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Conference Summary

The changing nature of the corporation: how can corporations in democratic societies best adapt to contemporary domestic, international and technological pressures?

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EXECUTIVE SUMMARY

FULL REPORT

The search for growth is a mission that both governments and corporations can agree on, but we are now in a world where this has become much more complex and the interaction between security and economic issues is unavoidable. Once, in the not-too-distant past, governments pursued national interests abroad through diplomacy, national security and defence capabilities but tried not to get too much in the way of the flow of global commerce, while a company's purpose was primarily to serve its shareholders through the pursuit of profit.

However, as companies have grown ever more powerful, their perceived role in causing society's ills and therefore the responsibility for solving them, has grown in proportion. As a result, employees and customers in many cases have come to expect companies to lead on social issues and do more than just make money. At the same time, governments find themselves in a new era of statecraft, where economic and security issues are interconnected in a way that was previously only a concern for defence companies. National interest is not only represented by national security, it also means economic interest, one participant noted. Therefore, if you are not prosperous, can you have good national security and vice versa? Are the two not necessarily mutually dependent?

This conference set out to consider what this combination of domestic and international trends and pressures means for leaders of companies, company strategy and culture. With this in mind, participants considered how companies' interactions with governments might be changing and how best this could be managed. They also debated the question of whether there was a way to better integrate economic and security strategy, as well as how governments could better inform and consult with companies on that strategy.
This is a bumper year of elections around the world, which could have further impact on companies' cohesion and the social and political space in which companies operate. The Labour Party in the UK is working hard to reassure companies that they will deliver stability and no surprises, while the European Union is seeking to expand its powers to cover economic security. And in the US, companies are considering how to respond if President Donald Trump is re-elected.

It is perhaps no surprise that China loomed large in the discussions, which broadly focused on the trade-offs between stoking competition and protecting national security. However, opinions differed on how best to manage this relationship going forward. China is widely seen to be operating on an uneven playing field, and it is too large for the rest of the world to absorb its capacity. In addition, it is using instruments of diplomacy to extend its influence, for example, in the Global South. Can normal trade and economic rivalry with China continue, some participants asked, while countries (and in particular the US) are also taking steps to protect their national security? Or, conversely, does economic and trade interdependence provide some sort of insurance policy for national security?

On balance, the ongoing interdependence between the US and China likely influences the choices we make, some felt. And while this is not a perfect system, it is a factor. Just because it is not a guarantee of national security, said one participant, doesn't mean it's not not a guarantee either. On the other hand, another participant noted that in Europe there was a widespread acceptance that economic interdependence was not a guarantee of national security. "We cannot trade semiconductors to China in the same way as we do fine wines and luxury goods."

Either way, the consensus was that when it comes to China we are in a permanent era and not just a moment in time. Russia, on the other hand, is not being considered in a long enough timeframe.

Russia, and its ongoing war in Ukraine, was seen as arguably a larger preoccupation for the UK and Europe than it is for the US in the current moment. That said, it was noted that the US government and corporations may not feel so worried about Russia for now, but that it should “still be on our minds in terms of the longer-term implications for Europe.” The imposition of financial sanctions and the withdrawal from the relatively small Russian market in retaliation for Russian’s invasion into Ukraine was not too difficult for most companies, but a further escalation of sanctions, for example the confiscation of frozen Russian central bank assets, could create more turbulence and lead to tit-for-tat seizures.

There was also a warning that in the rush to “manage” China, and also Russia to a lesser extent, we might be ignoring economic and trade opportunities in Latin America and Africa at our peril. China has been making significant investments into infrastructure and digital projects in countries in the Global South, potentially undermining the foothold that the West has traditionally held in these regions. But, and perhaps more importantly, these countries often do not want to have to choose between the West and China or Russia, rather seeing these geopolitical tensions as representing an economic opportunity. There has been a dawning realisation that Western politics do not affect the African continent, one participant said, but that this might be an opportunity to negotiate better deals. African corporations are not sitting around waiting for the West to resolve its crises.

Turning to the domestic front, the question of corporate purpose and the attendant ESG and DEI agendas were the subject of heated debate. Conservative ‘anti-woke’ forces in the US have driven a backlash against such initiatives, arguing for a return to fundamental capitalist and American values, while in Europe there has been more resistance to the anti-ESG wave, shored up by a solid regulatory framework. One participant warned about “jumping on hypes” like DEI and the net zero transition and promising things you cannot deliver, without knowing first what you need or want as a company. It is important to differentiate between acting too quickly and waiting to assess the landscape and acting decisively. However, it was agreed that corporations need to generate profits and growth in a sustainable way.

The real costs of ESG were said by some to be difficult and unsustainable, particularly in some sectors such as Artificial Intelligence, as energy demands continue to rise. Another risk for companies to consider was that of public backlash to ESG policies if their cost noticeably impacts the consumer. “The general public wants a green transition, but they don’t know at what cost,” said one participant. We have to focus on what matters and not have the tail wag the dog, said another participant, in reference to employee and shareholder pressure on social issues. In addition, there must be an honest conversation around what companies can actually deliver. This was seen as particularly crucial with regard to climate and developing realistic models for an energy transition.

Further divisions between the US and Europe are increasingly likely. Some saw the US as accelerating from a position of great strength, while Europe’s aim had been to become a regulatory superpower, shaping markets in its own image and to its advantage. But now there was a risk, as Europe’s economy stagnated, that it could end up regulating only itself. There is also a risk of pushback against US companies particularly, but not limited to, those in the technology sector, as the idea of European sovereignty manifests, but also a chance that this would mean Europe missing out on innovation. Participants agreed that the importance of economic growth will be even more important in the period ahead than the period before. This could be an opportunity for business to better indicate what policies they need from their governments for growth, such as reviewing the roles of some regulators.

The increasing specialisation in many industries, as well as the growing pace of technology and of tech companies themselves was seen as posing a challenge to putting in place effective regulatory frameworks. This was primarily because regulators simply do not have the depth of knowledge to regulate in these industries, as well as the challenges involved in regulating "boundary-less" products such as social media. The technology industry had at first presented as a new type of company, combining extraordinary profits with public good. But as the mixed impact of social media became clearer and the companies themselves ever more dominant, these perceptions had changed.

Nevertheless, a "golden decade" was seen by some, especially Europeans, to be on the horizon for the US economy, underpinned by cheap energy, subsidies and general resilience. Meanwhile, growth is stagnant in the UK and Europe, although opportunities for growth in Europe could include health data, universities, science and research. Other areas that require further exploration in terms of scale and regulation are data centres, electrification, and connectivity. A justifiable industrial strategy remains a significant challenge given difficulties in making this work across countries and the blurring of national security with economic risk. Europeans were frustrated by the impacts of the US Inflation Reduction Act on capitals flows as one example of this, in spite of Europe's own equivalents.

It was broadly felt that there was "a huge amount of wood to chop" in terms of the relationship between corporations and the state, no matter which country you were in. And questions remain over what the responsibility of corporations is to take on concerns of national security and policy issues. Should companies feel proactively responsible when they think about opportunities in China, for example, or where to open their next manufacturing centre? On the other hand, to what extent should societies and governments be more mindful of the needs of business? On a more optimistic note, it was thought that there was room for collaboration and governments could also help direct the private sector's attention to problems they were unable to solve on their own. The relationship between the public and private sector does not always need to be adversarial and there is room for "healthy tension" between the two.

Conference participants split into three Working Groups to consider geopolitical competition with China and Russia; the impact of industrial and trade policy, plus the need for rapid innovation; and evolving definitions of company purpose and pressures on corporate governance.

The importance of geopolitical competition with China and Russia

It was generally agreed that a permanent restructuring of globalism across the board is very likely given sharp divides over ideology, social, political, and economic norms. Corporations and SMEs are underequipped for the challenges involved in this, both in terms of complying with regulation and in understanding geopolitical risks. Governments are also not quite ready either, with a lack of coordination between different departments.

Participants agreed that US-Europe relations are seeing a real divergence that will continue regardless of who the next US president is, given a multitude of squeezes such as on de-risking from China, pressures to increase defence spending, on technology and the pursuit of growth. Finding the balance between commercial advantages and national security interests, both between the US and Europe, as well as in engagement with non-aligned countries is an increasingly difficult area. If a future US administration is too tough on Europe, this could risk a backlash and bifurcation. There was also concern that Europe was in danger of being the "left-out" continent.

Geopolitical tensions are going to get much more serious, some participants noted, and China and Russia are likely only going to get much more aggressive, so we are only at the beginning of this trajectory. The key learning from the Russian invasion of Ukraine has been that dictatorships play by their own rules and we cannot expect Russia or China to be driven by the same motivations as us. In addition, China has de-risked better and more thoroughly from the West than vice versa, although there has been an amount of interest in India and the Middle East as an alternative or a counterweight to China. There is a substantial difference here in the politics of UK and US companies and the UK needs to generate export growth from somewhere. Should companies try to focus more on regional partnerships and supply chains, rather than global ones?

Despite the fact there was little mention of Latin America and where it fits into the geopolitical board game, participants did agree that both Latin America and Africa are geographies that require greater focus on the part of Western companies on a case-by-case basis, given the opportunities for growth and the widening competition to win over non-aligned states, as well as the increasing demand for critical minerals in cutting edge technologies. Most of the constructive focus has previously been on India, the wider Indo-Pacific, and the Middle East.

Mismanaged relations with the Global South were a major area of discussion, particularly given China's significant investments into infrastructure and digital in developing countries. We used to have a foothold in developing economies and a sense that most of them wanted to emulate the West, one participant noted, but that has weakened now. These countries often do not want to choose between the West and China or Russia, and geopolitical tensions could actually represent an opportunity for countries in Africa or Latin America.

The outcome and consequences of this year's US Presidential election was a major area of discussion, with some regions being relatively comfortable with the idea of a Trump administration that could mean less regulation and lower taxes. Corporations also shared mixed views, with some highlighting a possible trend towards deregulation domestically as an area of opportunity. There was also a growing acknowledgment of near bipartisan consensus on China, yet a failure by Europe and the US to win support from non-aligned countries on Russia. On the other hand, Germany's continued engagement with China is likely to increase tensions between the US and Europe in the coming months and years too. This is likely to worsen regardless of the political leanings of the next US government.

The impact of governments' industrial and trade policies and the need for rapid innovation

A retrenchment from trade policy in recent years has seen a simultaneous rise in government industrial policy. This is intended to drive innovation and reindustrialisation at home but, it was argued, it could have the reverse effect in emerging technologies where international competition often inspires creativity. This direction of travel in policy was widely felt as inevitable given a rise in insecurity due to competition with China, but the speed at which this has occurred was seen to have accelerated under former President Trump.

European and US divergence seemed increasingly likely given the multiple squeezes on Europe of high energy costs, sticky inflation, and sluggish growth, combined with US industrial policy attracting investment away from Europe and pressures to increase defence spending and decouple from China at the same time. While many saw the outlook for Europe as dim, the US was widely thought, by Europeans especially, to be entering a "golden decade" of economic growth. Further economic polarisation could result in a rise in both the far left and far right, particularly for those groups excluded from the benefits of globalisation. On the other hand, opportunities remain ripe for the picking, and those who come out ahead in new technological and data fields will win a chunk of the global economy. Latin America was named as a possible significant, and often overlooked, partner.

It was noted that there has been a permanent change in geopolitics that, as such, justifies and/or requires an industrial policy response. Industrial strategy remains, however, a significant challenge, given the difficulties in making this work across different countries and the blurring of national security with economic risk. As an example, Europeans were frustrated by the impacts of the Inflation Reduction Act on capitals flows, in spite of Europe's own equivalents. There ensued what was described as "feisty discussion" over the IRA between US and European representatives.

Industrial strategies such as the focus of 'securonomics' by Labour in the UK is indicative of a wider trend that may work, but also risks a return of over-intervention by government or a subsidies race. For countries outside of China and the US, a focus on picking selected areas that one has a cutting edge in or wants to win was broadly encouraged. The pursuit of growth remains fundamental, because without it one cannot have strong national security, and vice versa. The UK's relatively unregulated environment for start-ups was seen as an advantage here and one participant warned therefore against signing up to a version of the EU's AI act.

Better mechanisms to engage government outside of traditional lobbying were seen as needed for companies of all sizes, in order to foster a productive economic environment that accounts for economic security. The growing risk of protectionism was viewed by some as a danger to prosperity too, with scepticism over the limits of the current 'small yard, high fence' approach. Communication between governments and corporations could help facilitate improvements in efficiency and in building up industrial bases. For example, Toyota asked the UK government to assist in moving supply chains closer toward their manufacturing bases rather than financial subsidies. There was a view that some green policies had hurt growth, worsened further by regulatory overreach that it had enabled. There is a risk of a backlash against climate policies despite the existential risk because of some unrealistic and unworkable policies, such as asking African countries to track all of their carbon costs.

Balancing resiliency and profitability is an ongoing challenge for corporations given that too much of a geographic concentration is risky, but being too spread our actually hurts profitability for most companies. Similarly, profitability remains the north star for business, with sustainability of business a key consideration for longer-term operations. There was also criticism of what was dubbed the "bureaucratisation of virtue" by one participant, who added that this was a great opportunity for businesses to scale back and focus on profit and growth. Countering this, another participant argued that measures around environmental questions are now so existential that they have to be part of a company's strategy, even in China.

Evolving definitions of company purpose and the accompanying pressures on corporate governance

The general consensus around corporate purpose and profitability in this group discussion was that if companies are not profitable then they have no purpose. However, participants also stressed the need to recognise that there are lots of pressures on being profitable. In other words, how we are profitable is really important, and this must be in ways that are both sustainable and consistent with stakeholder values. There was debate though over the value of a corporate mission statement, with some saying that ultimately profitability was key, while others argued that a defined statement of purpose was a useful tool to build corporate culture and get employee buy-in.

Participants agreed that better thinking was needed around geopolitical risk, exemplified by the Russian invasion of Ukraine catching many off-guard, and that this could often be attributed to a lack of expertise and accountability at the board level. Many felt that accountability needed to be broader than the Chief Risk Officer, with ongoing discussions of upcoming challenges a critical component. For example, when identifying areas of likely future growth, the risk element has to be carefully thought out too. There is a risk of group think on any consensus, so bringing in different voices would be beneficial. When considering diversity at the board level, this should also include diversity of thought and experience, while intergenerational perspectives were also seen to be of value. In addition, there was an increasing value noted in having emotional intelligence on the board.

Geopolitical risk also needs to be put in context, for example, it is too risky financially not to be in China, but companies also need to build in resilience to account for instability in the wake of any future Chinese invasion of Taiwan. Specifically, supply chain and cost risks ought to be better understood. Areas of particular concern were potential dual-use or cutting-edge technologies, which remain at the front lines of geopolitical competition and therefore also of risk. The problem for these companies is if that they exit the Chinese market entirely then there is a huge cost to them, given the growing middle class in China. Those corporations that view themselves as not dual use or that are unsure if they fall into this category therefore seek to remain in Chinese markets.

Future proofing for issues like another poorly handled pandemic has an economic cost and proper preparation for all the potential risks ahead could overstrain companies in the here and now. Trying to factor in climate policies and the growing regulations has been difficult for corporations, with a bit of backsliding from high-level environmental targets that cannot be viably met in their view, such as in electrification that would require the US grid to triple or quadruple in size. However, there was agreement that despite these challenges it is crucial for companies to think truly long term like many Japanese companies.

Climate change is an existential threat, but some worried that we rushed into making some of these commitments. As we move into the implementation phase, how do we avoid looking like we are backtracking in the eyes of consumers? How do we do this without undermining trust? It was also important not to promise what you cannot deliver. The general public may want a green transition, but they don't always understand at what cost that may come. Ultimately, corporations need to create profits and growth in a sustainable way and strike a balance between acting too quickly and not acting decisively enough.

Looking ahead: In order to take these discussions forward, it was suggested that a theme for a future conference might be to discuss how to build constructive relationships between regulators, corporations and governments. And, with that in mind, considering how we go about getting the intellectual firepower that exists in corporations into regulators as well. This applies in particular with regard to the tech sector, where developments outpace regulatory knowledge day by day.

For further discussion on related issues, see also the summaries from Ditchley Deutschland's conference on economic statecraft in age of geopolitical rivalry held in Kronberg, Germany (4-5 April 2024) and the Khaki Green event held at Ditchley Park (24-25 April 2024) on national security and opportunities for growth in the green transition.

This note reflects the writer's personal impressions of the conference. No participant is in any way committed to its content or expression.

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