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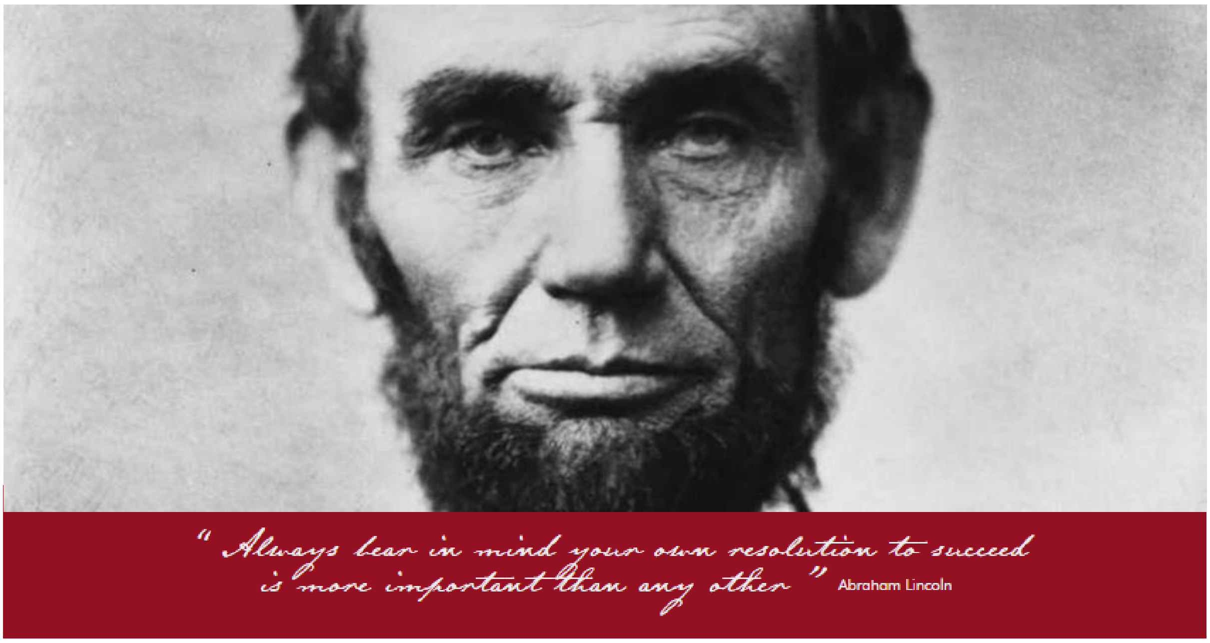
Executive Search & Board Advisory

"SHORT TERMISM – 'WE HAVE THE TYRANNY OF INSTANT COFFEE, SHORT TERMISM, NOT TAKING TIME TO MAKE THINGS RIGHT."



In a recent Blenheim Partners Paper, short termism and the pressure to deliver "now" was seen as impacting the ability to achieve long term sustainable growth in Australian companies.

'Short-termism' was a common theme among Directors and there was no shortage of commentary on the subject, some attributing this mindset to pressure from investors for immediate runs on the Board.

This theme of investors wanting to growth without risk emerged in the context of trade-offs between short-term and long-term objectives. Short-term planning and returns is safer than pursuing long-term opportunities. Shareholders and institutional investors at time want short-term delivery from long-term strategy. They essentially want their cake (immediate returns) and eat it too (high growth). To address this requires Directors and executives to spend an inordinate amount of time explaining their portfolio of short-term and long-term growth initiatives.

But others saw these investor demands as being more reasonable, and blamed the Boards and Executives themselves for not being able to articulate a clear strategic vision for long-term growth to various investment markets.

> "It's as much about the communication from the company, i.e. I think our problem with short termism in recent time has been the inability of companies to articulate a good path for investment over the longer term."

This view was broadly reinforced by a range of participants who while agreeing that articulating the story was a problem, it was unclear as to the cause of this. Was it just a lack of competency in telling the story, or was it more than this? Did they not put the required effort in because they could not see the value, was it more fundamental, in that they did not see why they should or as one participant put it: is it the language of "corporate" that we have created? A sample of comments from participants reinforcing this follows.

> "We have created a language called corporate. It is a problem. Our communication skills are critical and are being tested. We need to get the message across in less than five pages. Promise only on what you can deliver, keep it simple, keep it clear and once again keep the language simple. Then you will get credibility."

> "Short termism is just as much about the inability to articulate the story to investors and other stakeholders. The US is better at spelling out the long term. The smart investors like capital appreciation."

> "CEOs are not always very gifted at telling the story (selling the story)!"

Investors may also contribute to this kind of corporate mentality by demanding that management "tends the garden" they have invested in. Moving into new industry sectors via acquisitions may be seen as abandoning the very reason that investors injected cash into the company in the first place. Thus the actions of investors may be blocking the growth opportunities that will deliver the high growth outcomes they are striving for.

According to Gregory Robinson, Managing Partner of Blenheim Partners, "In many ways what we are hearing is that growth is not what is required, but that sustainable growth over the longer term should be the goal. To do this it is imperative that all stakeholders including Boards and Executives align in ensuring that strategies are put in place across the short, medium and long term to ensure sustainable growth over time for companies. A failure to do this will have disastrous consequences, resulting in short-term planning and growth trajectories that over time will challenge the ability of companies to deliver sustainable growth".

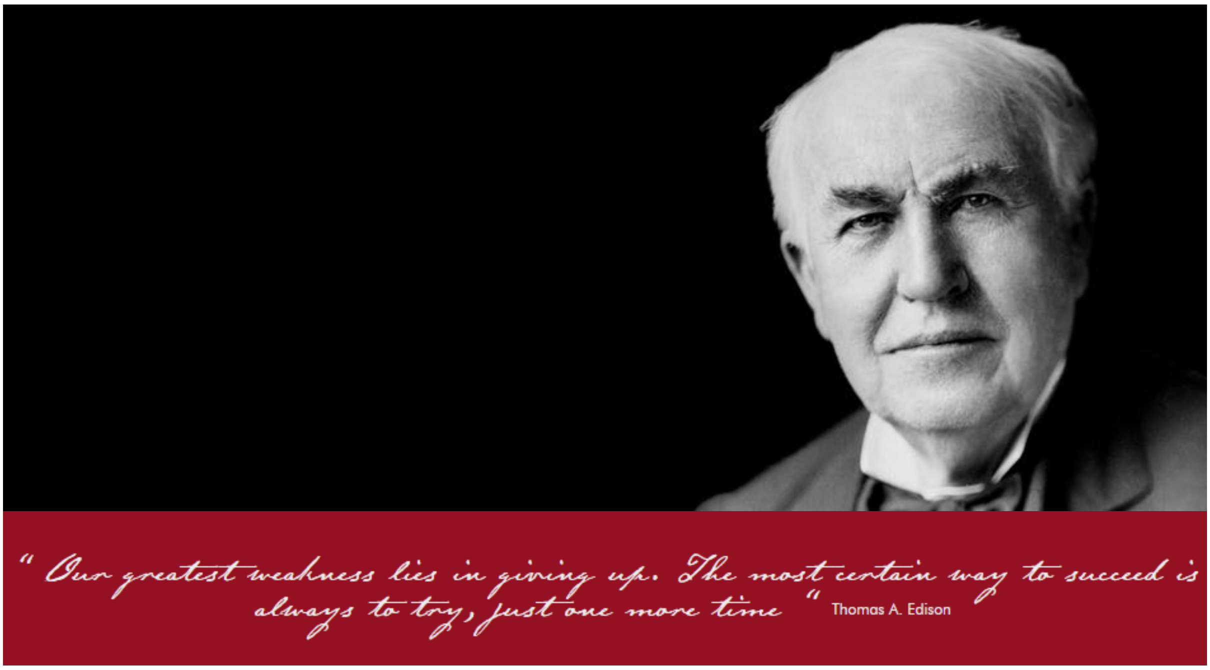
This is because no one will be looking out, asking the "what if" question or "looking over the front of the boat" to identify future opportunities and threats.

This will have consequences for all stakeholders including:

- Reputations of Boards and Executives;
- Earning potential for Executives;

- Longer term sustainable capital and dividend growth for investors;
- Superannuation returns for Australians more generally to live on in retirement;
- The viability of the companies themselves; and,
- The security of jobs for employees.

RETAIL – ARE OUR LEADERS THINKING DIFFERENTLY TO THE UNITED KINGDOM?



The financial year is over, the battle for the New Year lies ahead and has commenced. A number of players hoisted the white flag, collapsed and found it too difficult last year. For those still fighting the fight, it is becoming a tremendous battle. With the likes of Amazon and other disruptors coming to our shores, the landscape is changing rapidly.

Historically, Australian retailers have tended to follow many of the United Kingdom's retail trends. So what are we seeing in regards to the United Kingdom retail leadership, and what are the backgrounds of the CEOs?

- Approximately 30% acquired most of their experience in store operations;
- 25% had worked for one retailer only in their career;
- Approximately 60% had little to no experience outside the retail sector; and,
- 90% were male, with 95% being Caucasian.

Australia is different to the United Kingdom in terms of population, density and distance. Australia is the largest island in the world with average to poor infrastructure, presenting a unique set of challenges.

Data analytics, digital processes, artificial intelligence and improved technology will broaden the gap between the leaders and the followers in the competitive retail race. With the game changing so quickly, will the Australian Retail Boards' CEO appointments vary in competency from the United Kingdom and will they bring a different set of skills?

In October 2016, former Amazon Vice President, Sergio Bucher was appointed Chief Executive Officer of Debenhams. He brought with him a background that contrasts with the above, that is, an early career in manufacturing and in accounts, then marketing before he moved into retail. He worked for numerous companies across different countries prior Amazon, then Debenhams.

The appointment is an example of new thinking in a sector that has dramatically changed. One only has to review what has happened in the last decade in regards to payment, fulfilment, supply chain, logistics and omnichannel to acknowledge these developments. Now with artificial intelligence, robotics and deep analytics, there will be increasing pressure on CEO's to have a more comprehensive understanding of the current and future drivers to be in a position to ask necessary questions of the Executive team.

The CEO's management style may need to reflect the shifting dynamics. Leading a management team based on competitive silos in the large retailers again, may well be a style of the past. The Executive team is increasingly coming together as technology breaks down the walls. While each division need to achieve their KPI's and targets, greater collaboration as opposed to the more traditional adversarial nature of the retail team structure may deliver improved results. Retailers are learning very quickly that the competitor is no longer across the road or the other side of town, they can be anywhere in the world and can reduce their market share at an astonishing pace. Any retailer who has recently travelled to the United States, China, Western and Eastern Europe can appreciate the impact of technology in the market dynamics.

Today, the customer has more options than ever. They can walk to the shop, go to a super store, or buy online and can have the products delivered to the front door, and even collect them at a time that suits them.

No doubt, some retailers in Australia have survived because of their isolation. Not all Northern Hemisphere trends will apply, and our great country with its enormous expanse and small population brings different obstacles. Technology will continue to impact retail, and those that stick to the traditional retail sector thinking may pay a substantial price.

"2017 and 2018 will be eventful, the pace of change and the impact of international brands will increase. As such, the pedigree of the leadership will alter. CEO's will increasingly have to take into consideration the impact of technology, on potential lost and gained customers and with that, may have to surround themselves with a new breed of Executives. The new Australian retail CEO may not come from the pure retail sector, and perhaps not from an operations, merchandising or supply chain background. The Australian market is becoming global, and the vultures are circling," said Gregory Robinson, Managing Partner, Blenheim Partners.

LESSONS FROM JOHN FAIRFAX

John Fairfax was the founder of one of Australia's most respected and influential newspapers, the Sydney Morning Herald. It is the flagship of a communications empire, an incredible achievement for a man who arrived in Sydney September 26, 1838 with five pounds in his pocket leaving behind a very upset group of creditors in England.

Fairfax's journey to Australia, apparently in haste, was occasioned by a libel suit brought against him and his small English provincial newspaper, the Leamington Chronicle and Warwick Reporter. Whilst Fairfax defended the suit successfully, he was not able to meet his court costs. It would not be the last time he would be sued, but he decided that in any future legal wrangle he would never again be embarrassed by a lack of funds. He also pledged to himself that someday he would return and clear his debt and his good name. Not an easy task. On his journey to Australia were his wife, three children and his mother. At thirty-five he was almost penniless, with no job and no contacts in the colony. However, he did have an iron will and excellent grounding in newspapers.

Fairfax was born in Warwickshire, England in 1804 and left school at thirteen to be an apprentice bookbinder, printer and bookseller in Warwick. On completion of his trade he tried journalism with the London Morning Chronicle but preferred to work for himself and returned to Warwickshire and started his own printery.

In 1827 with a partner he founded the Leamington Spa Courier, and later established with another partner the Leamington Chronicle. Unfortunately this venture finished in a libel suit and his move to Sydney where he took what work he could find, as a journalist and librarian.

In 1841 his fortunes would change. The struggling Sydney Herald was up for sale and with his friend Charles Kemp he bought the paper on long-term credit.

The paper's circulation and level of advertising was down and for the first few years the partners did almost everything themselves – that is reporting, writing, and the mechanical work of proofing the paper. On August 1st 1842 they designed a new format and renamed the paper the Sydney Morning Herald and began to make progress. In 1851 Fairfax achieved his ambition of returning to
Leamington and paid his creditors in full. On his return to Sydney, Fairfax bought out Charles Kemp's share in 1856, the company assumed the name, John Fairfax and Sons, later to become Fairfax Media.

With the newspaper growing, Fairfax passed control to his sons and became a director of AMP, Sydney Insurance Co., the Australia Joint Stock Bank and the Australian Gaslight Co and a trustee of the Savings Bank of New South Wales.

In 1874 he was accepted to the Upper House of New South Wales Parliament. He died June 16, 1877 and two sons carried on to build the Fairfax business.

Gregory Robinson, Managing Partner "John Fairfax illustrates what iron will and integrity can achieve. Starting all over in a foreign country, Australia, he had the resolve to establish a newspaper and clear his sullied name. A great example of never giving up. We now watch with great interest the discussions around the future of Fairfax."

TOP KEY BOARD AND EXECUTIVE MOVEMENTS IN AUSTRALIA 4TH SEPTEMBER – 8TH SEPTEMBER 2017

- Ardent Leisure Group: Gary Weiss and Carl Richmond have been appointed to Board effective immediately. Melanie Willis has resigned from the Board, effective immediately.
- Australian Pharmaceutical Industries Ltd: Mark Smith has been appointed as a Non-Executive Director. Mark has been appointed Chair elect following the decision of current Chairman Peter Robinson to retire at the Annual General Meeting on 24 January 2018.
- Bega Cheese Ltd: Richard Platts has resigned as Supplier Director.
- Capitol Health Ltd: Richard Loveridge has been appointed as a Non-Executive Director.
- Commonwealth Bank of Australia: Robert Whitfield has been appointed as a Non-Executive Director. Launa Inman and Harrison Young will retire as Directors at the conclusion of the AGM on 16 November 2017.
- Evolution Mining Ltd: Andrea Hall has been appointed as a Non-Executive Director, effective 1 October 2017.
- IAG Ltd: Alison Deans has retired as a Non-Executive Director, effective 20 October 2017.
- Iron Mountain Incorporated: Neil Chatfield has resigned from the Board of Directors, effective 8 September 2017.
- Kathmandu Holdings Ltd: Reuben Casey, the company's current Chief Financial Officer, has been appointed to the newly created position of Chief Operating and Financial Officer. Mark Handy has been appointed as General Manager Merchandising.

- Logicamms Ltd: Charles Rottier has been appointed as a Non-Executive Director.
- Megaport Ltd: Tim Hoffman has been appointed as Chief Technology Officer.
- Michael Hill International Ltd: Andrew Lowe has been appointed as Chief Financial Officer, effective 4 December 2017.
- PMP Ltd: Anthony Cheong has announced that he will be stepping down from the Board, effective 30 September 2017.
- Propertylink Group: Derek Nix has resigned as a Non-Executive Director.
- Sandfire Resources NL: Richard Beazley has been appointed as acting Chief Operating Officer. Martin Reed has stepped down from role of Chief Operating Officer. He has agreed to provide ongoing input on a consulting basis.
- Spicers Ltd: Jonathan Trollip has been appointed as Chairman.
- Telstra Ltd: Vicki Brady has been appointed as Group Executive, Consumer and Small Business.
- The Citadel Group Ltd: Anne Templeman-Jones has been appointed as an Independent Non-Executive Director, effective 8 September 2017.
- Urbanise.com Ltd: Benjamin Churchill has resigned as a Director. Chief Executive Officer, Henry Arundel, has been appointed as a Director, effective 7 September 2017.
- Wesfarmers Ltd: Terry Bowen has resigned as a Director. Terry Bowen will remain as Wesfarmers Chief Financial Officer until the AGM in November 2017.

TOP TECHNOLOGY EXECUTIVE MOVEMENTS 4TH SEPTEMBER – 8TH SEPTEMBER 2017

- Queensland Building and Construction Commission: David Black has been appointed as Chief Information Officer.

Information provided by Blenheim Partners Executive Search and Board Advisory Firm, www.blenheimpartners.com.

Blenheim Partners specialise in:

- Executive Search;
- Non-Executive Director Search;
- Board Strategy and Structure Consulting;
- External Succession Planning; and
- Executive Re-Engagement / Transition.

Founded in 2012, our team have acted as specialist adviser to many of the world's leading corporations on Board and Executive performance, capability and succession planning.

Our consultants have worked with clients from all sectors and a broad range of geographies. They include over 80 of the ASX 100, 10% of the FTSE 100, Private Equity, Multinational, Private Family and Mutually Owned Companies.

Our work includes assignments that are both local and international in scope.

Our team consists of senior Search

Consultants, Human Resource Directors, Psychologists, Coaches and exceptionally experienced Researchers.

Blenheim Partners is continually investing in knowledge and understanding as exemplified by our Thought Leadership "The Challenges of Attaining Growth", Industry Papers and monthly Market Intelligence reports.

Our philosophy is to develop deep and committed relationships with a select number of clients and help them deliver a superior performance by optimising the composition of their Board and Executive team.

Our culture is built on pride, professionalism, esprit de corps and client service.

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