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Boards assess impact of Trump administration agenda

Board Leadership Center

Amid continuing uncertainty in Washington—on healthcare, tax reform, immigration, infrastructure spending, and more—directors can play a key role to help ensure that management focuses on the policy initiatives that are most critical to the company's strategy and long-term performance. Yet the challenge of cutting through the noise and preparing for possible legislative and policy changes is formidable given the lack of progress on key Trump administration initiatives.

The KPMG Board Leadership Center Spring Director Roundtable Series gathered insights from nearly 600 directors and senior executives across 16 cities about how boards are helping companies to assess the potential impact of any policy shifts on business strategies, risk profiles, and operations.

"We're facing a lot of what business abhors—uncertainty, but holding still is not an option," said one director. "We have to ask the right questions. We can't wait for the forecast to clear."

Discussions focused on four broad areas:

— Policy initiatives that may have the greatest impact (positive or negative) on the business

— How management is assessing the potential impact of these initiatives on strategy, operations, and growth

— How executives represent the company position on policy initiatives in communications with employees and stakeholders

— An investor and stakeholder focus on environmental, social, and governance (ESG) issues in light of potential regulatory rollbacks.

Among roundtable attendees surveyed, 42 percent anticipate that their companies will make at least one significant change to strategy as a result of Trump administration policy initiatives. Still, it was clear from the discussions that directors don't expect companies to overhaul their long-term strategies.

"We're playing the long game and taking a measured view," said one director. "Once we know what the policies are, we want to be ready to be make any appropriate adjustments."

Questions for boards to consider

— How robust are management's processes for assessing the potential impact of key Trump administration policy initiatives on the business?

— How confident are you that these processes will enable management to anticipate the impact of policy changes on the business and quickly adapt strategy and operations as needed to take advantage of opportunities and help contain risks?

— Is the company communicating with employees and stakeholders, when appropriate, to address their concerns about the potential impact of policy initiatives on the business?

— Are ESG initiatives a priority for the company today? Do you believe they will become a greater priority with further deregulation?

— Is the company balancing the need for near-term agility with a focus on long-term performance and value creation?

For many boards, scenario planning is playing an important part in helping companies prepare to respond to any shifts in the business environment. Among the roundtable attendees surveyed, 39 percent said management creates probability scenarios around the policy initiatives that would have the greatest impact on company strategy.

Comments from attendees included:

"We're not changing our strategy, but we are constantly modeling what it would look like."

"There are still too many moving parts. We aren't looking at scenarios, we're talking about the risks around our strategic plan and how we're doing."

"We're spending almost no time going through the what-ifs because recent events have shown us that there's almost no ability to even predict."

"Boards need to ask management to look at different [tax reform] scenarios and how they'll affect the company's business model."

Winners and losers?

Corporate tax reform and deregulation could help many companies and industries, but the potential fallout from trade protectionism might offset any gains resulting from a reduced tax and regulatory burden. Oil drillers, gas pipelines, coal companies, banks, construction and industrial equipment companies, and defense contractors may stand to benefit from policies that would ease oil and fracking regulations, begin repair of infrastructure, rebuild military apparatus, and rollback portions of the Dodd-Frank Act. However, foreign trade could suffer if trade agreements are renegotiated.

Among survey respondents, tax reform, reducing regulatory burdens, infrastructure spending, and global trade policy ranked as the initiatives that pose the greatest opportunities for company growth. Two of the initiatives viewed as top potential opportunities—global trade policy and tax reform—were also viewed as the top potential risks to company strategy, followed by foreign policy.

Roundtable attendees and panelists were generally confident about the prospect for tax reform, despite ambiguity about what it might look like and when it might happen. As one panelist put it, "We have less clarity [on tax reform] than we did at the start of the year. Everything is on the table."

Another noted, "Given the global tax climate—BEPS, country-by-country reporting—we are putting on hold anything that would be permanent tax structuring. There are actually more tangible uncertainties—around tax and laws—elsewhere in the world."

Communications in the current environment

A survey of business leaders of large U.S.-based companies conducted earlier this year ranked communicating with employees and stakeholders high among the key leadership activities that have become more important since the presidential election.[1]

Some high-profile CEOs have issued public statements in response to administration policy positions that are inconsistent with their company's mission or values—e.g., on immigration, climate change, and a range of social issues, including civil rights, policing, and judicial appointments.

Boards should understand the importance and sensitivity of the company's public communications on these issues, including communications to employees. As one attendee said, "Given the importance of these issues to many of the company's employees and customers, it's essential that the board and the CEO be on the same page as to when and how the company might express its disagreement with a policy position of the administration."

ESG issues could become a greater priority in an environment of deregulation

ESG issues such as climate risk and board diversity could become a higher priority for investors amid the administration's push for deregulation and the decision to withdraw the United States from the Paris climate accord.

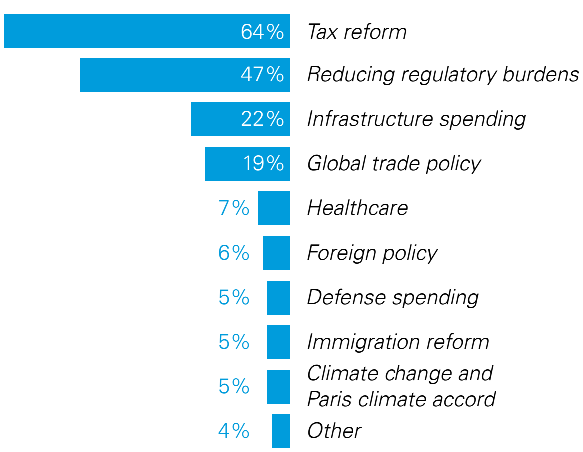
In the absence of regulation, investors are likely to rely on private ordering to effect change, as they did with issues such as proxy access and majority voting. In the 2017 proxy season, shareholders submitted more than 300 proposals to companies on environmental and social issues. In addition, large asset managers, including BlackRock, State Street, and Vanguard, have issued guidance for boards and revised their proxy voting policies around diversity and climate change to press companies to engage on those issues and hold directors more accountable.

[1] ExecOnline Trump Leadership Survey, January 2017

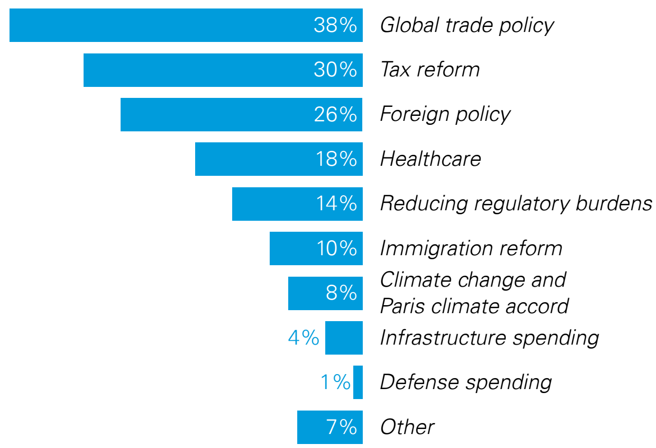
Indeed, more than half of survey respondents expect the Trump administration's policies on environmental and social issues to cause governance activism in those areas to gain momentum. Given all of these factors, it is increasingly important that boards understand how the company is managing the significant environmental and social risks related to the company's operations and embedding these initiatives into its strategy and culture.

As a result of Trump administration policy initiatives, do you anticipate your company making at least one significant change in its strategy?

Which of the Trump administration's policy initiatives will pose the greatest opportunity for your company's growth? (Select all that apply.)



Which of the Trump administration's policy initiatives pose the greatest risk to your company's strategy? (Select all that apply.)



Would the Trump administration's policies on environmental and social issues likely cause governance activism in these areas to gain momentum?

Note: Does not equal 100% due to rounding

Source: KPMG 2017 Spring Director Roundtable Series Attendee Survey

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.

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