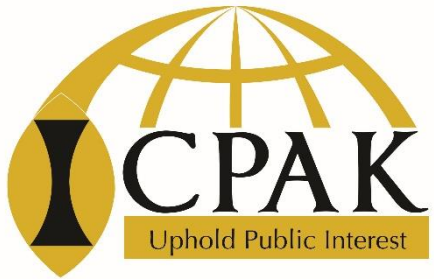


# Inside the boardroom: The realities of shareholder engagement



*Annual Governance & Ethics Conference:  
Sustainability and Convergence*

Mike Eldon

Chairman of KCA University Council,

The DEPOT consultancy, Occidental Insurance

# Realities...

Relative to *Governance and Ethics*

Relative to *Convergence and Sustainability*

Relative to *the norm*

Relative to *the potential*

# Different reality contexts

- Family businesses
- Partnerships
- Public companies
- Public-private companies
- State-owned enterprises
- Members' organisations
- ...

But they all have **owners, directors and management**

# “The Three Hats” in the boardroom

- Shareholders
  - Legitimately selfish
- Directors
  - Legally selfless
- Management
  - Accountable to the board



They all *only* act in the interests of the company

# “The Three Hats” in the boardroom

- Shareholders

- Appoint directors and auditors

- Directors

- Accountable for vision, culture, strategy, policy and performance

- Management

- Recommend to board and manage implementation



*Different functions, all adding value to the organisation*

Shareholders all want a return on their investment  
but they don't always agree on how...

Dividends v capital gains

Short term profit v long term growth

Lower risk/return v higher risk/return

# Inside the boardroom

It's just **the interests of the company**  
avoiding conflict of interest,  
with each director getting one vote  
and having equal individual liability

Shareholders get their chance at the  
***Annual General Meeting***  
...not in the boardroom

*But how to keep the owners adequately **engaged**?*

What goes on in the boardroom?





# What do you talk about there?

- Strategy & innovation?
- Revenue & expenditure?
- Over and under performance?
- Products and pricing?
- Customers?
- Talent management?
- Systems?
- Audit, risk and compliance?



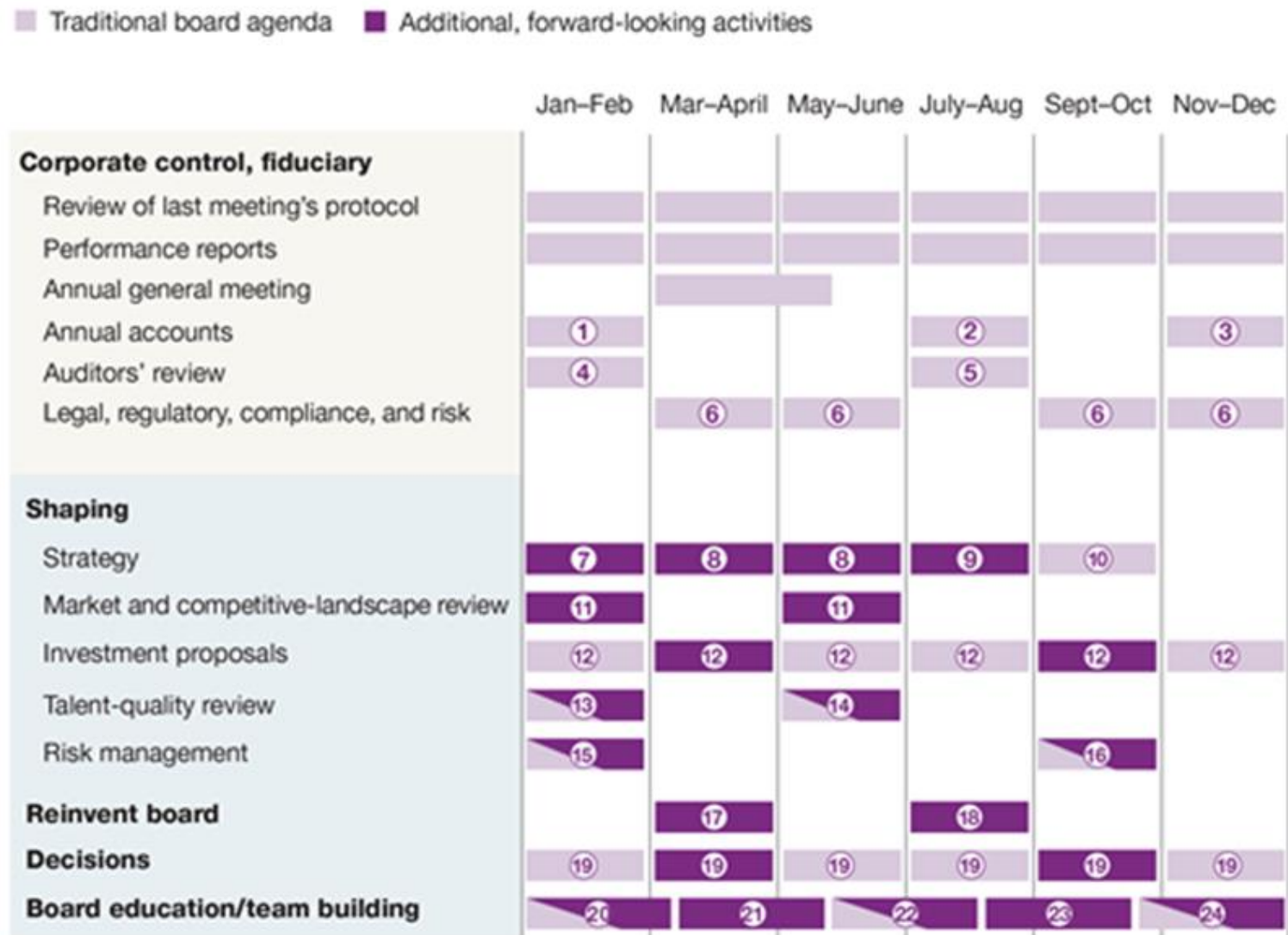
*In what proportion?*

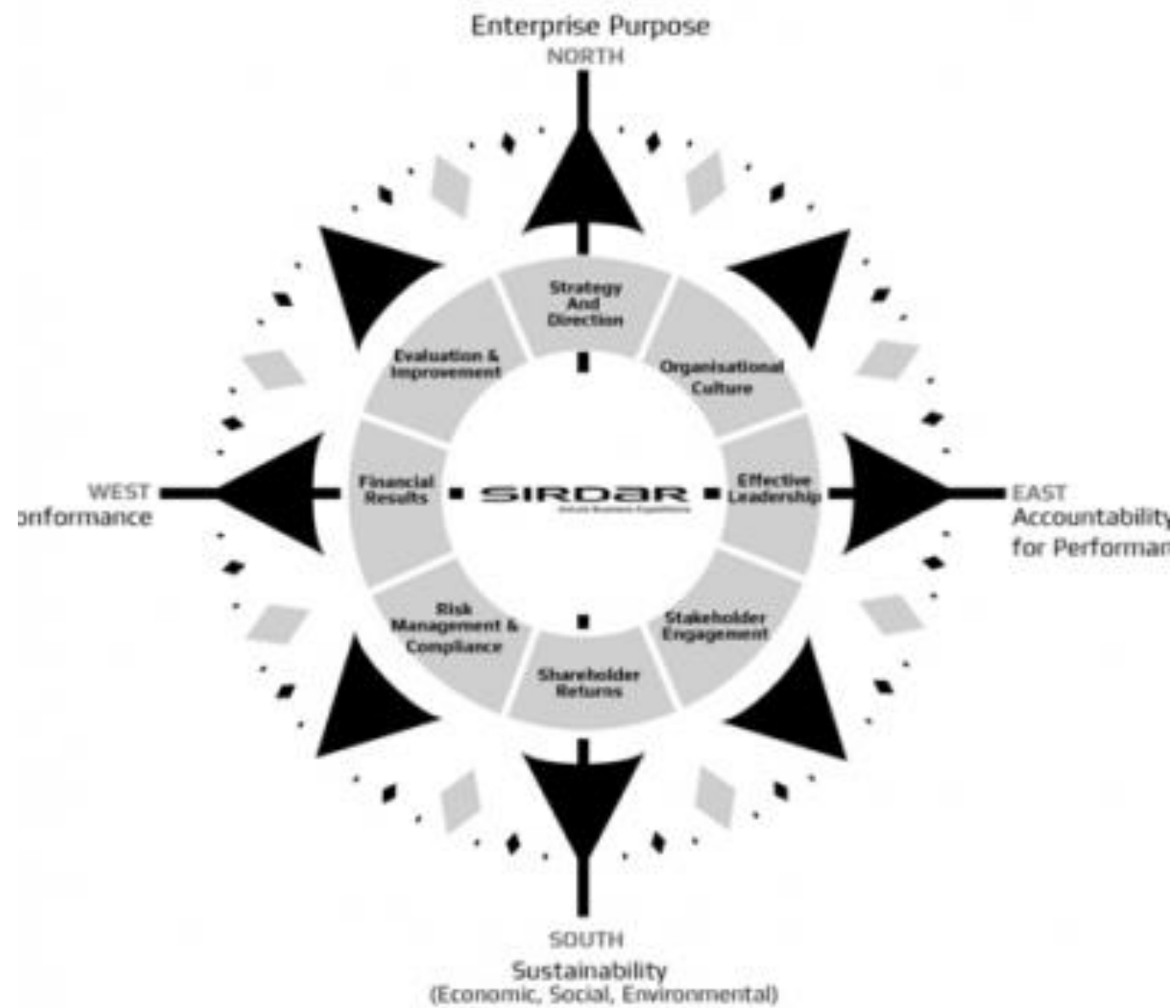
TEN MINUTES LEFT -  
LET'S DO THE STRATEGY



What boards *do*  
and *should*  
spend their time on

McKinsey Quarterly  
February 2014





# Traversing the Avalanche

A practical guide to the implementation  
of effective governance for SME growth



*"Traversing the Avalanche is a practical guide that should be of great assistance to the shareholders and directors of SMEs and private companies to understand their respective roles."*

— Professor Mervyn King QC

**Carl Bates**

Chief Executive of Sirdar Global Group

# The board: champions... or cops?

- Inspires... or inhibits?
- Motivates... or de-energises?
- Enables... or instructs?
- Promotes... or runs down?
- Protects... or exposes?
- Recognises... or takes for granted?
- Supports... or interferes?
- Coaches... or bosses?

# Role & style of the board

- Compliance... or enterprise?
- Risk avoidance... or risk management?
- Stretching... confining?
- Challenging... or accepting?
- Too mean... or too nice?

# Tough questions

- How **energetic and enthusiastic** are we/am I?
- How significant is our/my **contribution**?
- Is our group dynamic conducive to **enjoyable and productive meetings**?
- How well do we/I **listen, challenge**?
- How effective is the **chairman**?



In all of this,  
how easy is it to tell  
**who wears which hat?**



How are **shareholders** engaged?

Is it all about **convergence** and **sustainability**?

If boards discuss the right things in the right way  
engagement and alignment  
will be easier

How do directors **engage and explain**?

How do they **negotiate to win-win**?

Who **enables** it?

# Relationship (Convergence!) Builders

- Chairperson
- Board committee chairs
- Independent directors
- CEO

# Focal point, 360 degrees: the chairperson

- Manages board meetings
  - purpose & outcome
  - content & time
  - energy & atmosphere
- Builds consensus – not too soon, not too late
- Encourages value addition by all
- Link to the CEO

# Contribution of independent directors

- Broad experience and understanding
- Strategic thinking
- Independent, objective thought & perspective
- Mediation

*Probe, challenge, stretch*

# The butchery's independent director: not a butcher!

“Adding a butcher to the board of a butchery  
will lead to a board that talks about **cutting meat**  
instead of one that focuses on  
developing, evaluating and measuring the **meat-cutting system.**”

*Traversing the Avalanche*

Carl Bates, CEO Sirdar Global Group

# The CEO: neither dominant nor submissive

- Updating, informing
- Recommending, responding
- Accountable for implementation



# The shareholder-owner director

Just (and *only*) another director  
when in the boardroom

# Engaged, aligned cultures

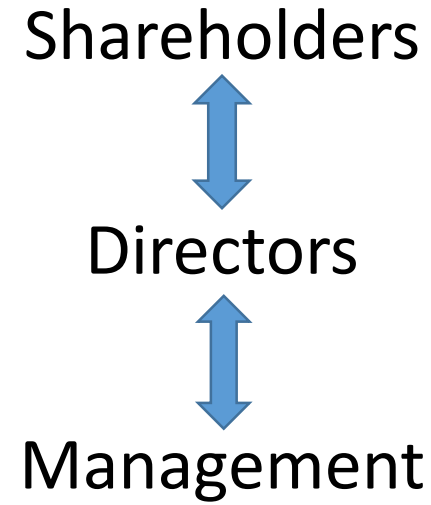
- Information, information, information
- Motivation – upward and downward
- Culture & values; charters & codes of conduct

# Information, information, information

- Available and open
- Enough but not too much
- Relevant and easy to absorb
- Timely and accurate

**Transparency:** the enabler of trust  
Essential for decision-making

# Motivation – downward *and* upward



*Parent-Child? Child-Child? Or Adult-Adult?*

*We're all human, so we must all be helped to engage*

# Culture and values

Our culture is “the way we do things round here”

Our **values** influence our **attitudes**

Our **attitudes** influence our **behaviour**

And behaviour is what we *observe*

*What is your culture, your behaviour?*

# Charters and Codes of Conduct

- What's our job... individually and collectively?
- Number, appointment, term, performance?
- How do we relate to other stakeholders?
- How do we behave with each other? Do's and don'ts



# The Unforgiving Wall Street

## “Tyranny of the Quarter”

- Quarterly/Half-Yearly results
  - Incentive to massage the figures
  - Temptation to short-term sub-optimisation  
“Cut and run investing”; “Quarterly Capitalism”
- Unilever and others no longer publish quarterly earnings targets and revenue projections

*“Capitalism for the long term”*

Dominic Martin, Global MD McKinsey, HBR 2011



“Firms exist and make decisions  
to maximize profits”

*Milton Friedman’s  
Economic Theory of the Firm*



The quarterly tyranny of Wall Street



“I actually think if Milton Friedman were alive today  
he would be a stakeholder theorist.”

“He would understand that the only way to  
create value for shareholders in today’s world is to pay attention to  
customers, suppliers, employees, communities and shareholders  
at the same time.”

*Edward Freeman, Darden School of Business Uva*

*<https://www.stakeholdermap.com/shareholder-vs-stakeholder.html>*

Shareholder value

**Shareholders**

**Owners**

**Suppliers**

**Customers**

**environmentalists**

**Local community  
organisations**

**Competitors**

**Employees**

**Media**

**Governments**

**Customer advocates**

Stakeholder value

Traditional vision statement:

Maximise shareholder value

Today's approach:

Treat all stakeholders responsibly...  
and hence be sustainable

... and so our shareholders (among others) are engaged



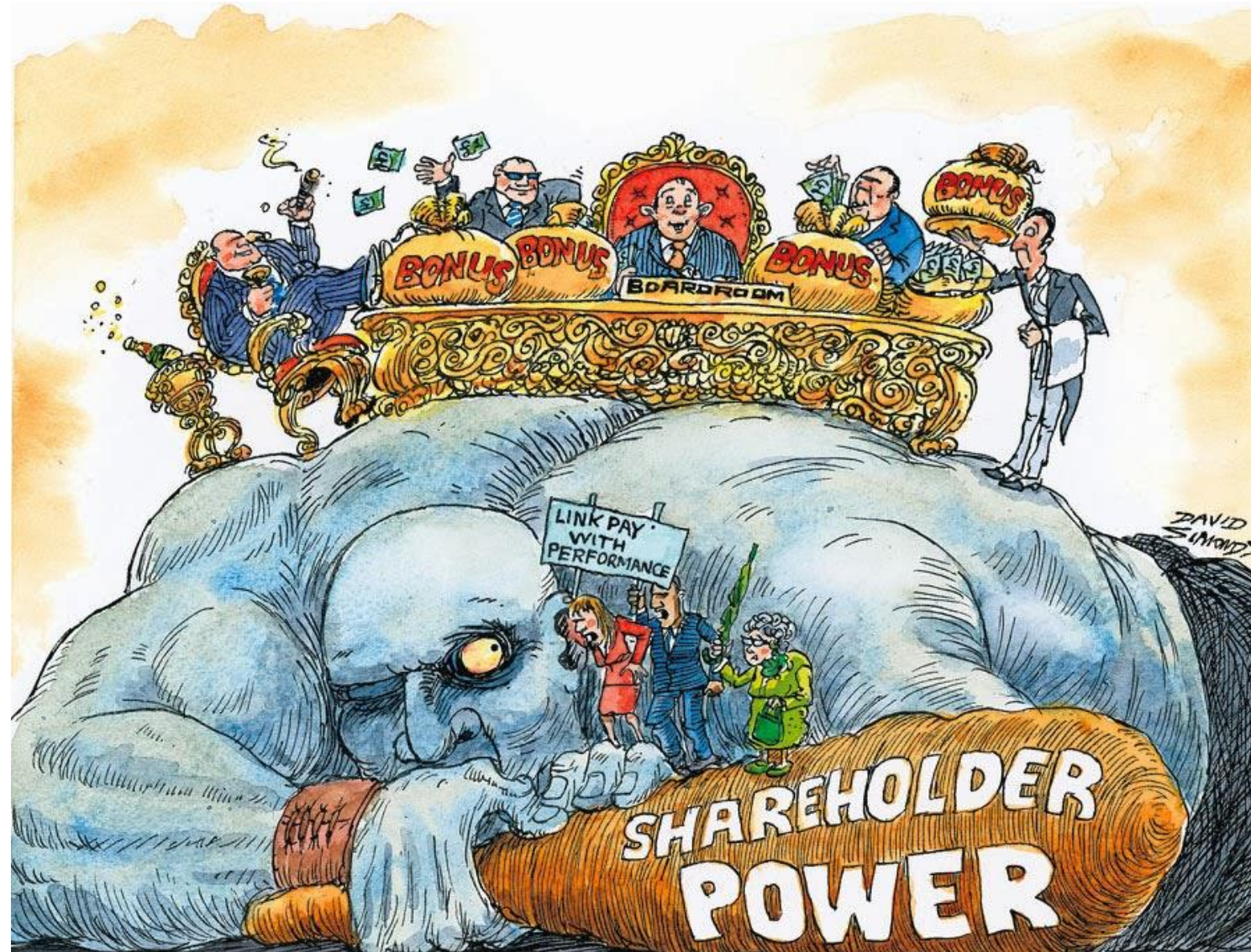
# Trade-offs and consensus building

For nearly two decades Amazon has focused on **growing the company**, almost always **at the expense of quarterly profits**.

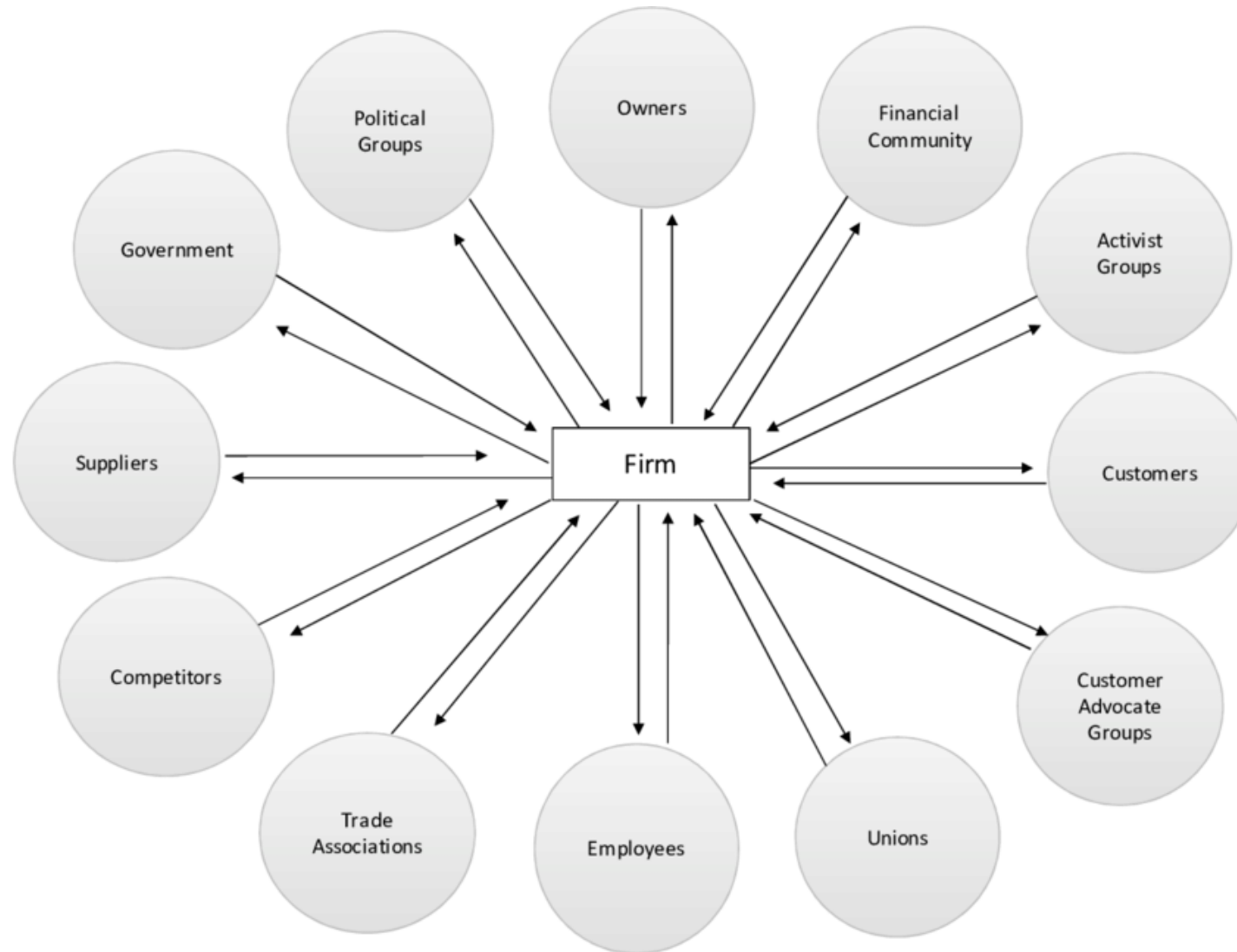
But other big tech companies have been under pressure from investor activists who want the companies to sharpen their short-term focus and generate more value for shareholders.



# Activist shareholders



Now: *activist stakeholders!*





# So boards are raising their game too...

- Create value
- Resist short term pressures
- Focus on strategy & performance
- Form ad hoc committees
- Broaden information sources
- Deepen exposure & training



Yvan Allaire, Mihaela Firsirotu, François Dauphin

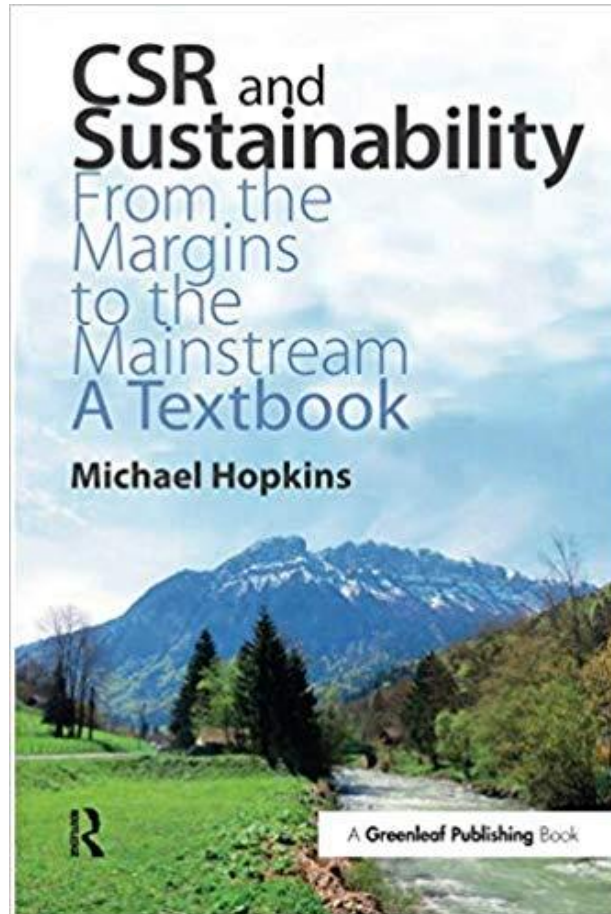
# Nestlé's Values

Shared values are a way to intersect with society and Nestlé 330,000 members of staff.

**Trust** is both a brand and a product.

The company behaves as a citizen with the same sense of **responsibility** both within and outside the company.

Paul Bulcke, Chairman and former CEO of Nestlé, Feb 2016



# Pressure to deliver consistent financials

For *publicly quoted companies*, to influence share price

For *all private entities*, to maximise company valuation  
(eg in build up to Merger / Acquisition / IPO / PE Investment)

...but that risks destabilising longer term sustainability

# The realities of Founder's Syndrome



If you have leadership without governance you risk  
tyranny, fraud and personal fiefdoms.

If you have governance without leadership you risk  
atrophy, bureaucracy and indifference.

Mark Goyder  
CEO and Founder  
Tomorrow's Company



# The professionalisation journey

- Boards... and board meetings
- Strategies, plans, budgets, systems, processes,  
policies, performance management
- Independent directors
- External managers
- Succession planning

# Assessing board performance





Assessing shareholder engagement  
in that boardroom

If that engagement works well  
you will see

*Convergence and Sustainability*