# Take on Board

Transcript – Jessica Wallace

Helga Svendsen 0:00

Today on the Take on Board Podcast, I'm speaking to Jessica Wallace about board composition. We'll be discussing the key findings of a recent report, "Many are called, few are chosen". A study on the changes to the composition of ASX 300 boards focusing on the non executive pool from 2005 to today. I should also do a quick shout out to the fabulous Morgana Ryan, who suggested, suggested Ownership Matters where Jessica works and suggested this report as a topic for the podcast. Now first, before we get into the conversation, let me tell you about Jessica. Jessica is a corporate governance analyst, first in the UK, and then joining Ownership Matters in Australia in 2013, where she engages with and prepares research on ASX 300 listed companies. At Ownership Matters they believe that ownership does matter. And that shareholders as the owners of the company should hold boards and management teams accountable for their performance. They highlight governance risks to clients and advocate for change, both through their research and recommendations. And through an ongoing dialogue with boards and management. Welcome to the Take on Board Podcast. Jessica.

Jessica Wallace 1:08

Hi, thank you.

Helga Svendsen 1:08

It's interesting, you know that ownership does matter. And that owners of companies, the shareholders should hold boards accountable. Of course, most of our listeners here are board directors. And it's just an interesting, I guess what's the word conflict is going to find tension, shall we say often between shareholders and board directors. But generally speaking, it's a great thing if those shareholders have an active voice in it. So thank you for the work that you do.

Jessica Wallace 1:35

Thank you.

Helga Svendsen 1:37

So, Jessica, before we talk about the report, as always, I want to dig a little bit deeper about you. So can you tell me something from the last month or so that you're proud of?

Jessica Wallace 1:49

I can. So I think for me, it certainly has to be just coming off the back of doing our 2020 proxy season, having been locked down for most of the year in Melbourne having not been in the office with the rest of the team since March. I think, at the best of times in normal circumstances, you know, it's a very intense period, there's lots of discussions engagement going on. So then doing that with the team, or remote. And then, you know, speaking to the directors, not in person over zoom, which, you know what is good, it's not as good as you know, sitting around the table and having these discussions. So I think, you know, also off the back, a lot of us having done online learning with kids for a long period of time, we all kind of entered it already feeling we were pretty tired. So I think that for me is certainly something to be very proud of.

Helga Svendsen 2:42

Well, it is lovely to actually have you at the table today. I should also say maybe I shouldn't be saying this. But Jessica and I initially recorded this back in I think in December last year, and we had so many zoom problems. It's the first time that I've recorded a podcast where the guests disappeared entirely because there's because the internet failed us. And it just cut out so many times that we thought let's just wait a little while and do it today. So it's awesome to see you across the table in real life, in real 3d. And to continue the conversation. I will get to the report, I promise. But before I do that, as a corporate governance analyst, what drew you to that?

Jessica Wallace 3:24

That is a good question. I think it was certainly a case that it's just something I ended up falling into. Hmm, I can't say that I left uni and thought I even knew what a corporate governance analyst necessarily was. But it's certainly something that Yeah, I ended up doing and I did it in the UK, for I don't even know how long it certainly would have been five or six years over there. And then we we all moved, whole family moved to Melbourne. And I was actually lucky enough to then join ownership matters where I'd like to be in my previous organization worked with a couple of people there. So I'd known them and they'd it all sort of fell into place that they started Ownership Matters just at the time that I was looking for, for some work in Melbourne so worked out excellently.

Helga Svendsen 4:09

Fantastic and about so the organisation you're working for in the UK, similarly, we're looking at shareholder perspectives and research very similar.

Jessica Wallace 4:18

For me, I'm certainly like research and I like writing and I like very analytical, like the detail. So very well suited to that and also good to be doing something where you are actually helping to drive positive change as well.

Helga Svendsen 4:34

Yeah, it's fantastic to get that slightly different perspective here from you. From that kind of Yeah, the shareholder perspective or the research around the shareholder perspective. And to get some of those insights for directors as well. incredibly valuable. That's ii.

Jessica Wallace 4:48

I think it's more of the outside looking in. Yeah, from that and also you know, the difficulty I guess that you you also have from being the outside looking in, and I guess you only get get the information That you get told that you can see you can't observe actually what's going on inside these meetings. So it's also trying to understand what roles everyone is playing and, and how you do, you know, hold people to account where the issues arise, because you're obviously not not on that side, yet. You're on the outside.

Helga Svendsen 5:19

Anyone who knows me knows that I can never not ask women this question. So any aspirations to get on that side of the boardroom?

Jessica Wallace 5:28

That's a good question. I have been obviously, the more people that I speak to, and especially, you know, doing things like this and listening to two women who are on boards, certainly something I wouldn't rule out. Well,

Helga Svendsen 5:40

I'll take that as encouragement to come back to you at some stage about Oh, so what are you looking for? Jessica? Actually, no, why would not do that right now, actually. So hypothetically speaking, Jessica, just imagining that nobody's listening to this conversation. But if you could choose any board, or any industry or any sector, that you could just land yourself magically on the board of, what would it be?

Jessica Wallace 6:03

Oh, that's putting me on the spot.

Helga Svendsen 6:05

I know.

Jessica Wallace 6:06

I guess things that that I tend to be interested in the companies we look at, I do really enjoy retail companies, I do find them of interest, anything, I think certainly where you've got got companies with good culture and things to do with that, I think that's certainly be something that I'd be drawn to where there is a heavy focus on that type of creating that environment, really creating those good cultures that you can see, you know, you can see when you speak to some of the boards, you can really feel that sort of culture coming from the top down. Yes, we're certainly on the flip side, you can feel it being mentioned as a, we need to talk about that. Because we need to say say that, but you're not really feeling that they're truly believing in that. And that's really something that goes through through the organization. So I anything, yeah, somewhere where you've got that I really find that amazing how you can build businesses where you truly do have these cultures ingrained in not a weird cult kind of way. You know, in a very, people do truly believe it and feel that they are part of it. Yes. Hmm. Okay, well, so I'm not sure if that answered the question. It was sort of, but Well, the only things that I'm drawn to

Helga Svendsen 7:18

Yeah, well, that's certainly a few little hints in there. So I will keep that on my radar. And hey, people out there and take on board land, if you're not a retail organization with fabulous culture, or even pretty good culture that might need somebody championing culture in the boardroom, who needs somebody on the board with fabulous analytical skills and who also has a fantastic understanding of shareholder needs. Well, maybe Jessica's your person, few boxes there to take. Alrighty, great. Thank you for indulging me in that it's always good to know more about well, I about the person, but also, it's good,

Jessica Wallace 7:52

it's good thing to think about as well. It's probably not something on every now and again, I have a have a thing, but oh, well give that a bit more thought happy to plant that seed for you.

Helga Svendsen 8:01

So Ownership Matters, like last year did a report called "Many are called, few are chosen", which, as I said in the intro here talks about some of the changes in composition at the ASX 300 level? What are some of your reflections about that report? And what it might mean for boards?

Jessica Wallace 8:19

I think probably one of the more surprising findings in there was sort of looking at company performance and board turnover. And I guess what you would ideally like to see would be where you perhaps have, you know, poorly performing companies, a higher level of turnover within those organizations, compared to the sort of better performing companies. However, that was not what the research found at all. In fact, there was very minimal difference between the worst and the best performing companies. I think it was the equivalent of I think, in the bottom quartile. I think there was maybe one more director turning over every three years compared to the better performing company. So I think that was a very surprising.

Helga Svendsen 9:06

It's interesting. So people retain their roles, regardless of company performance. Yeah, essentially.

Jessica Wallace 9:10

Yeah, that seems to be what it was. And I think one of the I guess, when you look at that one of the other findings was that, so if you are a director appointed to if you joined one board, you would then I think the average tenure would be about six years. If you then got appointed to another board, that then increases to 10 years. And then for every subsequent board, I think it was another two year tenure, four years if you were the chair. So you've kind of got this. Well, it looks like once you get in you stay in doesn't really matter how the companies perform. You just need to get into that club. Yeah, for want of a better word. And then you stay in.

Helga Svendsen 9:47

Which is so interesting for shareholders, like you're a company that informs shareholders and works with shareholders. Why aren't shareholders demanding more?

Jessica Wallace 9:57

Well, I certainly think that if this shows anything there's certainly more of an active role for shareholders to be playing within this process within looking at looking at the boards, looking at the compositions, looking at the tenure, you know, whether it's it's looking at the skill set within the board, you know, encouraging more turnover more appointments of, of people, whether it's, you know, with industry knowledge, all of those kinds of things looking to say, hang on, do we have too many lawyers? Do we have too many accountants? Do we actually have the right mix of skills within this board. And I think one of the other findings, within the research was that you actually had a tendency for a lot of appointments to board to be made from the existing pool of directors, which I think, again, sort of when you put all these pieces together, you look at it and doesn't seem to be working as efficiently as it should be. So you've got, I think, especially within female directors, actually, you certainly saw that he was in the past three years, you had 40% of female appointments to boards were already existing directors. So they were coming within the existing pool of the ASX 300. Directors and I think certainly something that we have observed where you, you know, you see a female director appointed to one ASX 300 board, and all of a sudden, they're on four boards. And so, you look at that, and you go, are you necessarily appointing the best person to the role? Are you saying, oh, they're already on a board. So we'll just put them they can come on our board. And then we've, you know, we've got agenda diversity. They've got board experience, so they can come on.

Helga Svendsen 11:33

Hmm. And as you said, before, they're in the club. So they're already in the club. So let's just put them in another bit of the club.

Jessica Wallace 11:41

Yeah. Yeah. And you then run into the issue as well of hang on, you've got someone who's who's got four board seats, it you know, for ASX 300 board seats, that's a big workload easily, then how do you then run into that issue as well? And you say, do you have capacity? You know, as the past years shown us? There's been a lot going on?

Helga Svendsen 12:01

Yes. I'm not sure if this is in your area of research and analysis. But I know, I've got two questions from that. One is, I think there is going to be the introduction of the director identification numbers, numbers soon. And I wonder whether that will kind of surface the multiple boards that people are on a bit more overtly for people? Have you got any thoughts around that?

Jessica Wallace 12:22

I don't I don't know, particularly on that one. But certainly something that we focus quite a lot on in our research, we've got quite a good database. And that is certainly something that we we focus on when we're looking at this, especially new appointments. Yeah. And it's something that we discuss a lot with boards, you know, how do you ensure that people manage all of their roles? How do you know, for your shareholders on that board that they actually have enough time to devote to this board, when they've got all of these other boards within which they sit? And an answer that pre last year that I frequently got was, you know, but what are the chances of it all blowing up on every board at exactly the same time?

Helga Svendsen 12:58

I don't know, what are the chances of?

Jessica Wallace 13:01

Let's say, it turns out, it can happen. So yeah. So then you've got, you know, how do they manage it? How do you ensure that every board is getting the most from that director?

Helga Svendsen 13:12

So from your analysis of those things, have you got a view about what is too many boards?

Jessica Wallace 13:18

Now, that is the that's that's the million dollar question. And, you know, I have to say that I've had this discussion with a lot of directors, and I've certainly from directors themselves have said to me, for some directors, one board is one board too many. So it really does come down to to the individual director. But for us, when you start to see four ASX 300 boards, that's certainly a point where we would then start asking questions, and I think you then look at as well, you know, how long they've been on each board, because you could argue someone who's been on a board for six, seven years, that they know more about the business. But if you're joining four boards within the space of one or two years, that's a lot to get on top of, you know, we try and avoid any hard and fast rules around it. But that's certainly you know, for boards, we especially if you've joined them in a short timeframe, that is certainly when we'd start to to ask the question, and we'd encourage, you know, shareholders as well to be having those discussions.

Helga Svendsen 14:15

And swing back before when we were talking about people within the club, getting the same roles and so on. In Australia, often the nominations to a board comes from almost the board themselves, the board will have their own nominations committee, who nominate people in and of themselves quite often. I know in the report, it referenced the Swedish model is doing things a little bit differently. Are you able to tell us any more about that?

Jessica Wallace 14:39

Yeah, very briefly, what they seem to have is so the nominations committee is sort of comprised of major shareholders. So they are then actually involved in that process, which, which I do think is is interesting, and certainly helps you move away from the club with which we do see. Interesting often?

Helga Svendsen 15:04

And is that a requirement? Is that the nominations?

Jessica Wallace 15:07

That I don't know.

Helga Svendsen 15:09

How do you know of any Australian companies that invite or encourage shareholders to be part of the nominations process? Or even outside Australian companies? No, no,

Jessica Wallace 15:18

I mean, certainly, you'd only get the ones where you have the the representatives on the board, interested in and involved in the process. But yeah, it certainly is an interesting, interesting approach to it, to try and encourage moving away from the pool of the directors who will know each other and, and that clubines. And we actually have developed a tool which actually tries to, to illustrate this, it's a mapping tool. So you type in it, you can either do it at a board level or director level. And you can type in the director, and you can sort of see all their connections on the boards they're on and other boards that they've been on or who they're kind of linked to, to show that interconnectedness between the directors, it's a very effective way visually of seeing what anecdotally we observe.

Helga Svendsen 16:07

Interesting. And so it sounds like a LinkedIn for board members, basically. So you can see who's connected where and it's interesting hearing that because my bet is that sometimes people saying Oh look at this person is so well connected to all of these different people. But that's not always an advantage. That just shows that they are part of the system, rather than getting some of that outside the system thinking coming in. So from your conversations with directors or from the research that you've done, obviously, the Swedish model is one way of doing it, are there any other things that you've come across, that can really help to open that up to different forms of thinking?

Jessica Wallace 16:43

I think one of the things they've they've done in the UK is to look at the annual re election of directors, I guess, to try and allow shareholders to every year be able to vote on the re election of all these directors, which then allows you to, I guess, have a more targeted approach, whether it might be you've got a director who's been on another board, where, you know, there's been big issues there that they have, they've overseen and should be held accountable for, that's certainly something that we would look at his performance on other boards, and where you might have that happen, and you have have someone who the previous year, though, got re elected and the AGM within Australia, they've then still got, you know, two more years to serve. So you can't hold them accountable at that particular time. You know, there might be issues, whether it is with remuneration, whether there's audit issues where, you know, ultimately, you've got the remuneration committee chair, the audit committee chair, these people who forget as shareholders, you, you would hold them accountable for these things. So the annual re election of directors would allow that. I think, in the UK, there was certainly a lot of pushback to begin with around, it's going to be misused, it's going to be a disaster, you know, all all shareholders are going to be using it to get the activist shareholders whatever it might be, which certainly wasn't the case. But there was a lot of pushback from directors especially to begin with, because that was sort of just coming in just as I left the UK.

Helga Svendsen 18:09

Interesting. It would require not require it might encourage more accountability and more regular accountability. Because of course, I've never thought of that, that directors can't really get sacked, not you know, if you've done something illegal, or whatever you might get debarred. You might be strongly encouraged to resign. If somebody really stands their ground, you can't actually get sacked from the role.

Jessica Wallace 18:34

Yeah, you would need a shareholder to call a meeting, you would then need to get enough votes to be voted off. But I think it was something around like 96% is the average sort of vote in favor of the directory election resolution.

Helga Svendsen 18:48

So so the pushing off is unlikely to happen. That's it. So that's interesting in the UK, that what they've done is have this annual re election, yet it hasn't caused instability. I wonder, do you know if there's any research around whether it's actually created greater accountability?

Jessica Wallace 19:06

That I don't know, you know, the shareholders have the option there to use it? I think we've had this discussion. And you know, some directors feel very passionately that they don't need that they shouldn't be on your elections. But actually, you know, after this, the research was released, I certainly got some some emails from some directors who have read the research, actually saying that they really encourage the annual re election, you know, that this report has highlighted a lot of issues that they have observed, and that they have no no objection to being held accountable every year to shareholders.

Helga Svendsen 19:35

Yeah, fantastic.

Jessica Wallace 19:36

Yeah. I think one of the other things, actually, whilst I remember, just in terms of around these three elections, I think, is you know, we meet with directors each year, and it's often it's the same directors, but we've had some discussions internally that wouldn't it be good if you know, if you don't have the annual election, but the directors who were standing for re election every year, well, they should should go and meet with shareholders, they should actually go and speak to you and almost tell you why they should then serve for another. Yeah, another term, which I also think is quite a good idea.

Helga Svendsen 20:07

Well, that's an election. Yeah. That is it. You it is an election and you are, I would say you should be accountable to your voters. Your constituants who are in this instance, the shareholders? Yeah. And that's always a good idea to explain to the people who may or may not be voting for you yet what it is you stand for and what your experience is.

Jessica Wallace 20:24

Yeah. So yeah, it's something we've we've discussed a few times, just internally, which I think would also be a good good way of meeting the rest of the board, you often get the chair, maybe the remuneration committee chair who often go and speak to the shareholders. But actually, you want to speak to everyone, hear what they have to say.

Helga Svendsen 20:44

In the feedback, you're hearing from directors following the report? Is there any other feedback that you've heard that might be of interest?

Jessica Wallace 20:49

Certainly, a lot of thank yous for highlighting what is still very much an issue. You know, and I think this is particularly focusing on this clubbiness. Obviously, there was the boys club, then the improve diversity. But now you've really just got the girls club, as well as the boys club. So you've sort of improved the diversity on boards. But you've done that by appointing the same pool of people. So you're still not getting that full diversity, you're still not necessarily getting the best minds on the boards, you're just getting the people who are already on boards. Ah,

Helga Svendsen 21:30

Jessica, I knew the time would go quickly, particularly when we don't have to worry about zoom dropping. So, you know, we've covered a lot in the conversation today. What are the key points you want people to take away from the conversation that we've had today?

Jessica Wallace 21:42

I've tried to put it into three key points. So I think the first is just that company performance has little impact on board turnover. Once you're in, you're staying in, especially if you can get on more than one board. You've got a pool of directors, the ASX 300, directors who collect fees were about $400 million a year. So I think the average is around $300,000. And it seems that these people remain in their roles regardless of performance, which goes against really what you would want for any other employee within your organization. So if that's the case, investors should be looking at what kind of culture is being driven if the directors can stay and collect their fees, regardless of performance. I think the second one is just around the the gender diversity. And whilst you do have clear improvement in gender diversity, I think one of the things I haven't mentioned was around that, whilst it's within the non executive director roles, there's really been little progress within women in chair roles and women in Executive Director roles. And I think that is illustrated by the fact currently, you have more executive directors named Michael and Mark than you do females within the ASX 300 you're giving a bit, but you're still not letting them into it's not going all the way through. And the fact that you know, we've discussed, it's still a club, you there's still a strong bias towards, you know, making appointments from within the existing pool, especially females. And again, you know, as investors, you should look at this and question whether this means other suitable appointments, people are being overlooked, just given the tendency to go with people in the club, go with who you know.

Helga Svendsen 23:20

Yep. Yeah. Oh, fantastic. And is there a resource that you would like to share with the take on board community?

Jessica Wallace 23:27

Yes. So there is a link to an article where the the director mapping tool that I was talking about, there's sort of a not a full version, but it's certainly an idea that you can go on to that link and have a play around with that fantastic fun. It's, I've spent a lot of time going, going down the rabbit hole, looking at all of these things.

Helga Svendsen 23:47

Oh, my God, I will have fun playing with that. I have no doubt anyone, people who have heard me speak know that I quite enjoy LinkedIn for saying who's connected where so I'm sure I will enjoy the inverted commas LinkedIn for board directors and seeing who's where so that'd be great. We'll make sure we put a link obviously to the report, in the show notes, but also to that mapping tool as well. Thank you so much for joining us today. Thank you for checking out to see me in person. Thank you for giving your time twice and other take onboard community and sharing some of your wisdom about this report. We really appreciate getting your insights. And I look forward to tracking your board journey yourself in the future as well. So yeah, thank you for joining us today.

Jessica Wallace 24:28

Thank you very much for having me.