to boost its annual real manufacturing value added by another $2 trillion by 2030.[45] Recent decisions by companies such as Apple and Tesla to retain or even expand production in China despite the U.S.-China trade war and broader geopolitical tension is a testament to the critical role that China continues to play in the global supply chain.

"China has the potential to boost its annual real manufacturing value added by another $2 trillion by 2030."

In order to reduce transportation costs, companies that produce goods only for China's vast domestic market may prefer to keep much of their production in China. Many multinational companies in China that were initially attracted by China's massive labor force and the ability to produce goods at low cost have ultimately ended up adopting an "in China, for China" approach, staying to serve the country's large consumer market. These firms will not be inclined to relocate much of their supply chains outside of China, especially when taking into account that the Chinese market will continue to expand in the coming years.

[45] BCG, "China's Next Leap in Manufacturing", October 2018

For production that remains in China, multinational companies should carefully assess supply chain exposure to China's Xinjiang Uyghur Autonomous Region. Those that have direct or indirect exposure to the region should conduct sufficient due diligence to mitigate ethical and reputational risks. Even companies or sectors that source products through subcontractors need to determine where materials in the region come from and what the working condition standards are in factories where goods are manufactured. In many cases, companies may need to depend on third-party audits to assess working conditions, as travel restrictions in Xinjiang make factory visits difficult or impossible. Additionally, collaborating with industry groups and building strong relationships with Chinese suppliers are also important steps in mitigating associated risks.

Invest time and resources to ensure new supplier networks meet production needs: While changes to supply chains may be necessary to improve resiliency, they must be done gradually. For companies that have relied almost exclusively on China for production for decades, shifting labor-intensive portions of supply chains to other countries will not be an easy or quick process. It will take time to build relationships with new suppliers and to verify suppliers' manufacturing quality, capacity, delivery, cost, and their ability to respond to engineering or demand changes.

Establishing supply chains in other countries in the region will also require companies to develop different logistics strategies. Many ports in Southeast Asian countries do not have the capacity to handle ultra-large container ships that major hubs in China can. As a result, companies may need to consider options such as transshipment of goods to intermediate hubs such as Singapore or Hong Kong, which can increase transit times.[46]

Companies producing high-tech equipment may find it harder to find alternative sources for production than those that manufacture goods produced with basic materials such as fabrics, plastics, and lumber that are readily available in other countries besides China. Additionally, firms that specialize in advanced technologies such as microchips, telecommunications, and biotechnology also stand to face political pressure to relocate supply chains that manufacturers of many consumer goods are less likely to face.

[46] Harvard Business Review, "Global Supply Chains in a Post-Pandemic World", September 2020

Due to the hurdles high-tech producers will face in relocating their supply chains, the U.S. might use regulatory incentives similar to those used by Japan and South Korea to encourage reshoring of manufacturing.[47] [48] Companies should evaluate the short- and long-term costs and risks of taking advantage of these incentives to re-shore manufacturing, considering strategies like the "China plus" approach when relevant.

"Due to the hurdles high-tech producers will face in relocating their supply chains, the U.S. might use regulatory incentives similar to those used by Japan and South Korea to encourage reshoring of manufacturing."

[47] Bloomberg, "Japan to Fund Firms to Shift Production Out of China", April 2020
[48] Korea Times, "Korea urged to promote manufacturing reshoring", May 2020

The Broad Trends Shaping Asia

Tobias Harris, SENIOR VICE PRESIDENT, TENEO
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Since World War 2, U.S. influence in Asia has depended on its ability[49] to deliver public goods, ranging from security relationships, to governance institutions and economic growth initiatives. The U.S. has provided technology and capital and allowed access to its markets. In addition, the U.S. fostered efforts to expand international trade and cross-border investment, as well as reforms that emphasized free markets and economic stability, while also providing a framework for its leadership.

"China has shown an increasing desire to provide regional and global leadership across various areas, as seen in the creation of the Asian Infrastructure Investment Bank and the Belt and Road Initiative."

However, three factors have broadly changed this dynamic over the past three decades. The first and most visible one is the rise of China — first through its role in global supply chains, then as a consumer economy, and now increasingly as a provider of technology and capital. China has also shown an increasing desire to provide regional and global leadership across various areas, as seen in the creation of the Asian Infrastructure Investment Bank and the Belt and Road Initiative. Beyond their direct impacts on economies, the latter signal to leaders and elites across the region China's institution-building capability — arguably the next crucial component in China's ability to influence Asia.

The second factor is U.S. action, which in many parts of Asia is attributed to Washington's excessive focus on the Middle East and the global war on terror. China's rise was, therefore, coupled with U.S. disengagement – at least from the Asian point of view.

49 Often in this document we refer to the U.S., though in several instances, this designation is a simplified phrase that includes not only the U.S. government but also the different players in what we would consider the U.S./Western system such as corporations, NGOs, and key investment and multilateral organizations and institutions.

A third factor is the weakened appeal of Western-linked ideas such as globalized trade, unfettered cross-border financial flows, and laissez-faire capitalism. The financial crisis in both the U.S. and Europe – the bulwarks of capitalism and globalization – the collapse of the WTO's Doha Round, and rising concern over wealth inequality have all chipped away at the prestige of U.S. ideas and institutions.

These trends will generally continue for the near term, although political changes in the first half of this decade may still gradually shift the trajectory of Asian geopolitics over the medium term. Any U.S. administration will face significant domestic constraints in terms of being able to shift policy – which will be evident to Asian leaders as well. In addition, although China faces growth and governance risks that lower its longer-term economic outlook, its clout is firmly established, at least for the next few years, both as a market for foreign goods and as a source of investment and technology for others. All of these changes will take place while the region's economic profile changes. Production will no longer be concentrated in southern China or Thailand, at least for East Asian consumption. The middle class will grow outside of the traditional centers of production and finance. Both trends will have significant effects on society, including driving demands related to governance and the environment.

"The financial crisis in both the U.S. and Europe – the bulwarks of capitalism and globalization – the collapse of the WTO's Doha Round, and rising concern over wealth inequality have all chipped away at the prestige of U.S. ideas and institutions."

Key Investment Decisions

Globalization and trade will continue to be seen regionally as important drivers of growth and prosperity. Should the U.S. continue to pursue what countries in the region see as nationalist and transactional trade and economic policies, then they may continue to focus more on intra-regional trade. Companies will generally seek to avoid taking sides in the U.S.-China rivalry and to maintain access to both markets, but for some companies – and perhaps whole industries – this balance will be impossible to strike. These companies will be forced into tough choices about which market they value most.

"Countries that have traditionally favored free markets and avoided 'picking winners and losers' will reluctantly embrace policies inspired by China."

Industrial policy will become increasingly important in the West. Countries that have traditionally favored free markets and avoided "picking winners and losers" will reluctantly embrace policies inspired by China, such as corporate subsidies and state investment funds. This trend will create risks and opportunities for companies.

The broad change in the region's economic profile, such as the unbundling of supply chains concentrated in China and Thailand and the continued rise or evolution of middle-class consumers, will generate significant demands for reforms in governance and investment in connections between economies.

Given the U.S.' diminished credibility, governments in the region will be cautious in how they adjust their policy towards the next administration. The U.S. remains the most significant factor in regional geopolitics; the decisions it makes about its political, economic, and military role will influence the choices of every other power, including China. The Trump administration had at times appeared to call for decoupling from China as part of a "New Cold War" – going beyond military competition, trade sanctions, or market access, to incorporate excluding Chinese students from U.S. universities and canceling other person-to-person exchanges. But the administration has also been inconsistent in its approach to the U.S. alliances and other regional institutions in Asia that would be a critical part of a coherent containment strategy.

A series of U.S. actions aimed primarily at allies and partners in the region undermined trust in the U.S. Trump's decisions included withdrawal from the Trans-Pacific Partnership, the imposition of steel and aluminum tariffs, the threat to impose automobile tariffs on Japan and other allies, and the surprise suspension of the joint military exercises with South Korea. The possibility of new initiatives like the withdrawal of some troops from South Korea would deepen uncertainty about the U.S.' presence in the region and undermine deterrence.

"The Trump administration had at times appeared to call for decoupling from China as part of a 'New Cold War.'"

Japan's Balancing Act

The Covid-19 crisis marked the end of a period in which the Abe administration tried to balance between growth-friendly stimulus in the near term and the pursuit of fiscal sustainability over the medium term. This approach, which generally avoided politically risky budget cuts, helped reduce the budget deficit and stabilize the debt-to-GDP ratio before 2020. In 2020, the Abe government had budgeted historically large sums of money in response to the Covid-19 pandemic, most of it backed by new government bonds. The result is that the newly elected Prime Minister Yoshihide Suga, who succeeded Abe in September 2020, and subsequent leaders will likely face the same infighting between fiscal hawks and "growth firsters."

While Japanese companies are unlikely to decouple from China, the diversification that began with the "China-plus-one strategy" in the early 2010s will likely continue, not only for geopolitical reasons but due to cost factors, new trade and investment rules, and the emergence of new fast-growing economies in South and Southeast Asia. As part of its response to the Covid-19 recession, the Abe government offered subsidies for firms that wanted to shift production from China to Japan or elsewhere in Asia; new Prime Minister Yoshihide Suga signaled he wanted to expand this program after the number of applications greatly exceeded the funds budgeted. Japanese companies will continue to seek profit opportunities in developing countries with younger demographic profiles than Japan.

Japanese foreign direct investment – including cross-border M&A, infrastructure projects, and other activities – will continue to provide profit opportunities for investors in fast-growing emerging markets. Consolidation within Japan's industrial sectors as demographic decline picks up pace will also continue to create opportunities for foreign investors, likely with less competition from Chinese investors due to new investment controls.

Abe's foreign policy had been premised on the idea that Japan has no alternative to a close partnership with the U.S. to guarantee its security in a rapidly changing Asia. Abe repeatedly took significant political risks – bringing Japan into TPP, pushing for constitutional reinterpretation to permit the exercise of the right of collective self-defense, gambling on a close relationship with Trump – to safeguard the U.S.-Japan relationship and keep the U.S. engaged in the region. Changes in the trajectory of U.S.-Asia policy will therefore be felt most immediately in Tokyo. There may be signs that Japan is already bracing for a more restrained U.S. role in the region and is therefore preparing to lessen its security dependence on the U.S.

The surprise decision in June to suspend deployment of the Aegis Ashore missile defense system (purchased as part of a large package via the U.S. foreign military sales program) has led to a new debate over whether Japan should have independent strike capabilities that would allow it to counterattack against missile bases in neighboring countries. The Japanese government has already decided that its next-generation fighter will be developed indigenously.

These decisions, coming after nearly a decade of defense spending increases (which were preceded by a decade of cuts), a doctrinal shift to focus on the flexible defense of Japan's southwestern islands, and the acquisition of new equipment and new capabilities in advanced domains (cyber and space) suggest that Japan enters the 2020s as a more capable military power than it has ever been during the postwar era.

That is not to say that Japan is prepared to break out of the U.S.-Japan alliance; Tokyo would still prefer to use its new capabilities within the alliance. Nevertheless, Japan will increasingly hedge against a rapid U.S. withdrawal from the region not only by regional powers, particularly Australia, India, and Vietnam. Domestic constraints – including lingering anti-militarist sentiment and the postwar constitution, budgetary restrictions, and demographics (which may already be limiting the Self-Defense Forces' ability to attract recruits) – will all hinder Japan's efforts to become a larger military power, leading to a continued emphasis on building partnerships across the region.

India and Convergence

Shared geostrategic priorities have led to a closer relationship between the U.S. and India. However, economic and security reforms will be important to continue the strengthened cooperation. These relations have improved significantly over the past two decades, as their security interests have converged. The U.S. sought to preserve its clout in South Asia, while India aimed to increase its ability, at least relatively, to protect its security and influence in the region in the context of an increasingly more powerful and influential China, while still satisfying its development objectives.

In fact, Indian Prime Minister Narendra Modi, recognizing the value of U.S. support, set out immediately after winning office to strengthen the relationship between the two countries, both at an official and personal level. Modi has invested heavily in his relationships with other leaders – from Trump and former U.S. president Obama, to Japan and Southeast Asia. He has sought to develop a network of relationships from Tokyo to Jakarta that emphasize a democratic orientation vis-à-vis an authoritarian China.

Within the past few years, the U.S. has reciprocated, significantly broadening its defense relationship and highlighting the value that it placed on its emergent and improving relationship with New Delhi through its "Indo-Pacific" strategy. The Trump administration allowed India access to defense-related technologies with a "strategic trade authorization," which was a step further than its designation as a major defense partner under the Obama administration.

However, while Washington's nationalistic approach to trade and immigration issues grate economically – both key issues for the Indian economy and people – they are so far insufficient to alter the broad positive trajectory of the relationship. New Delhi remains mindful of the U.S.' seeming near-term erratic behavior on key issues such as Afghanistan and China's growing political strength. And this is the greatest risk to the relationship – that a U.S. failure to consider India's immediate issues could cause India to again emphasize its policy of "strategic autonomy" or non-alignment, instead of the evolving strategic partnerships of the past decade.

India's tradition of "strategic autonomy" makes it unlikely that the U.S.-India relationship will be upgraded to a more formal treaty partnership over the coming decade, notwithstanding Indian fears of China's burgeoning military power and assertiveness in India's neighborhood. However, Modi's "Act East" policy – which has mandated investments in India's maritime security capabilities and closer relationships with ASEAN and major regional powers, especially Japan – will remain the guiding principle of Modi's foreign and security policies.

New Delhi has often had an easier time working with other Asian powers like Japan than with the U.S. and is likely to continue to look for sympathetic partners across the region. Relations with Australia, which have heretofore lagged behind other regional partnerships, could be upgraded over the coming years. Security ties will continue to be supplemented by foreign aid and investment links with Japan and other powers, as India seeks to avoid dependence on Chinese capital Investment Impact. India has made significant substantial progress in liberalizing its approach to foreign investment, but strong domestic interests continue to advocate protection that limits U.S. exports and investment opportunities.

Southeast Asia and South Korea

Southeast Asian countries will seek to avoid clear alignment with either the U.S. or China. Governments will seek to preserve the benefits of trade and investment relations with China. The region's governments and the powerful local elites within them recognize that while they may be apprehensive of Beijing's intentions, they may also face substantial opportunity losses if they alienate themselves economically from China. Southeast Asia will generally want to avoid being seen as choosing sides, to avoid the political and economic complications that it would generate. However, this may lead to nationalist policymaking and slow regional integration.

South Korea is a well-governed, stable, prosperous democracy, all of which could enable it to play a leading regional role. However, despite these strengths, South Korean leaders will be hindered by long-standing constraints, including demographic decline, export dependence, and the ongoing threat posed by North Korea. The ruling Democratic Party of Korea (DPK) will be the favorite to retain the presidency when Moon Jae-in's term ends in 2022. It could benefit from the inability of conservative forces to appeal to the bulk of younger voters who feel left out of South Korea's chaebol-dominated economy. If the DPK continues to hold the presidency, it may be able to make headway on structural economic reforms to combat inequality and promote transition to new growth opportunities in information technology and clean energy.

Even if South Korea enjoys domestic political stability for most of the decade, its leadership will still face structural challenges that could inhibit its ambitions. Its fertility rate is the lowest in the world, and its population may have already peaked.

Meanwhile, any transition to a new, more inclusive growth model will struggle with the continuing dominance of the chaebol, which would be the likely beneficiaries of industrial policies to encourage new growth sectors. Finally, South Korea's export dependence not only leaves Korea vulnerable to global economic shocks but also susceptible to economic pressure from China. Economic dependence on China could complicate Seoul's foreign policy choices. South Korea has already been largely absent from discussions about a "Free and Open Indo-Pacific" and would at best be a reluctant participant in a bloc of democracies aimed at countering China's influence.

If the U.S. were to downgrade or end its alliance with South Korea and reduce its role in the region, it is more likely that South Korea would seek to play a balancing role between China and the group of middle powers centered around Japan and Australia than joining their ranks outright. If the progressive bloc remains in power until the latter half of the decade, tensions with Japan could remain a persistent feature of Korean foreign policy, even more so if Japan continues to rearm and reduces its dependence on the U.S.

The single biggest constraint on South Korea's global role will remain North Korea, which will command an outsized share of the government's attention and remain the primary focus of its national defense. The North Korean threat means that, not unlike Japan, Seoul will work to keep the U.S. engaged in regional security, but the progressive bloc's determination to move towards deeper economic integration and eventual reunification with the north will also lead the Korean government to continue to agitate for sanctions relief that enables it to pursue inter-Korean economic cooperation. The investment climate in South Korea is unlikely to change dramatically. While stable government and investment in new growth sectors may create new profit opportunities, South Korea's export dependence and the continuing threat of a new crisis with North Korea could lead to periodic selloffs.

Conclusion

The outcome of U.S.-China competition will heavily influence the fortunes of all countries in the region. China's increasingly assertive foreign policy has sparked alarm throughout the region. Beijing's tendency for strident diplomacy and its use of coercive economic measures to exert geopolitical pressure may ultimately end up undermining Beijing's soft power. Most countries want the U.S. to continue to serve as a check against rising Chinese influence, both economically and militarily, even as they continue to pursue benefits from trade and investment links with China. But if Washington proves unwilling or unable to play this leadership role, or if U.S. leadership takes the form of pressuring Asian countries into a thorough rejection of a China alliance, Asian countries may feel they have little choice but to accept a China-led regional order. A kind of benign stalemate in which neither Washington nor Beijing are able to reliably enforce compliance will be unsatisfactory to hardliners on both sides. But by forcing both governments into a continuous competition for support and influence, stalemate may serve as a check on the excesses of both sides. As such, it may be the best outcome the region can hope for.

"Most countries want the U.S. to continue to serve as a check against rising Chinese influence, both economically and militarily, even as they continue to pursue benefits from trade and investment links with China."

COVID-19 Recovery Plan: The EU's "Hamilton Moment"?

Poul Skytte Christoffersen, SENIOR ADVISOR, TENEO

The COVID-19 pandemic is turning the five plans of the EU's new executive, the Von der Leyen Commission, upside down. The Commission had set out a detailed policy program and plan of action for its fifth year in office. A "Green Deal," as well as a "digital strategy," were at the top of the list, but the plan also included many other proposals, reflecting the tall ambitions of the 27 Commission members, each anxious to have a significant impact.

COVID-19 has encouraged a policy process that is primarily focused on addressing the requirements of a post-COVID world. Most EU citizens also still believe that climate change and a digital strategy should remain top policy priorities as well and that COVID has only served to increase their importance. Finally, a more assertive and proactive role for the EU on the global stage also remains on the list of top priorities within the policy agenda, however, the realization of this last point will depend on how effectively the EU can cope with the economic policy challenges that have arisen as a result of the pandemic.

"Most EU citizens believe that climate change and a digital strategy should remain top policy priorities and that COVID has only served to increase their importance."

The EU's ability to successfully handle the challenges COVID has presented, as well as assert itself more readily on the global stage, will be the determining factors as to whether the COVID crisis will turn out to become a new beginning for the European Union, a "Hamilton" moment, or if the ambitions will amount to nothing more than a "muddling through" of the issues, waiting for better times.

Member States Affected Differently

The virus outbreak that spread from China to Europe brought the EU economy close to a standstill for roughly four months, and as a result, the EU has suffered consequences that have been at least twice as severe as the 2008 financial crisis. In fact, in 2020, Europe experienced the deepest output contraction since World War II, with a fall in GDP close to 9%. It can only expect to recover its previous strength by the end of 2022, and only if it is not hit by a second wave.

"...in 2020, Europe experienced the deepest output contraction since World War II, with a fall in GDP close to 9%."

The COVID crisis was imported from abroad and affected all member states. Contrary to the financial crisis, individual member states could not be accused of prior reckless behavior. It was pure accident that COVID-19 first spread with devastating effect in northern Italy, the wealthiest of the Italian regions, well-equipped with modern hospitals and sanitary systems.

The economic effects on individual member states were not only determined by the intensity of the pandemic, but also by the extent to which important sectors were hit by fall in demand from abroad, as well as by the pre-crisis state of the economy. Both Italy and Greece suffered annual GDP falls of more than 11%. But while Italy – with Spain not far behind – was the country most severely affected in health terms, Greece experienced a much more benign attack. However, the Greek economy had just emerged from a decade of negative growth, and two main sectors of the economy, tourism and maritime transport, were deeply affected by the close-down.

The European Union was criticized for being absent at the start of the crisis, but the EU has little responsibility in terms of health issues; member states and their respective regions are charged with bearing the brunt of the domestic healthcare needs. The EU became more deeply involved only after member states, in panic, began closing internal and external EU borders without hard data to justify whether this would indeed effectively quell the spread of the virus. In addition, the shortage of PPE, like masks and ventilators, led to the introduction of local export controls, which were averse to the core EU principles of free movement of goods and persons. The European

Commission, in turn, reacted quickly to these moves with emergency "green lanes" for lorries to keep goods floating across internal borders, but it took three months before cross-border movements were once again close to "normal." Since then, the Commission has been busy ensuring that such a situation will not be repeated. This includes creating strategic stocks of medical supplies and making the EU less vulnerable to supply line interruptions. As such, the crisis has strengthened the EU's role in directly addressing health issues.

National Economic Policy Response

At the start of the 2008 financial crisis, a short-lived attempt was made by the Commission to promote a coordinated expansion of national fiscal policy, which ultimately fell to the ground as some of the weaker EU countries experienced financial difficulties. For more than a decade it was left mainly to the European Central Bank to keep the economy going through expansionary monetary policy, while the approach to fiscal policy was dominated by German thinking, with a main focus on bringing the national budget back to balance (the "Black Zero" on public finances). This policy suited Germany and the Northern European countries, who could count on strong export performance to maintain growth, but Southern member states suffered. When a country ran into trouble – like Greece in late 2009 – the EU prescription was strong internal austerity measures as the price to pay for financial support from the EU and IMF.

During this crisis, however, the reaction was very different. The EU quickly decided to suspend the constraints imposed on national budgets through the Stability and Growth Pact, that since the creation of the euro, has prescribed that a state's budget deficit cannot exceed 3% GDP and national debt not surpass 60% of GDP.

In addition to the relaxation of the macroeconomic rules, the Commission introduced major allowances in the EU's state aid discipline. All member states rapidly adopted fiscal stimulus measures to safeguard production and employment. Germany, which had previously been the poster child for fiscal conservatism, took the lead in boosting the economy through liquidity support and direct participation in companies, tax deferrals, and grants to SME's. Various measures to boost consumption like VAT reduction were also put in place. Overall, the German national fiscal expansion accounted for more than half of the total for all EU countries. In Greece, Italy, Spain, and Portugal, the fiscal impulse was only a fraction of what it was in Germany, reflecting the fragility of their public finances.

While fiscal expansion by the rich can have positive spill-over effects on the poor, a discrepancy of this size creates the risk of major distortion of the single market, permitting companies from the stronger economies to gain market share or even take over companies in less fortunate member states.

The suspension of the rules for discipline on national budgets (stability pact) is in principle temporary, but it will take time to turn the clock back. It is doubtful if the same rules will be reintroduced. It makes no sense to operate with a 60% national debt limit when many of the member states (including some of the biggest) will have debt figures exceeding 100%. A greater balance will be called for in the obligations of those that struggle to reduce national fiscal deficits and those that have a comfortable margin. Even in Germany, the "Black Zero" rule has been called into question, and the lesson has been learned that constant excess savings compared to investments and balance of payment surplus is hurting Germany's interest in the long run. However, it is less certain that other Northern member states – especially the Netherlands – have drawn the same conclusion.

"It makes no sense to operate with a 60% national debt limit when many of the member states (including some of the biggest) will have debt figures exceeding 100%."

The Central Bank's Crucial Role

During the 2007-8 financial crisis and the following European debt crisis, the European Central Bank took the main responsibility among EU institutions for keeping the European economy afloat. In turn, the crisis transformed ECB from a monetary institute with a focus only on keeping inflation down to a genuine central bank that also takes responsibility for the overall performance of the economy. In 2011, the German member of the Executive Board resigned in protest against the bank's Securities Market Programme. This did not hinder the Bank, and under the Presidency of Mario Draghi, the bank began purchasing sovereign bonds under the contested program and engaging in "quantitative easing," in line with actions taken by both the U.S. Federal Reserve and the Bank of England. Draghi's public declaration that the ECB "would do whatever it takes to save the EURO - and believe me it will be enough," is considered by many as the turning point in the debt crisis in Europe. The ECB was, in the same period, also extending its competences by giving authority over the new European Bank Supervisory body.

During the COVID crisis, the ECB (now under the Presidency of Christine Lagarde) has played an even greater role and launched massive emergency bond purchasing – now with the full backing of the German government and the Deutsche Bundesbank. The ECB has been able to minimize the spread between interest paid by the weaker and the stronger Member States. While Lagarde is as determined as Draghi to do "whatever it takes," she has communicated from the beginning that this time this will not be enough, insisting that a collective fiscal response from the EU will be required to fully address an environment with zero or negative interest rates.

Fiscal Response by the EU

The EU, for its part, has gradually built up a fiscal response from March to July 2020. In the first instance, member states were given unlimited flexibility in the use of allocated EU structural funds, and planned repayment of funds not yet used was canceled. In April, followed a package of measures that facilitated fiscal stimulus in the order of half a trillion EUROs to:

- support direct and indirect health care, cure, and prevention costs related to COVID-19;
- provide guarantees from the European Investment Banks to SME's to avoid insolvency; and
- support Member States' efforts to protect workers and jobs.

This first stimulus package was financed by loans that must be paid back by the recipients over the medium term. The loan facilities have been of special interest for the weaker member states that can profit from the EU's triple-A rating.

The third step was the most important. On the 19 to 21 of July, European Heads met for four full days in Brussels. They succeeded (despite internal tensions) to agree on a framework for EU's annual budgets for the next seven years, as well as an extraordinary package meant to help Europe cope with the economic consequences of COVID-19 that will run for four years. The European Heads overcame widely different interests and economic-political philosophies because of their collective belief that only a unified front would result in overcoming the immense challenges presented by the pandemic.

The total firepower of the final package was somewhat reduced compared to the original plan, but still of a size that makes a real difference in macroeconomic terms. The final result of the negotiations has been further concentrated on the most affected countries. A program entitled "New Generation EU" will, over the coming three years, provide the member states and regions most affected with €390 billion in grants and €360 billion in low-cost and long-term loans (running up to 2058). The funds will support the national interventions needed to protect livelihoods and foster sustainable and resilient growth. Special attention will be paid to investments in the transition to a green, low carbon, and digital Europe. Additional funding will be allocated to EU programs that can make the economies in weaker countries and regions more resilient and sustainable in the crisis repair phase, including repairing the labor market and supporting the building up of a health care system that will be more resilient if another pandemic should strike in the future.

"A program entitled 'New Generation EU' will, over the coming three years, provide the member states and regions most affected with €390 billion in grants and €360 billion in low-cost and long-term loans."

On the original EU budget, an agreement was reached on a €1.072 billion seven-year program. Again, ambitions had to be reduced, but it was still an achievement to agree on a financial plan that fills the hole left by the UK's departure and still maintains the movement away from spending on old policies (like agriculture) and instead increasing funding for climate and digital policy (the target is that 30% of the budget should promote the climate and the digital agenda), research, defense, and support to neighboring countries.

The Hamilton Moment?

The July 2020 decision was a historic step by engaging directly in a fiscal stimulation of the economy through the EU budget. It is also unprecedented to implement the fiscal boost by deficit spending financed by EU bonds floated on the market. The event has, by some, been termed the European "Hamilton Moment," referring to the historic compromise forged by the first U.S. Treasury Secretary, Alexander Hamilton, when the U.S. federal government in 1790 took over all the debt incurred by the States during the war of independence.

There are valid points of similarities with these historic events. The 1790 U.S. debt was the result of a war against a common enemy. Several European leaders have termed the fight against COVID-19 as a war. The cost of wars has during history often been financed by issuing long-term war bonds. This was also the case with the reconstruction help to Europe offered by the U.S. in the Marshall Plan after WWII, at a time when the U.S. was already burdened by a historically high public debt. The Marshall Plan accounted for less than 3% of the combined GNI of the recipients. The measures agreed upon by the EU in 2020 involve an unprecedented transfer of money from the least to the most affected member states, at a time when they have all seen their public debt reach historic heights. Poorer European Union countries and those hardest affected economically by the pandemic could obtain, over the coming four years, up to 15% of their GNI in grants and guarantees through the recovery instruments.

The Hamilton operation led to the creation of the U.S. dollar, which for a long time has been the world's most important reserve currency. The EURO was only created at the beginning of this century, and it has been struggling to establish itself as a major global currency and has been on a downward trend since the financial crisis. The coming years are likely to see a battle of supremacy between the U.S. dollar and the Chinese Renminbi to become the world's leading currency. This is a political as well as an economic battle. Over recent years, Europe has seen the U.S. engage in extraterritorial sanctions such as their withdrawal from the Iran nuclear deal. Europe has struggled to counteract, inter alia, because of a weak position of the EURO as an alternative currency that could be used in trade with Iran. One of the deficiencies of the EURO has been the lack of a large and elastic supply of safe assets denominated in EURO. The bonds that will be issued to cover the €750 billion recovery package, as well as bonds from the loan schemes established earlier in the year, could become attractive as safe EURO-denominated assets, especially since the ECB has ensured that these bonds be given a safe asset status, taking an important step in promoting the EURO's international role.

"Member states that had started looking towards China as a source for support have realized that, when the chips are down, it is the EU that counts. All of this could facilitate the EU's ambition to create a more coherent and assertive foreign policy."

Some European federalists see the adoption of the recovery package as the first step towards the creation of an EU Treasury capable of conducting fiscal policy for the EU and engaging in deficit spending when necessary. Those federalists are likely to be disappointed, however, as the legal basis for the adoption of the recovery package is a treaty article that can only be used in cases of emergency like the present pandemic; it is not for everyday use. Even at the height of the disbursement of funds under the package (2021-2023), the impact will only amount to 3-4 % of GDP – less than a tenth of the size of national budgets. This large disparity between the national budget and the EU budget is not going to diminish in the foreseeable future. It is also unlikely that the EU will obtain direct taxing power any time soon. The new taxes discussed during the budget talks (plastic waste tax, carbon border tax, digital tax) will (if they are agreed to) mainly go to national coffers, and only a part will be transferred to the EU budget.

Putting aside historical parallels, the decisions taken in 2020 on their own constitute an important moment in the continuous process of European integration. It is encouraging that European leaders are in harmony with the sentiment of its citizens who believe (expressed through numerous polls) that the EU should play a greater role in the most important issues that confront Europe in today's world. The process the EU went through during 2020 also increased its internal cohesion. Previous divergencies in economic philosophy have somewhat diminished. The EU has rediscovered Keynes on economic policy. Member states that had started looking towards China as a source for support have realized that, when the chips are down, it is the EU that counts. All of this could facilitate the EU's ambition to create a more coherent and assertive foreign policy.

This does not mean that everything will be smooth sailing from now on. Internal divisions continue to exist in the EU. The North, represented by the "Frugal Four" (Netherlands, Austria, Denmark, and Sweden) played a prominent role during the July negotiations in reducing the ambition, as these member states don't believe in the virtue of deficit spending or heavy public intervention in the economy. However, this camp has been weakened by the departure of the UK and the shift in German thinking, which is likely to survive Angela Merkel's departure as Chancellor next year. The center of German politics is moving towards the left through the rise of the Green Party. The traditional free-market German economic philosophy shared in the North could come under pressure when issues like competition policy, protection of strategic sectors, or free trade come up for discussion.

The Southern European countries were offered an unprecedented show of solidarity welcomed by the great majority of member states, led by Germany and France, that - at least for the moment - have regained their traditional role as the driver of European integration.

In any case, these decisions must work and promote a long-delayed modernization of the weaker economies. This is especially true for Italy, which has long been suffering from internal political instability and – contrary to the other Southern European members – has a poor record of efficient use of funding received from the EU.

Finally, regarding the Central European countries, the decisive July 2020 summit almost broke down on the plans to introduce a mechanism that would allow for a cut-back on EU financial support in case of infringement of rule of law (clearly aimed at Hungary and Poland). Once more, the Hungarian leader, Viktor Orban, showed his political skills and diffused the issue (for now). However, preserving the rule of law goes to the heart of the European construction, and the issue will not go away. The future risks to the fundamental principles of the European Union may concern values as much as the economy.

The pandemic is not yet behind us, but the show of solidarity demonstrated by EU leaders' decisive and coordinated response amidst a time of great crisis bodes well for the future actions and decisions the EU will need to make in response to the many challenges still ahead.

"The show of solidarity demonstrated by EU leaders' decisive and coordinated response amidst a time of great crisis bodes well for the future actions and decisions the EU will need to make in response to the many challenges still ahead."

Biographies

Declan Kelly

Chairman & CEO

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

Declan is a trusted advisor to several of the world's leading CEOs and corporations.

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 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 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. Through his involvement with Global Citizen, Declan served as an Executive Producer of 'One World: Together At Home' a historic broadcasting event held on April 18th, 2020 which has raised $127 million in commitments to date in support of health care workers in the fight against the COVID-19 pandemic.

He also served as an Executive Producer of the 'Global Citizen Festival: Mandela 100' which brought together heads of state, dignitaries, many of the world's most talented artists and influencers, and thousands of global citizens to celebrate the centenary of Nelson Mandela and led to 60 commitments and announcements worth $7.2 Billion, set to affect the lives of 121M people.

Declan is also a member of The Council on Foreign Relations.

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

President, Security Risk Advisory

Courtney Adante focuses on supporting clients with issues of resilience and business continuity in the face of crisis.

With over two decades of experience in financial services and consulting, she has helped clients manage continuity of operations through a range of crises, whether related to financial markets, man-made or natural disasters.

At Teneo, Courtney is the President of Teneo Security Risk Advisory, and in addition to managing all aspects of the division, she supports Fortune 500 clients with design and delivery of enterprise security strategy programs, including emergency preparedness and response and crisis communications.

Prior to joining Teneo, Courtney worked for Accenture in the capital markets practice, managing global client account teams. Her project work was primarily in trading and investment banking, specifically managing multi-million dollar projects in operational risk, trading supervision, derivatives trading, middle and back office operations, regulatory reform and organizational design.

Before joining Accenture, Courtney worked for the electronic trading system division of Instinet (INET), formerly known as Island ECN in New York, where she was an account manager for all Island ECN equity trading for U.S. and European based client groups. Before joining Island ECN, Courtney was a market supervisor for fixed income trading at Eurex in Frankfurt, Germany, the electronic trading division of Deutsche Boerse. Prior to Eurex, Courtney was a trade fraud investigator and open-outcry market supervisor for the futures and options markets.

Courtney completed her MBA at Loyola University in International Business and Finance and holds a BA in Economics and German from Miami University of Ohio. She has also completed executive education courses in artificial intelligence and cybersecurity with MIT and Harvard respectively. Courtney is a member of the American Council on Germany and serves as the Vice Chair of the Board of Girls Inc. NYC.

Jon B. Alterman

Senior Advisor

Jon B. Alterman is a Senior Advisor to Teneo.

In addition to his role at Teneo, Dr. Alterman is a senior vice president, holds the Zbigniew Brzezinski Chair in Global Security and Geostrategy, and is director of the Middle East Program at CSIS.

Prior to joining CSIS in 2002, he served as a member of the Policy Planning Staff at the U.S. Department of State and as a special assistant to the assistant secretary of state for Near Eastern affairs. He has been an adviser to and member of several U.S. government panels, and he has testified numerous times before the U.S. Senate, the U.S. House of Representatives, and the UK House of Lords. He taught for many years at Harvard (from which he received his Ph.D.), the Johns Hopkins School of Advanced International Studies, and George Washington University. Alterman has lectured in more than 30 countries on five continents on subjects related to the Middle East and U.S. policy toward the region. He is the author or coauthor of four books on the Middle East and the editor of five more, and he appears regularly in leading global media outlets, including the New York Times, Washington Post, Wall Street Journal, Financial Times, ABC, NBC, CBS, Fox, CNN and NPR. A former staff member for Senator Daniel P. Moynihan (D-NY), Alterman is also a frequent briefer to senior U.S. and foreign government officials, corporate boards and business leaders.

Ursula Burns

Senior Advisor and Former CEO of Xerox

Ursula Burns has extensive international experience helping large companies confront technological changes within their industries.

In June 2017 she was appointed as Chairman of VEON Ltd. She became Chairman and CEO in December 2018 until June 2020. Ursula Burns was the Chairman of the Board of the Xerox Corporation from 2010 to 2017 and Chief Executive Officer from 2009 to 2016.

Burns 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.

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.

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 Uber. 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 nonprofit 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 Engineering, The Royal Academy of Engineering 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.

Tim Burt

Vice Chairman

Tim Burt is a Vice Chairman at Teneo, representing some of our largest international clients on corporate, financial and M&A communications.

He has advised with company leaders and family businesses over more than 12 years. For clients, he provides detailed industry intelligence, reputation risk management and media engagement advice.

He joined Teneo following its 2015 acquisition of StockWell Communications. Before that, Tim spent six years as a Partner at Brunswick, where he oversaw media, industrial and automotive clients.

From 1989-2005, he worked at the Financial Times in roles including Media Editor, Motor Industry Correspondent and Nordic Correspondent. As a former Business Journalist of the Year, he has written for the Wall Street Journal, Daily Telegraph and The Guardian, and appeared on CNBC, the BBC and ITV news. He has written two business books – Dark Arts and 2020 Vision – and is a fellow of the Royal Society of Arts & Commerce.

Christian Buss

Senior Managing Director

Christian Buss is a Senior Managing Director with Teneo.

Prior to joining Teneo, Christian was the Director of Investor Relations and Competitive Intelligence for Columbia Sportswear Company, where he led investor relations outreach programs, managed earnings processes and supported strategic planning initiatives. Christian also previously served as the Director of Global Apparel, Footwear and Softlines Research for Credit Suisse, where he led analysis of vendors and retailers in the North American apparel, footwear, and accessories sectors, as well as developed an industry-leading social media analytics platform evaluating brand momentum across softlines sectors.

Before joining Credit Suisse and Columbia Sportswear Company, Christian served various roles at ThinkEquity LLC and Thomas Weisel Partners in New York.

Christian holds a Bachelor’s degree from Reed College and a Master’s degree from the University of California, Berkeley.

Sydney Carlock

Senior Vice President

Sydney Carlock is a corporate governance and executive compensation professional with over twelve years of experience.

She has a diverse compensation background with experience in consulting, internal compensation design, and shareholder advisory services. Sydney engages directly with senior management leaders, board members, and high level investors to discuss issues, trends, and policy related to corporate governance and compensation.

Prior to Teneo, Sydney was a Managing Director at Joele Frank. Before her time at Joele Frank, Sydney spent 4 years at ISS and before ISS she spent 4 years at Capital One.

Martha Carter

Vice Chairman and Head of Governance Advisory

Martha Carter is Vice Chairman 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 previously sat on 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.

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.

Matt Filosa

Managing Director

Matt Filosa is a recognized leader in ESG with over 20 years of experience from an investor, public company and academic perspective.

His experience includes serving as Managing Director of ESG at Teneo Consulting, Vice President & Director of Corporate Governance at MFS Investment Management and Associate Director of the Harvard Law School Program on Corporate Governance.

In his current role at Teneo, Matt guides public companies on ESG investing trends and the impact that ESG ratings, rankings, indexes and disclosure frameworks are having on their shareholders. He also advises companies on issues relating to ESG disclosure, engagement, activism defense, boards of directors, and proxy contests.

During his 13-year tenure at MFS Investment Management, Matt built and managed the firm's first global ESG stewardship and active ownership program for approximately $500 billion in assets under management. Matt also managed the firm's commitment to the Principles for Responsible Investment and was a founding member of the firm's Responsible Investing Committee and ESG Working Group.

During his semester at the Harvard Law School Program on Corporate Governance, Matt managed the Harvard Law School Corporate Governance Forum – a thought leadership blog focused on ESG issues – and directed the Program's events and sponsorship activities. He was also an active contributor to the Harvard Law School corporate governance curriculum.

Matt has been a guest lecturer at Harvard Law School and Boston University School of Law. He was a founding member of the U.S. Investor Stewardship Group and served on its Governance and Marketing Committees. He also served on the Advisory Council at the Harvard Law School Program for Institutional Investors.

Matt contributed the corporate governance chapters of two publications: “The Fund Industry: How Your Money is Managed” (Robert C. Pozen and Theresa Hamacher, 2014), which is considered the main textbook on the mutual fund industry; and “Too Big To Save? How To Fix the U.S. Financial System” (Robert C. Pozen, 2009).

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

Paul Haenle

Chairman, Asia Pacific Region

In addition to his role with Teneo, Paul Haenle 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.

Lord William Hague

Senior Advisor

Lord Hague of Richmond is a Senior Advisor 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 the author of The Iconoclast: Shinzo Abe and the New Japan, the first English-language biography of Japan's longest-serving prime minister.

From 2006-2007 Tobias worked 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 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. He was the Fellow for Economy, Trade, and Business at Sasakawa Peace Foundation U.S.A from 2014-2020.

Jerome Hauer, Ph.D.

Senior Advisor

Jerome Hauer, Ph.D, is a leading expert in emergency response, emergency management and crisis planning.

He has vast experience establishing and executing effective risk management strategies to anticipate threats, reduce vulnerabilities and execute plans and procedures designed to support business continuity and personal safety. He has a significant track record of service in the areas of homeland security, emergency management, and medical and public health planning.

Prior to joining Teneo, Dr. Hauer served as Commissioner of the Division of Homeland Security and Emergency Services for the State of New York, which oversaw the Office of Emergency Management, the Office of Fire Prevention and Control and the Office of Interoperable and Emergency Communications.

He also served as the Director of the Office of Counterterrorism. The Division was responsible for helping to prepare for, and respond to, terrorism and other man-made and natural disasters throughout New York State.

Dr. Hauer was the first Acting Assistant Secretary for the Office of Public Health Emergency Preparedness at the U.S. Department of Health and Human Services, where he was responsible for preparedness and response to national emergencies, including acts of biological, chemical, and nuclear terrorism.

He was Director of the Office of Public Health Preparedness and Senior Advisor to the Secretary for National Security and Emergency Management during and after the events of September 11, 2001 and the nation's anthrax crisis.

During his time as Director of the Office of Emergency Management for the City of New York, he coordinated the city's planning and response to natural and man-made events, including acts of terrorism.

He also served as Executive Director of the State of Indiana's Emergency Management Agency and Deputy Director for Emergency Management for the City of New York's Emergency Medical Services.

Dr. Hauer has authored dozens of academic articles relating to terrorism, crisis management, health risk and safety.

He earned his Ph.D. from Cranfield University at the Defense Academy of the United Kingdom, he holds a Master's degree from the Johns Hopkins School of Public Health, and a Bachelor's Degree from New York University.

Bob Herrera-Lim

Managing Director

Bob Herrera-Lim 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.

Bob 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.

Before working in the United States, Bob 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 U.S.AID, he developed and implemented a Supreme Court training program on securities and bankruptcy law for trial court judges.

As a lawyer in Manila, Bob 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.

Bob 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 advises Fortune 100 CEOs and significant institutional investors with insights on geopolitical and policy risks, and their investment and corporate strategy implications.

He plays an active role in promoting the firm's research agenda and developing its macro views, as well as integrating Teneo's geopolitical advisory services across the platform.

Prior to joining Teneo, Kevin was the director of Strategic Clients at Eurasia Group and a member of the firm's Operating Committee. Previously, he was in international institutional equity sales with the Spanish bank BBVA, and earlier, with Bear, Stearns & Co.

A sought-after public speaker, Kevin regularly presents to a wide range of audiences worldwide on geopolitical risks and trends.

Kevin is a member of the Council on Foreign Relations. Kevin received a BA in Economics from Vassar College.

Matt Lovering

Senior Managing Director

Matt Lovering has over 20 years' experience providing strategic and commercial advice to public and private sector clients across the transport industry.

He is recognised as one of the leading experts on revenue growth, commercial strategy and contract structures in the U.K. rail industry, but has successfully completed major projects across all forms of mass transit over five continents.He leads the consulting work in the transportation sector at Teneo. Since 2012 he has been the lead commercial advisor on bids with combined revenues of more than U.S.$100bn and been the lead strategic reviewer on further opportunities valued at over U.S.$50bn.

He has also written a number of major strategic white papers on the economic value of transport and the structure of the industry, including a global review of "The Mobility Opportunity" which developed a new approach to quantifying the economic benefit of investing in transport and identified an $800bn economic opportunity from improving mass transit in the major cities of the world.

Matt was formerly a Partner of Credo Consulting, a respected boutique strategy consulting firm operating out of London and Dubai, which was acquired by Teneo in 2017. Prior to joining Credo in 2011, Matt was a Senior Manager in the strategic transportation practice of L.E.K. Consulting and a Principal Consultant at Steer Davies Gleave and also had a spell in industry working with National Express Group.

Matt holds an MA (Oxon) in Economics and History from Oxford University. He lives in Essex, UK, with his wife, Muriel, and their two sons William and Alistair.

David Lurie

Senior Vice President

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

David 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 David 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 Martin 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.

Alex Pigliucci

President, Management Consulting

Alex Pigliucci provides corporate leaders with strategic advice on applying the latest digital innovations to better engage customers and enhance the efficiency and control of their enterprises.

Alex has 20 years of industry experience consulting global organizations in complex transformations including: divestitures; mergers and acquisitions; global technology change programs; outsourcing; and implementing new global operating models.

Previously, Alex was with Accenture, where he served in numerous senior leadership roles. He most recently led their digital businesses, including: digital marketing, creative design, analytics and big data, mobility, and connected devices, in support of financial services clients in North America.

Alex holds Bachelor of Science and Master of Engineering degrees from Cornell University.

Orson Porter

Senior Managing Director

Orson Porter advises Teneo's clients on various government and public affairs matters.

Prior to joining Teneo, Orson served as the U.S. Director of Government and Public Affairs for Nike, Inc.

Prior to joining Nike, Orson was appointed by President William J. Clinton as Special Assistant to the President, serving as the White House Midwest Political Director. Orson interfaced regularly with members of Congress, Governors, state and local elected officials, and other constituencies.

Before his appointment to the White House, Orson worked for Milwaukee Mayor John O. Norquist, where he served as the City's Principal Federal Liaison.

In 1999, Orson was selected to participate in the highly-competitive European Union Visitors Programme. This program elects national leaders from non-member countries to visit the European Union as guests of the European Parliament and the European Commission to discuss matters of mutual interest.

Orson attended the University of Wisconsin where he majored in journalism and communications.

Sean Quinn

Managing Director

Sean Quinn advises companies on corporate governance issues.

Sean joined Teneo in April 2017 from ISS, where he was an Executive Director and Head of U.S. Research, directing research, analysis, and vote recommendations for U.S. companies and engaging with investors, issuers, and other stakeholders.

Previously, he led ISS' Governance Institute, where he provided research and information around key governance issues and coordinated ISS' policy development and engagement teams, and co-headed ISS' Americas research team and led financial sector research, specializing in proxy contests, mergers, and issues relating to boards of directors.

He has been a frequent speaker and panelist at conferences sponsored by business groups, investors, and directors.

Sean attended the Catholic University of America and Georgetown University.

Suraj Ramaprasad

Managing Director

Suraj Ramaprasad is a Managing Director in the Management Consulting business, focused on Digital Transformation advisory.

Suraj's client work currently centers largely around the CXO digital transformation agenda. He works with senior client executives to help them appreciate the impact of the digital disruption in their industry, identify innovative propositions that unlock business value through revenue or cost plays, identify the 'agile' business and technology capabilities needed to thrive in the digital age, shape the transformation agenda and sell the case for change. He has regularly been invited as speaker/contributor in industry events, publications and surveys for his views on digital transformation.

Suraj's client work over two decades has spanned the UK, Europe, India, Asia-Pacific and the Middle East, and has ranged from strategy/advisory to large scale IT-enabled digital/business transformations, across the energy, utilities, metals and mining, automotive, telecom and logistics sectors.

Suraj's previous role was Managing Partner at Infosys Consulting, leading the Energy, Utilities and Telecoms P&L for Europe. Prior to this, he has played the roles of the Energy sector leader for Europe and ROW, and IT Strategy and Transformation practice leader for the UK.

Prior to Infosys, Suraj worked with Accenture in the strategy practice, where his focus was on operations performance improvement, cost reduction and margin enhancement, supply chain transformation, new country/market entry strategy and commercial due diligence for M&A.

Suraj's interests and passion outside work include cricket (he is the co-founder of a community cricket club in Northwest London), and tracking the evolution of emerging digital technology and its effects on society and business.

Radina Russell

Senior Managing Director

Radina Russell, based in Atlanta, has extensive experience advising senior management and board directors of Fortune 500 companies on complex strategic, financial and reputation management situations.

Most recently, Radina was the Group Vice President and Head of External Corporate Communications and Multicultural Community Engagement for Macy's, Inc. With responsibility across Macy's, Bloomingdale's and Blue Mercury, Radina worked with the CEO, CFO, President and other senior leaders on the company's transformation narrative. In this role, she led strategic financial communications, business & consumer media relations, cyber & crisis communications, labor relations strategy, sustainability reporting, executive thought leadership, corporate social media strategy, litigation communications and diversity & inclusion engagement.

Prior to Macy's, Radina was a senior strategic and financial communications advisor across a number of special situations, with a primary focus on shareholder activism, unsolicited and friendly cross-border M&A, IPOs, and corporate inversions. She previously led the Investor Relations Practice at Teneo and co-led the Global Shareholder Activism Defense and Capital Markets Advisory Practice (New York) at Brunswick Group. Radina also previously was Vice President, Equity Research at J.P. Morgan covering Broadlines Retail and Food Retail where she led a number of IPOs.

Tony Sayegh

Managing Director

Tony Sayegh is currently a Managing Director at Teneo. He advises clients on strategy, communications, public affairs, government relations and media.

He twice served in the Administration of President Donald J. Trump. Most recently Tony advised the President as White House Senior Advisor for Strategy. He first joined the Administration as Assistant Secretary of the Treasury, leading the department's Office of Public Affairs. He was detailed to the White House in August of 2017 to manage the coordination of the Administration's tax reform effort and to lead a dedicated communications team focused on the issue. He also directed communications for many of the President's economic initiatives including the trade negotiations with China, traveling to Beijing on four trips with the U.S. delegation. Secretary Mnuchin awarded Tony with the Alexander Hamilton Award, the highest honor bestowed by the Treasury Department. While in Washington, he also served as a Fellow at the Georgetown University Institute of Politics in the Spring of 2017.

Before joining the Administration, Tony worked as an Executive Vice President at Jamestown Associates, a nationally recognized political advertising firm that was part of the media team for the Trump campaign. Several of his projects received prominent industry acclaim including the Reed Award in 2014 for the "Most Original TV Advertisement" and the Reed Award in 2015 for "Best Comparative Mail Piece." He was also a political analyst and contributor for the Fox News Channel.

Tony received both a B.A in Political Science and Master of Public Administration from The George Washington University in Washington D.C. As an undergraduate, he was elected Executive Vice President of the Student Association and was awarded the Presidential Administrative Fellowship to pursue graduate studies at the University. He later served on the University Board of Trustees. Tony was also elected to public office at the age of 27, serving two terms as the Deputy Mayor and Trustee in Tuckahoe, New York.

Megan Shattuck

President, Talent Advisory

Megan 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. Megan 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, Megan 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, Megan 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.

Megan is the chair of the board of directors of Children's Rights, serves on the board of directors of the Arch Street Teen Center in Greenwich, Connecticut and is a member of the YPO Gotham Chapter. She 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 as Permanent Representative to the EU for 9 years and bilateral ambassador to Italy and to Belgium.

He was Chief negotiator for the Council during the final phase of the enlargement negotiations in 2002. In addition he worked 18 years in the European Institutions serving as Head of Cabinet for the Secretary General of the Council (1980-1995) and and for Commissioner 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 EU'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.

Poul holds a Master of Economics from Copenhagen University and Diploma of Higher European Studies from College of Europe, Bruges.

Jonathan Wackrow

Managing Director & Teneo Global Head of Security

Jonathan Wackrow leads strategic and crisis communications campaigns and advises CEOs, management teams, and Boards on issues relating to crisis preparedness, planning, management and response.

Jonathan 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, Jonathan 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. Jonathan 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.

Jonathan 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.

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

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 Weinberger

Senior Advisor and Former Global Chairman and CEO of EY

Mark Weinberger has experience leading a global business, working at the highest levels of government and as an entrepreneur.

Mark has a track record of driving transformative change in the public and private sectors during periods of unprecedented disruption.

Mark was the Global Chairman and CEO of EY, a leading global professional services organization with 284,000 people, operating in more than 150 countries. Mark led the organization through a purpose-fueled transformation centered on EY's purpose of building a better working world.

Mark's government experience includes serving as Assistant Secretary of the U.S. Department of the Treasury (Tax Policy) in the George W. Bush Administration. Mark was also appointed by President Clinton to serve on the Social Security Administration Advisory Board. He served as a member of President Trump's former Strategic and Policy Forum and as a member of President Obama's Infrastructure Task Force. He also worked in the U.S. Senate.

Mark played an active role in the World Economic Forum (WEF), as a member of its International Business Council and as a Global Agenda Steward for Economic Progress. He co-chaired the Russia Foreign Investment Advisory Council (FIAC) with Prime Minister Dmitry Medvedev and served as Chairman of the International Business Leaders Advisory Council (IBLAC) to the Mayor of Shanghai.

He is on the Board of Directors of Johnson & Johnson and MetLife. Mark serves as a Strategic Advisor to the Board of FCLTGlobal, which focuses on long-term investing and corporate governance. Mark is on the CEO Advisory Council of JU.S.T Capital. He sits on the Board of Directors of the National Bureau of Economic Research (NBER), is a Senior Advisor to CECP and is a member of the Aspen Economic Strategy Group.

Mark also sits on the Board of Trustees for the United States Council for International Business (U.S.CIB), the Greater Washington Partnership and The Concord Coalition. He is member of the Board of Trustees for Emory University and Case Western Reserve University.

Mark has a BA from Emory University, an MBA and JD from Case Western Reserve University and an LLM in Taxation from Georgetown University Law Center. He has an honorary doctorate from the Kogod School of Business at American University.

Gabriel Wildau

Senior Vice President

Gabriel Wildau 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.

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