



## Top 10 Topics for Directors in 2015: Strategic Planning Challenges

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Rising geopolitical tensions are also contributing to worries about the global economic outlook. Russia's incursion into Ukraine and the resulting economic sanctions imposed by the West are impacting the Russian and European economies, as well as many U.S. companies doing business there. The ongoing Syrian conflict, increasing Arab-Israeli hostilities and the startling rise of the Islamic State are further destabilizing that area of the globe. Growing apprehension about the spread of Islamic terrorism, as well as fear of the spread of the Ebola virus or the next unknown crisis, are also casting a shadow over the world economic picture.

Uneven economic growth is not limited to the international stage. On the domestic front, the precipitous drop in oil prices is boosting many sectors of the U.S. economy and leaving more money in consumer pocketbooks. At the same time, however, the low prices are causing oil and gas stocks to drop as energy companies consider ways to delay investments, cut costs and reduce capital spending for 2015. The cheaper valuations will also have some companies seeking out synergistic acquisition opportunities, while others will be looking for buyers or other lifelines to save them from this rough patch.

Management and boards also need to assess the divergent impact that the U.S. recovery has had on the American consumer. While the top percentile of American households have seen their wealth return to pre-financial crisis levels, due in large part to the long-running bull market, most Americans have experienced flat wages and many struggle to make ends meet.

Another factor adding to the domestic equation is the Federal Reserve's shift in fiscal policy. In light of an improving economy and lower unemployment rates, the Federal Reserve has

ended its quantitative easing (QE) bond buying program and many predict that the Federal Reserve will raise the federal funds rate, which is currently near zero, by mid-2015. While the rampant inflation and financial bubbles predicted by critics of the Fed's QE program did not materialize, many economists expect market turbulence as the QE program comes to an end and the Fed moves closer to its first rate hike since 2006.<sup>3</sup>

In light of the economic uncertainty, U.S. companies have grown their cash stockpiles to a record \$1.63 billion as of mid-2014.<sup>4</sup> Ultimately, companies will need to make important strategic decisions on whether and when to deploy these funds, particularly as shareholders demand more return on their investment. Since the financial crisis, companies have been creating shareholder value by cutting costs, improving operations and buying back stock. So far this year, more than 80 percent of S&P 500 companies have engaged in stock buybacks, which will likely top \$568 billion for the year.<sup>5</sup> While stock buybacks create shareholder value, directors need to consider whether choosing to buy back stock in lieu of other investment and growth opportunities is the best use of corporate funds. One of the biggest challenges facing companies is finding ways to drive top-line growth, preferably through organic growth, which is often the toughest to achieve. Many companies are pursuing growth through acquisitions, taking advantage of ample cash and the ability to borrow money at record low rates. As discussed more fully below, 2014 is on track to be the biggest year for M&A activity since 2007.

In addition to economic and geopolitical uncertainties, management and boards face a host of other challenges as they plot their company's long-term strategic direction. As discussed in this alert, these challenges include understanding and anticipating the impact that technology will have on the company's business and understanding and managing the company's risk, particularly as they relate to cybersecurity.

This post was excerpted from our annual Top 10 Topics for Directors in 2015 alert. To read the full alert, please [click here](#)

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<sup>1</sup> PricewaterhouseCooper's (PwC) 2014 Annual Corporate Directors Survey, at p. 17.

<sup>2</sup> Christopher S. Rugaber, "Economy 101: 5 Things to Know About U.S. Growth," *The Associated Press* (Oct. 29, 2014).

<sup>3</sup> Matthew Craft, "Did the Stimulus Work?" *The Dallas Morning News* (Nov. 3, 2014).

<sup>4</sup> Richard Leong, “U.S. Companies Spend Cash Stockpile on M&A, Shares: Survey,” *Reuters* (Oct. 28, 2014).

<sup>5</sup> Will Deener, “No Need to Worry About Buybacks,” *The Dallas Morning News* (Oct. 20, 2014).

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