

*Think*

*new things*

*Make*

*new connections*

# Terms of Reference

A Ditchley conference in partnership with American Ditchley

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

19-21 April 2024

at the Greentree Estate on Long Island, New York

DITCHLEY

# Terms of Reference

## Summary

Facing geopolitical challenges from abroad, governments are turning to industrial policy and economic statecraft to protect national interests, bringing a new dimension to company strategies. Meanwhile, AI capabilities are advancing rapidly and company leaders are having to consider how they might adopt these new and often unproven capabilities or face disruptive competition from new rivals. At home, society and politics continue to evolve rapidly, with new currents for corporate governance to navigate, for example the 'anti-woke' backlash against the environmental, social and governmental agendas that many companies have embraced.

What does all this mean in aggregate for companies, their relationship with state and society, their relationships with governments in their markets and supply chains, and the pace of innovation?

This Ditchley conference will bring together leaders and experts from business, government, technology and other fields to address these questions and to consider how company leaders and government counterparts can best adapt.

## Detail

For what now seems to have been a brief and long-past period of unconstrained globalisation, life for corporations was simpler. 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 and the growing GDP that it underpinned. Technology was advancing but not at the breakneck speed that could see long established incumbents seriously challenged by new and unexpected rivals. A company's purpose was to serve shareholders.

A wave of change was triggered by the Great Financial Crisis of 2008, seen as the result of a financial system and culture out of control. The technology industry was 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, then perceptions changed. Increasing evidence and acceptance of the impact of climate change was interpreted as the result of an economy driven by large companies able to ignore their externalities, with the energy sector the prime focus. Social and economic issues bubbling up in society were attributed to price-driven outsourcing and globalisation of supply; the rise of CEO pay; the automation of jobs; the clustering of the economy at the expense of regions; the shaping and evasion of regulation through lobbying and so on.

All in all, as companies grew ever more powerful, companies' perceived role in causing society's ills and therefore responsibility for solving them, grew in proportion. For all of the criticism, trust in companies grew compared to trust in most governments. As a result, employees and customers in many cases came to expect companies to lead on societal issues

and to do more than just make money. A backlash to the resulting ESG agenda was perhaps inevitable with the anti-woke wave arguing for a return to fundamental capitalist and, in the US, American values.

The pandemic was another global event that shaped the role and responsibilities of companies. They were mandated or encouraged to govern every aspect of their employees' lives at work to try to limit contagion, including maximum occupancy of workspaces; the wearing of masks; social distancing; and vaccination policies. Working from home delivered economic and social benefits to employees that they have proved unwilling to give up as the pandemic receded. What began as a health crisis measure has evolved into a mixture of salary negotiation and duty of care responsibilities to support mental health and family life.

2024 is a 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. The European Union is seeking to expand its powers to cover economic security. In the US, companies are considering how to respond if President Trump is re-elected. Politically aligned employees and activist shareholders will have their own positions to press on company management in the context of a second Trump Administration.

The domestic context is only half the story for the evolution of the corporation:

Geopolitical events and trends are forcing companies to interact more deeply with governments' foreign policy and to examine the impact of geopolitics on their operations, strategy and culture. Governments are dusting off long-dormant powers to try to set industrial strategy and developing economic statecraft tools to try to influence rivals and adversaries' policy choices and their defence capabilities through measures aimed at their economic interests and innovation potential. The definition of areas of interest to national security is expanding, with semiconductors the current focus but biotech perhaps coming down the line. Defence companies may be used to navigating changing government policies but other sectors are not.

Financial sanctions against Russia were adopted at speed and with unusual unanimity across democratic allies; meanwhile, many other countries refused to take sides. Withdrawal from the relatively small Russian market 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.

It would be a different story with China's much greater market and power of reprisal. Neither side wants a Cold War but the risks of miscalculation are perhaps growing as the US takes economic statecraft steps to stay ahead of China on critical technologies. How should companies lobby their governments with regard to economic statecraft and industrial policy? Is the encouragement of investment in the US worth the risks for American companies of similar measures in response being taken abroad, for example in the EU? Are companies best served by international free trade, or national privilege and protection? A new balance is being struck between efficiency and resilience. As major countries compete, expanding areas of the economy may be seen as essential critical infrastructure for which resilient supply chains are essential for economic security. How should companies prepare for this new world?

Finally, the recent advances in AI may not yet have made it to the mainstream of company life but progress remains exponential and most analysts expect significant short-term effects. Employees and middle management alike are concerned that there may be a rapid efficiency-driven impact on clerical and knowledge-based roles, going beyond tools to help people to tools to replace people. Companies meanwhile are trying to understand the implications for their industry and to develop sufficient literacy to be able to make sensible investment and deployment decisions in the technology. Following the likely first wave of tools to increase the productivity of knowledge workers, there is the prospect of a deeper disruption and greater automation if AI emerges as an interactive layer between humans, legacy software and automated physical industrial processes, for example through manufacturing robots.

What does this combination of domestic and international trends and pressures mean for leaders of companies, and company strategy and culture? How are companies' interactions with governments changing and how can this best be managed? For governments, how can they better integrate economic and security strategy? How can governments better inform and consult with companies on that strategy?

For the middle part of the conference, we will split into three working groups so as to be able to address some of these issues in more detail:

**Group A** will explore the **impact of geopolitical competition with China and Russia and escalating violence in the Middle East** on how companies and company leadership will need to evolve. How can companies best respond to geopolitical events beyond their control? What is the right balance between supply chain efficiency and resilience and how can companies prepare for sudden changes in government policies? How can companies work with and help shape constructively governments' economic statecraft? How can companies best deal with authoritarian regimes whilst respecting often conflicting legal obligations in their home jurisdictions? How surgical has the "small yard, high fence" US approach to economic security been from the point of view of business? How should they manage sympathies and loyalties within their workforce on different sides of conflicts and maintain company cohesion? How can they best manage national security concerns on the leakage of sensitive IP? How could the geopolitical challenge for companies change under a second President Trump Administration?

**Group B** will look at **the impact of governments' industrial and trade policies and the need for rapid innovation**. What impact will the CHIPS Act and the IRA have on relevant companies? How might the EU and others respond to the IRA and what impact could that have in turn, for example if the EU introduces not an IRA equivalent stimulus package but carbon border adjustment tariffs? How can government and company exchanges on industrial policy be deepened to make such policies more effective?

How can companies plan for the impact of AI? How will company leadership and governance need to evolve? What investments should companies be making and what experiments should they be running? What impact will the EU AI Act have on companies' ability to innovate? What do companies need governments to do to support innovation (or should they just focus on removing barriers)?

How could a second President Trump Administration impact on industrial policy, trade policy and innovation?

**Group C** will look at **evolving definitions of company purpose and the accompanying pressures on corporate governance**. How will we define the purpose of a company in five years' time? What trends are likely to be durable and which transient? Is geopolitical competition forcing companies to identify themselves as more national than multinational, more democratic than neutral on politics? Will coordination with government policies change how companies manage government affairs? How well is the ESG agenda surviving both the 'anti-woke' backlash and economic pressures? Has the green transition moved on from ESG and become part of business strategy for most companies? How could a second President Trump Administration impact on companies' purpose, policies and governance?