

**CIRA Annual Conference 2019: Panel 3,
„Wertsteigerung - aber wie?“**

What is behind the Investor Focus on Social and Human Capital?

Vienna, 16 October 2019

Kirkow
CONSULTING GmbH & Co KG

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CERCLE INVESTOR RELATIONS AUSTRIA

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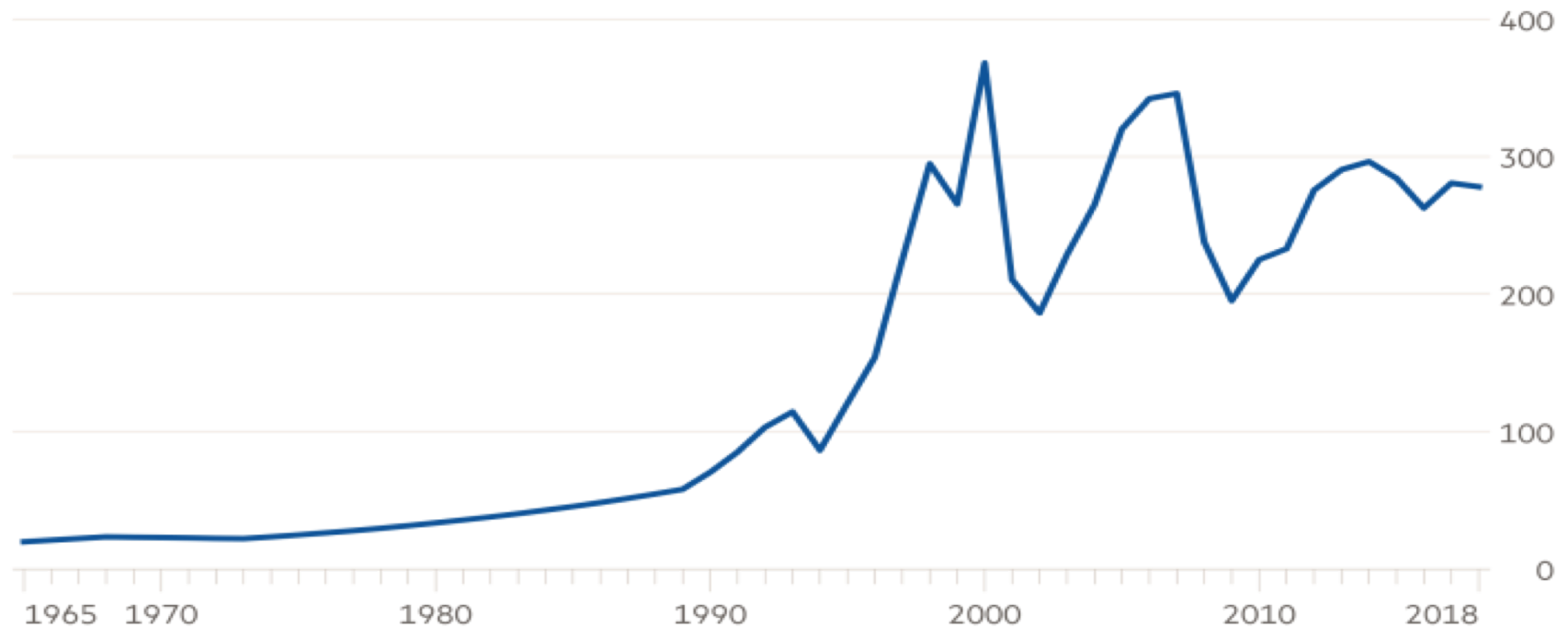
Why investors adopt anti-capitalist rhetoric?

- Rising levels of economic inequality, environmental degradation and technological change could unleash **social and labour unrest**
- *„Paradox of high returns and high anxiety“* (Larry Fink, BlackRock)
 - Combination of low rates, low wage growth and inadequate retirement systems – **social polarisation** across the world
- Institutional call for clearly defined **„corporate purpose“** as licence to operate, long-term growth strategy and positive contribution to society
 - *„Purpose is primary and shareholder value derivative“* (Colin Mayer, 2018) – diversity in ownership, board structure, incentives
- *„I am a capitalist, and even I think capitalism is broken“* (Ray Dalio, Bridgewater Associates)

Shareholder Value Critique

Chief executive pay exploded in the late 1990s

CEO-to-worker compensation ratio*, top 350 US companies by sales



*Based on options realised
Source: Economic Policy Institute

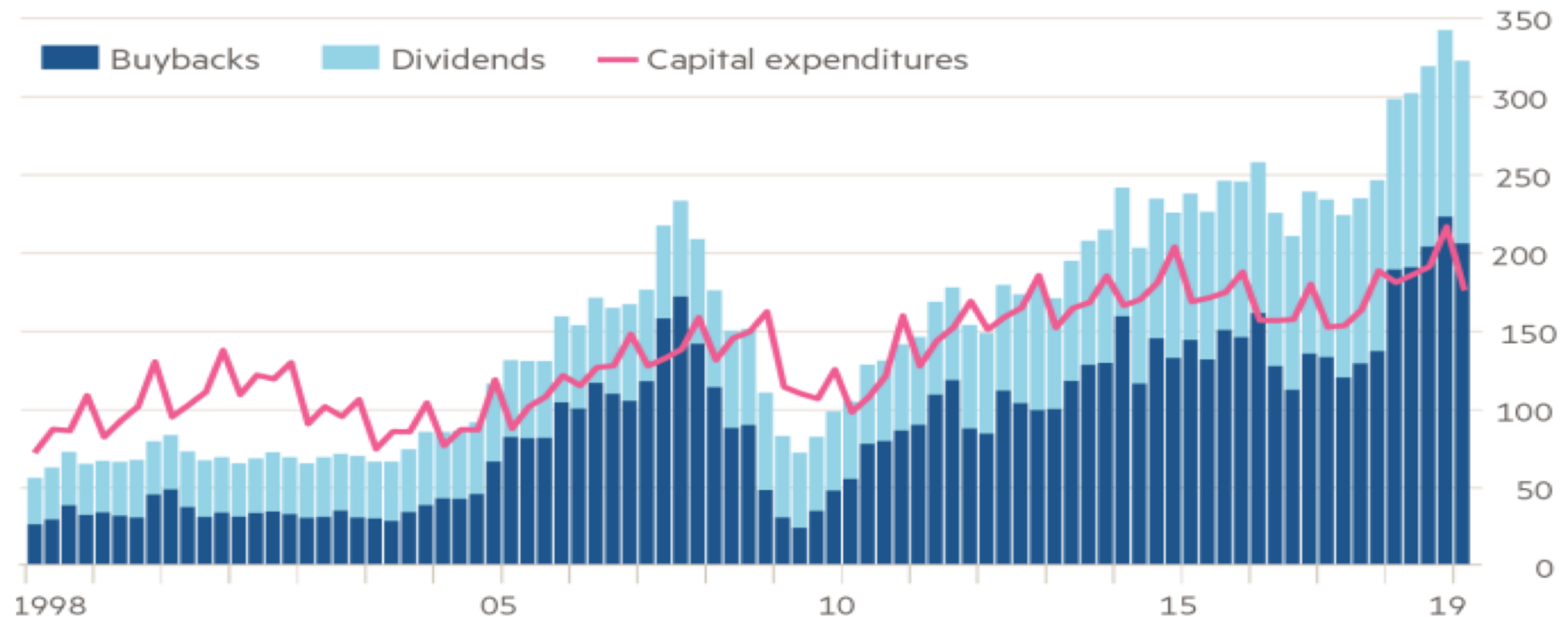
Why focus on social and human capital?

- Sustainable companies will outperform the rest in the long run as “*they will **attract better people** ... and are better capitalists, committed to a **fairer society***” (Larry Fink)
- Investor interest in **non-financial data** and **organisational behaviour**
 - Investments in employee development, innovation and talent
 - Staff turnover (whistleblowing data, ethics hotline)
 - Equipment failure (corporate culture)
 - Employee morale and absenteeism
- „*When a company’s employees go to work in the morning, they ought to do so with a **sense of purpose** beyond that of simply making money for the owners.*” (Peter Montagnon, Financial Times)

Shareholder Value Critique

Corporate profits used to be directed mainly into capital spending, now they go to dividends and share buybacks

S&P 500 companies (\$bn)



Source: Deutsche Bank research
© FT

Knowledge and skills as main value drivers

- „*Knowledge and skill diffusion is the **key to overall productivity growth** as well as the **reduction of inequality** both within and between countries.*“ (Thomas Piketty, 2014)
- EY Study 2019: „*Which long-term value drivers should be used more frequently in regular IR communication?*“
 - 40% trust and credibility
 - **34% ability for innovation and disruption**
 - 33% good corporate governance
 - **29% good team and the ability to attract new talent**

Market power and labour monopsonies

- The rise of very **dominant superstar firms** through platform business, global production and low interest rates
 - **Market power:** can extract additional profits by raising prices, suppressing wage growth and discouraging market entrants
 - **Concentration:** reduce investments and productivity
- The world's biggest companies have become **labour monopsonies**
 - As the marginal buyer they set the price and set it low
 - *„In a monopsony, workers have little choice in where they work and have little negotiating power for wages with employers.“* (Jonathan Tepper with Denise Hearn, 2019)
- *„Surveillance capitalism operates through **unprecedented asymmetries in knowledge** and the power that accrues to knowledge“* (Zuboff, 2019)

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Research approach, scope and detail

- Analysis of **non-financial social data** published by **15 companies**
 - Five each in Austria, Germany and Switzerland
 - Proxy for blue-chip index for each market
 - 2018: annual report, sustainability report or non-financial statement, remuneration report, other ESG publication
- Focus on **key themes of current investor debate**
 - Income disparity: spread CEO to average employee package
 - Employment & fluctuation, notably under 30 years of age
 - R&D investment & training, particularly higher qualification
 - Diversity & gender: how fast can women grow through the ranks?
- Refrain from illness and injury data as methodology is inconsistent

Company Overview

Overview of Company Analysis, end-2018 (in EURmn)*

	Revenues	Employment	Rev/Empl	MarketCap	Mcap/Empl	YoY Share %	CEO YoY Rem
Erste Bank	6.916	47.397	145.908	8.300	175.117	-19,64%	4,35%
Wienerberger**	3.305	16.596	199.150	2.115	127.440	-10,76%	51,28%
OMV	22.930	20.231	1.133.409	12.500	617.864	-27,60%	18,01%
Voestalpine	13.561	51.907	261.250	5.879	113.254	-36,52%	-9,84%
Immofinanz***	334	333	1.002.333	2.343	7.034.835	-2,65%	176,43%
Bayer	39.586	116.998	338.348	86.000	735.055	-41,77%	-14,31%
Deutsche Bank	25.316	91.737	275.963	14.652	159.721	-56,11%	79,16%
Daimler	167.362	298.683	560.333	49.100	164.388	-35,16%	-33,91%
Siemens	83.044	379.000	219.113	89.381	235.834	-7,43%	-10,15%
SAP^	24.708	96.498	256.047	106.800	1.106.759	-6,98%	-54,83%
UBS	30.213	66.888	451.695	45.907	686.326	-32,46%	84,88%
Roche	56.846	94.442	601.914	173.182	1.833.736	-1,26%	0,61%
Nestle	91.439	308.000	296.880	237.363	770.659	-4,66%	20,65%
ABB	27.662	146.600	188.690	39.847	271.808	-28,72%	-8,21%
Zurich	47.180	52.267	902.673	44.360	848.719	1,91%	2,33%

* UBS, ABB and Zurich report in USD; Roche and Nestle in CHF

** Wienerberger CEO received mid-term variable 2015-17 component of EUR 1.109.875 (without up by 5,55%)

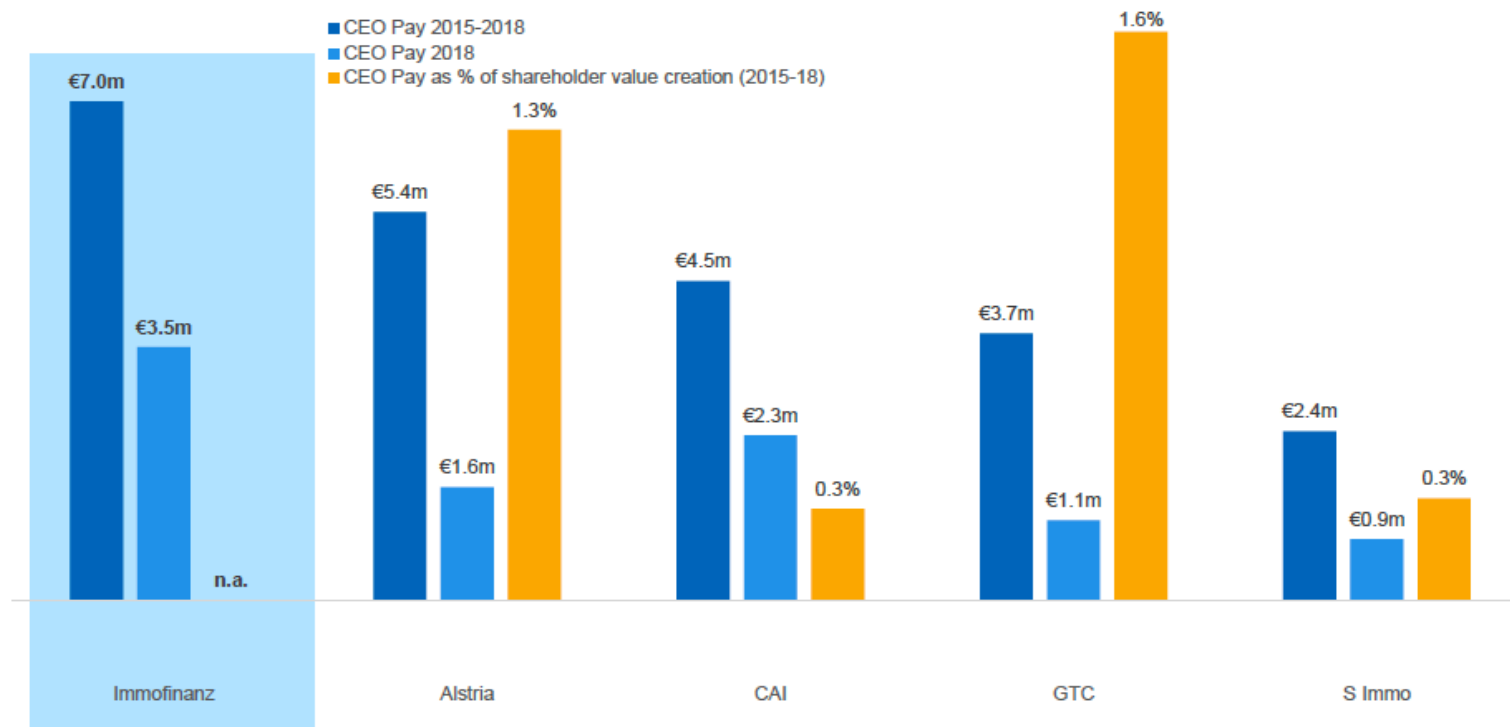
*** Immofinanz CEO received special bonus for 2015-17 restructuring of EUR 2mn (without up by 21,40%)

^ SAP CEO received fixed and one-year variable compensation in US-dollars (converted into EUR at end-2018).

CEO pay

PETRUSADVISERS

In both 2018 and cumulatively¹, Oliver Schumy is by far the highest paid CEO

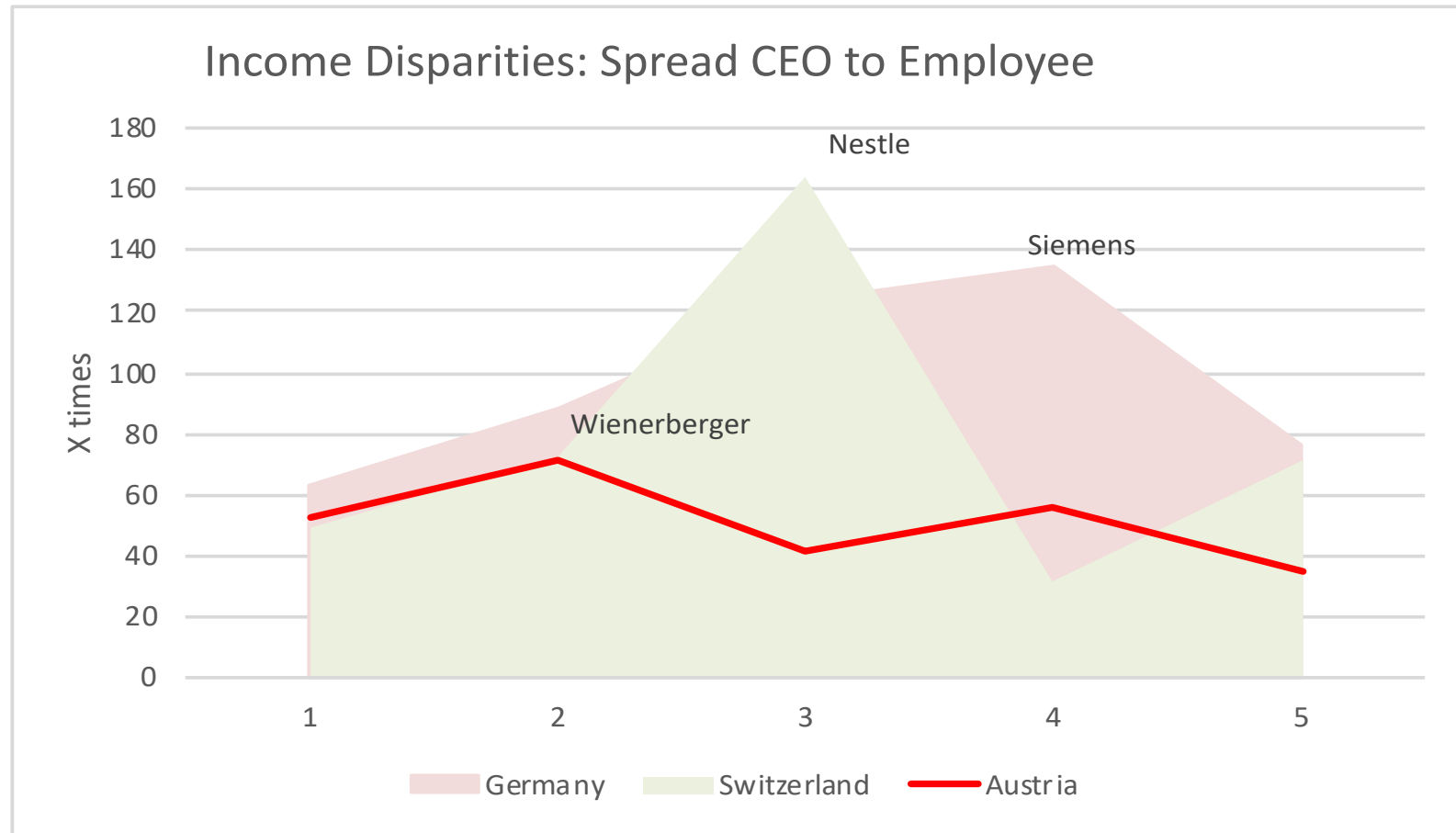


Source: company filings

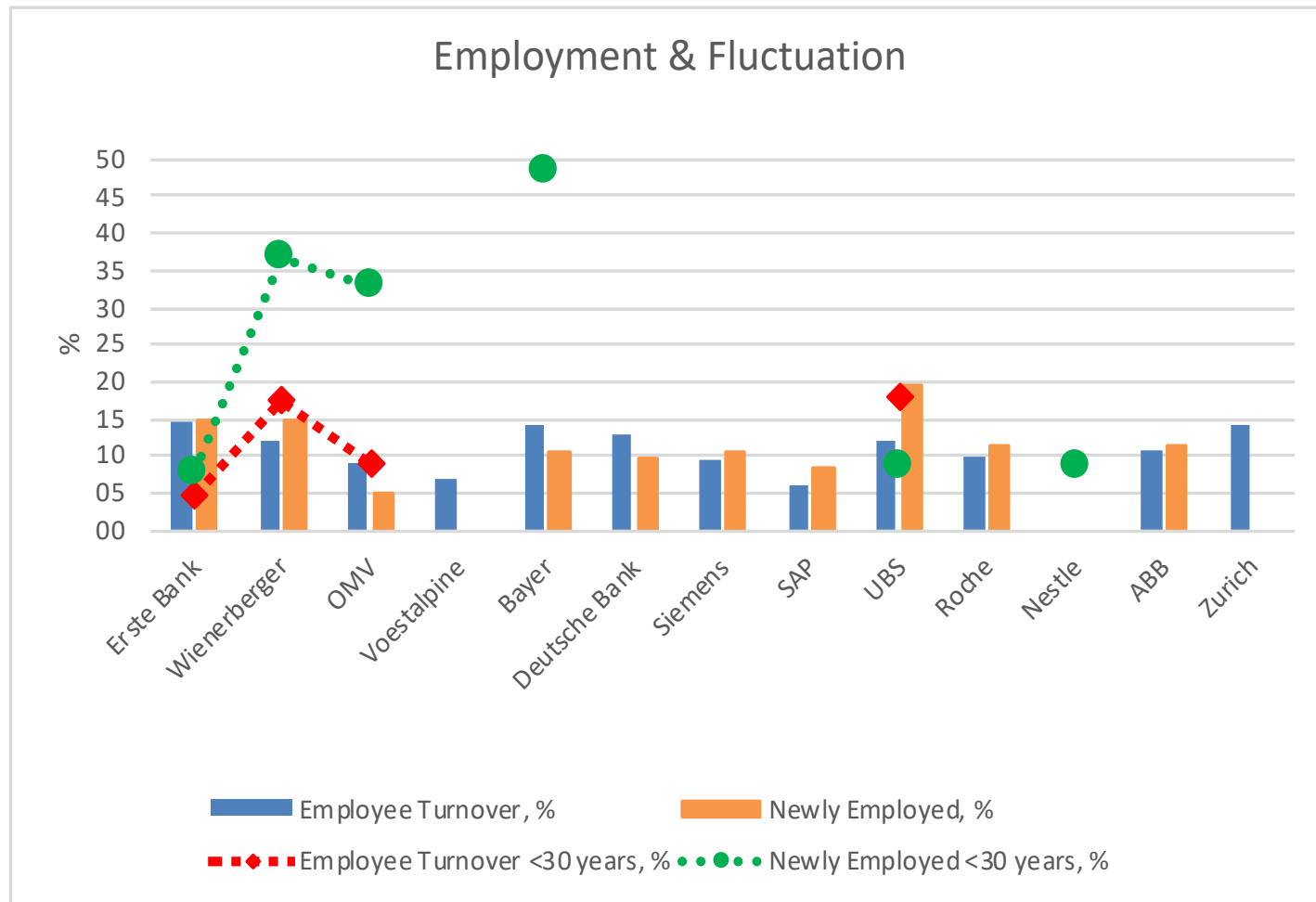
1) Between 1 May 2015 and 31 December 2018. Peer companies pro rata adjusted for 2015 (see previous page).

2) Shareholder value creation defined as: (share price today – share price at 30 April 2015) x shares outstanding on 30 April 2015 + dividends received from 30 April 2015 to date.

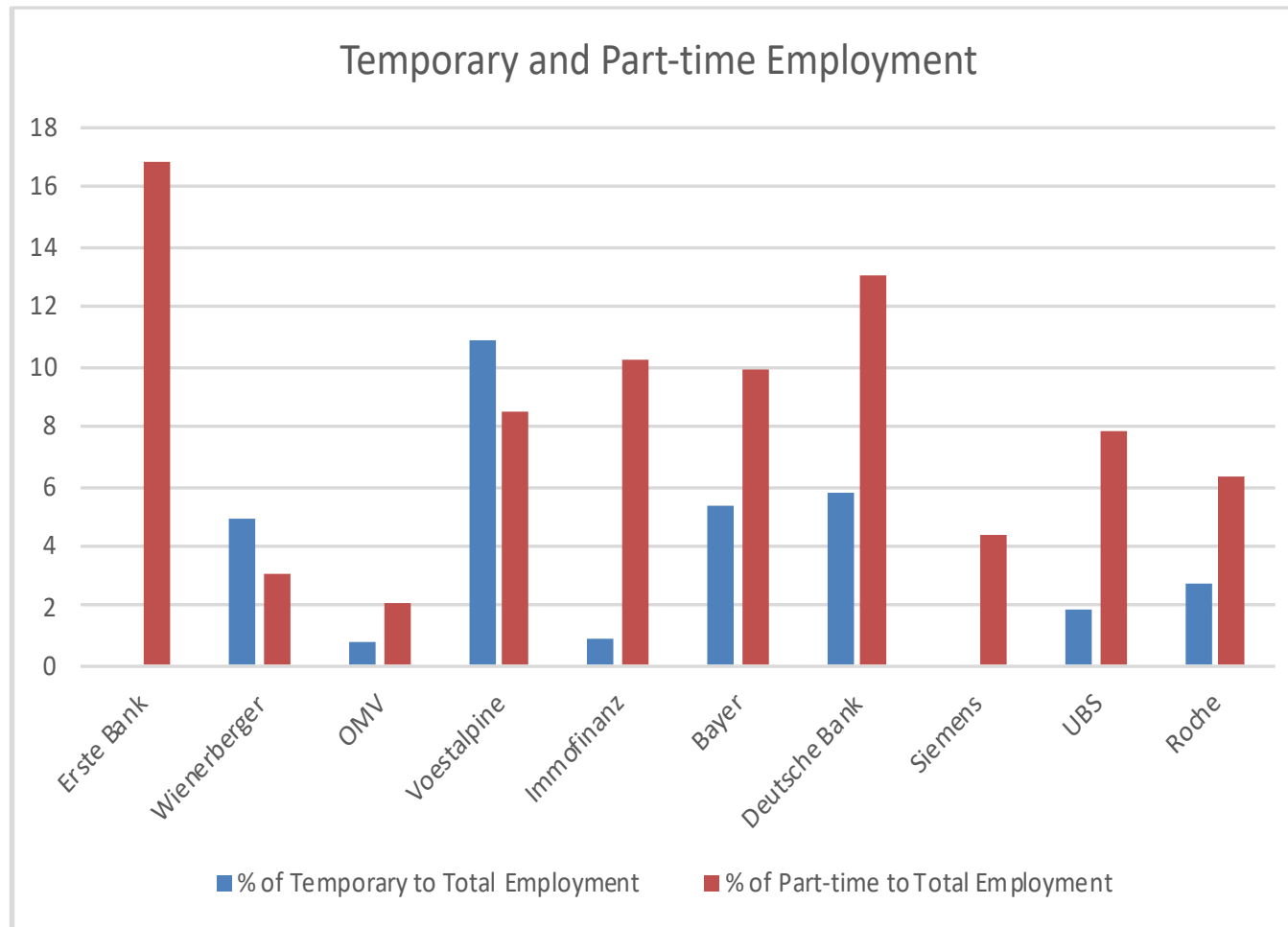
Income Disparity



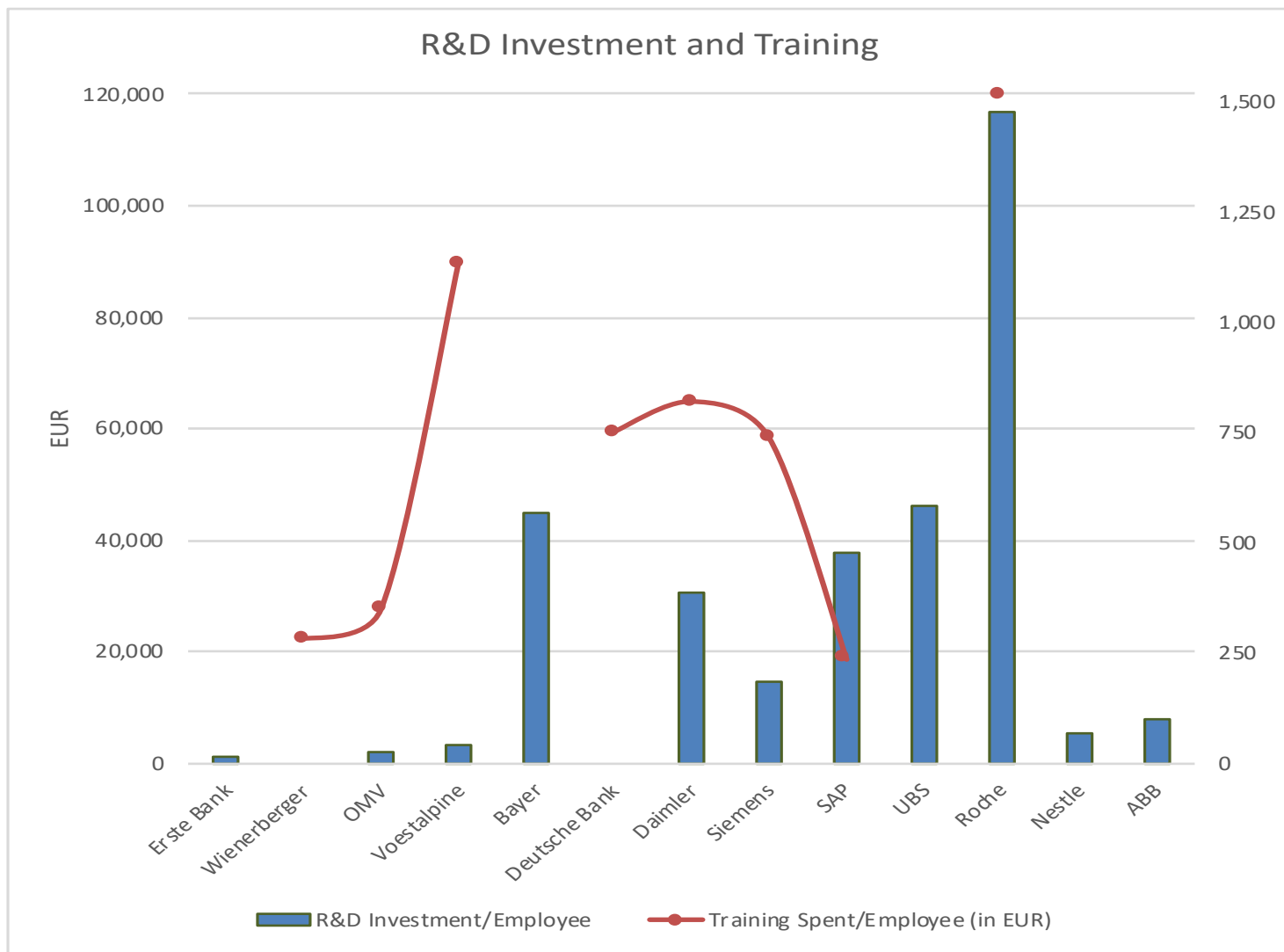
Employment & Fluctuation



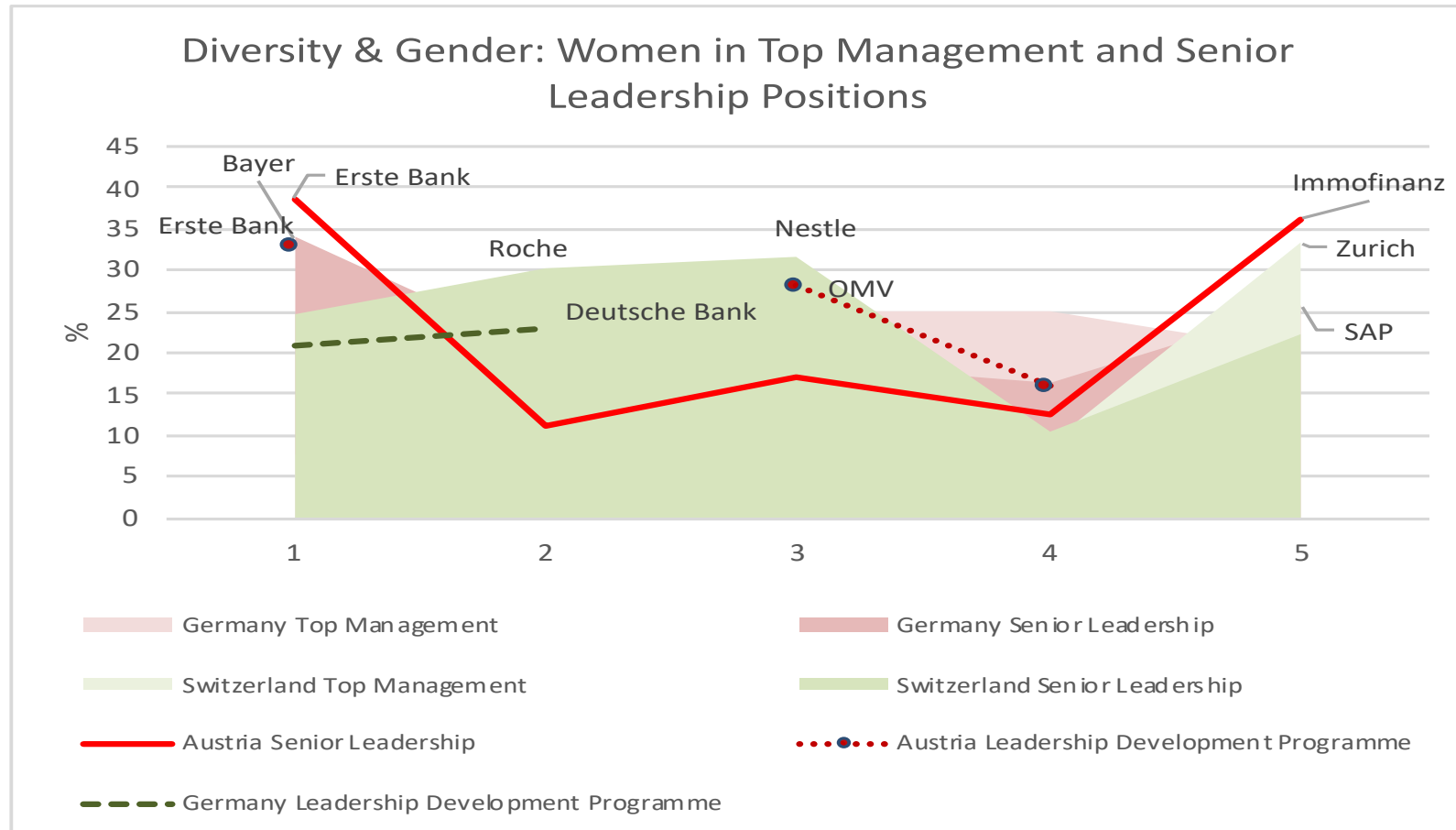
Employment & Fluctuation



R&D Investment and Training



Diversity and Gender



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Transforming into an agile and customer-focused organization



Guiding principles

- Empowerment
- Differentiation
- Simplification

Action fields



Embedding to bring services closer to customers



Functions and headquarters with streamlined back-end organization



Regions with sharpened roles to increase customer focus



Process landscape simplified



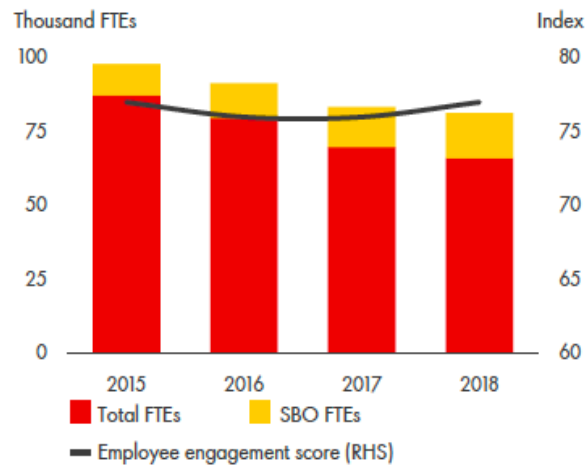
People working in an entrepreneurial performance culture

BASF
We create chemistry

Implementation

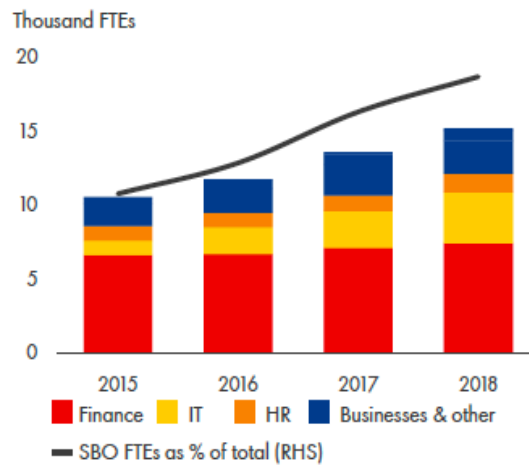
People strategy Highly engaged, diverse and productive workforce

Shell workforce evolution



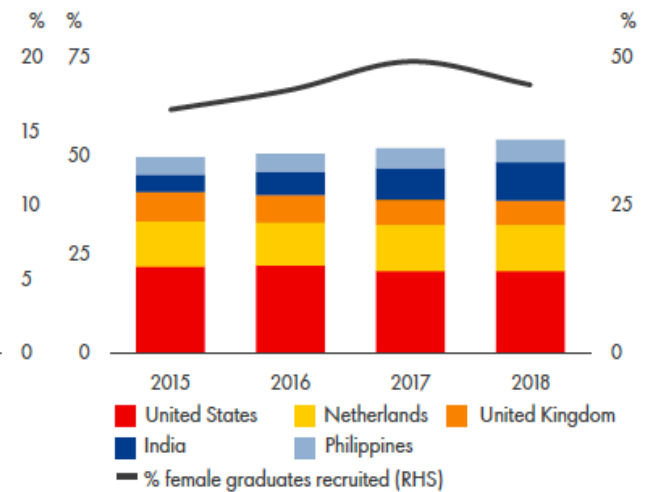
- 22% reduction in cost of employment and ~17 thousand reduction in staff from 2015
- Our people are highly engaged
- Cultural shift to clear accountabilities and bottom-line focus

Shell Business Operations growth



- SBO staff now accounts for ~20% of all Shell employees
- SBO increasingly handle complex processes, becoming high-value execution centres

Workforce distribution



- Value from cultural diversity
- India now 3rd largest employing country for Shell (up from 8th in 2015)
- Building the female talent pipeline



Royal Dutch Shell | June 4-5, 2019

SBO: Shell Business Operations. Workforce FTE numbers in 2015 and 2016 include BG. Workforce distribution shows share of top 5 employing countries as of 2018.

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OUR UNIQUE BUSINESS MODEL BASED ON FOUR KEY PILLARS

ECONOMIC

- Unique portfolio of brands & categories
- Structural efficiencies on a sustainable manner
- Value creation from WhiteWave acquisition
- Agile and efficient organization
- Discipline in resource allocation

NATURE

- Climate
- Water
- Packaging & Waste
- Sustainable Agriculture



DANONE
ONE PLANET. ONE HEALTH

HEALTH

- Healthier products
- Healthier Lifestyles
- Responsible company practices
- Community relevant products

SOCIAL

- Social Dialogue
- Health & Safety
- Talent
- Social Inclusiveness

Best Practice

SOCIAL

WHAT WE ARE DOING



Dialogue with our employees is essential—a key driver for economic and social growth, the foundation for sweeping transformation and an essential part of sustainable performance for Danone as a whole.

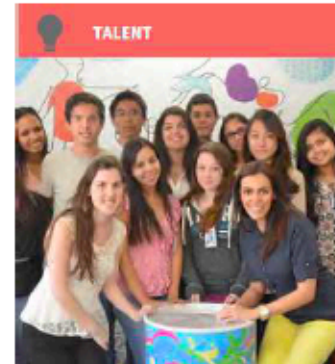
HOW WE ARE DOING

10 Worldwide agreements have been signed between Danone and the IUF and joined visits are organized to monitor their implementation in more than 55 entities between 2009 and 2016.



Our Work in Safe Environment (WISE) program takes a comprehensive approach to all types of risk, focusing on day-to-day operations, to promote the physical, mental and social well-being of Danoners all around the world.

- **FR1 rate of 1.8:** frequency rate of workplace accidents with lost time of one day or more that occur over a 12-month period for every one million hours worked.
- **FR2 rate of 3.0:** frequency rate of workplace accidents w/o lost time.
- **Severity rate 0.1:** number of calendar days of absence due to workplace accidents with lost time for every 1,000 hours worked.
- Absenteeism rate of **2.4%.**
- **70,000** employees in 25 countries had healthcare coverage in line with standards defined by Dan'Cares.



We fuel growth by attracting outside talent—and with it, new passion, leadership and related skills. We also want to **nurture the unique, exceptional potential of our 100,000 Danoners**, inspiring the engagement they need to serve our clients and our communities.

- Training provided to **91%** of employees.
- **25** training hours per person trained in 2016.
- **49%** of managers, directors and executives are female.
- In France, **3.8%** of employees have disabilities.

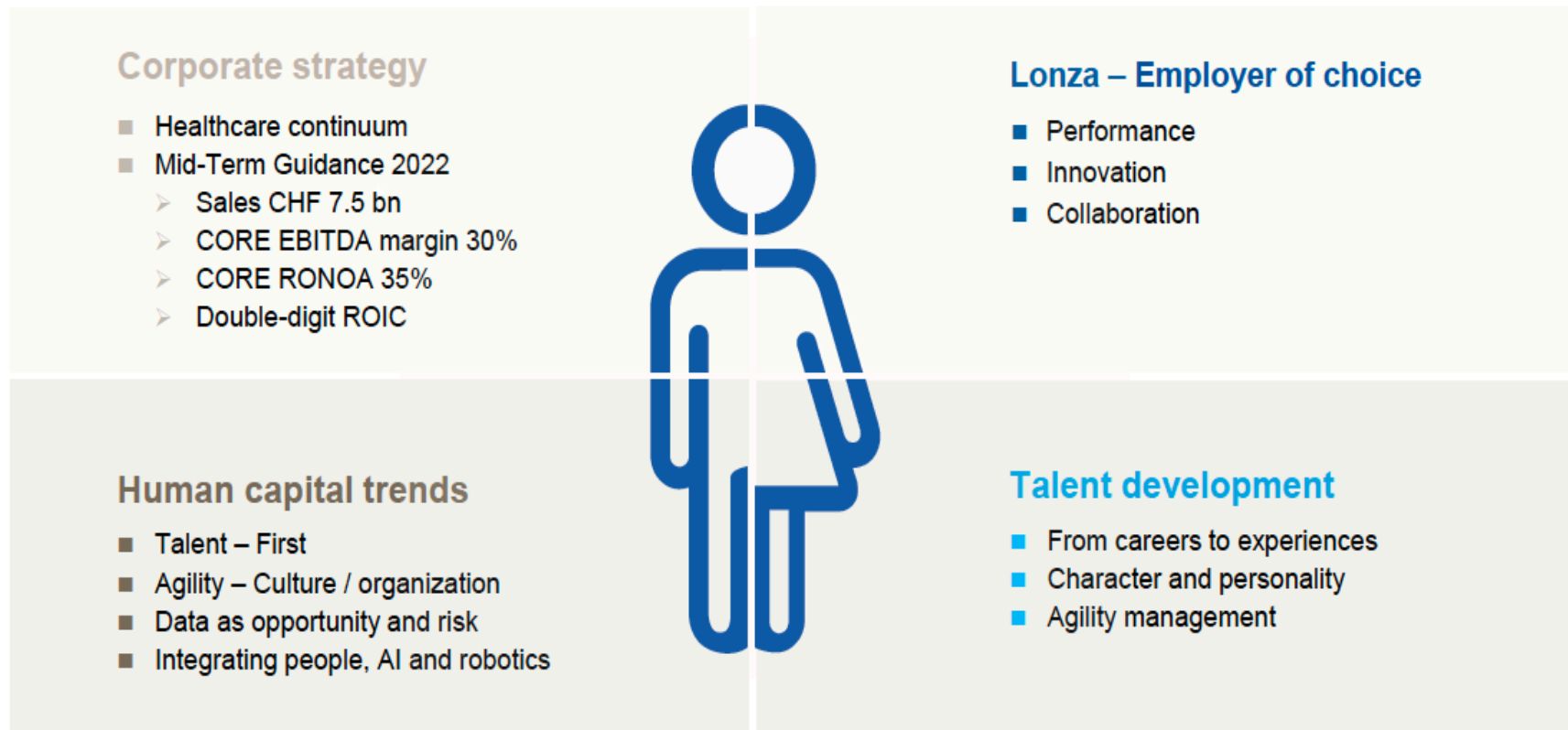


We firmly believe that we will make more of an impact on the issues we want to address by working with friends and partners, rather than on our own.

Key Performance Indicators related to "Social Inclusiveness" concern Danone 4 funds and are detailed in the following slides under "Social Innovations".

Best Practice

Lonza human resources



.....> Need for High-Performing Teams <.....

Best Practice

Strategic workforce planning: Preparing for the future

Analyze future workforce demand

- Growth-driven additional demand
- Baby-boomer generation retirement
- Natural attrition
- Technology and process innovation like robotics, AI

Set up dedicated workstreams

- Strategic workforce planning (SWP)
- Operational workforce planning (OWP)
- Talent attraction, recruiting and retention
- Change management
- Labor relations
- Training & development
- Infrastructure & politics

Roll out in major sites



We continuously invest in training and development of our people to continue to be a leader in biological, fine chemical, analytical and process technology including manufacturing excellence, regulatory and quality.

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Where is the journey going from here?

- Fairly **patchy publication of non-financial social data** so far, notably on investment in higher qualification and R&D, labour fluctuation and women in leadership development programmes
- EY Study 2019: „*What is the reason for measurable value driver data not being used in IR communication more frequently?*“
 - **60% data not available**, 40% insufficient KPIs and not an obligatory requirement for non-financial statements
- Promise and early commitment of **additional disclosure in future**
 - Pressure from ESG specialists and shareholder activists
 - Deutsche Bank: training on special suppliers, oil & gas guidelines
 - Daimler: digital tool for accident prevention in 2019

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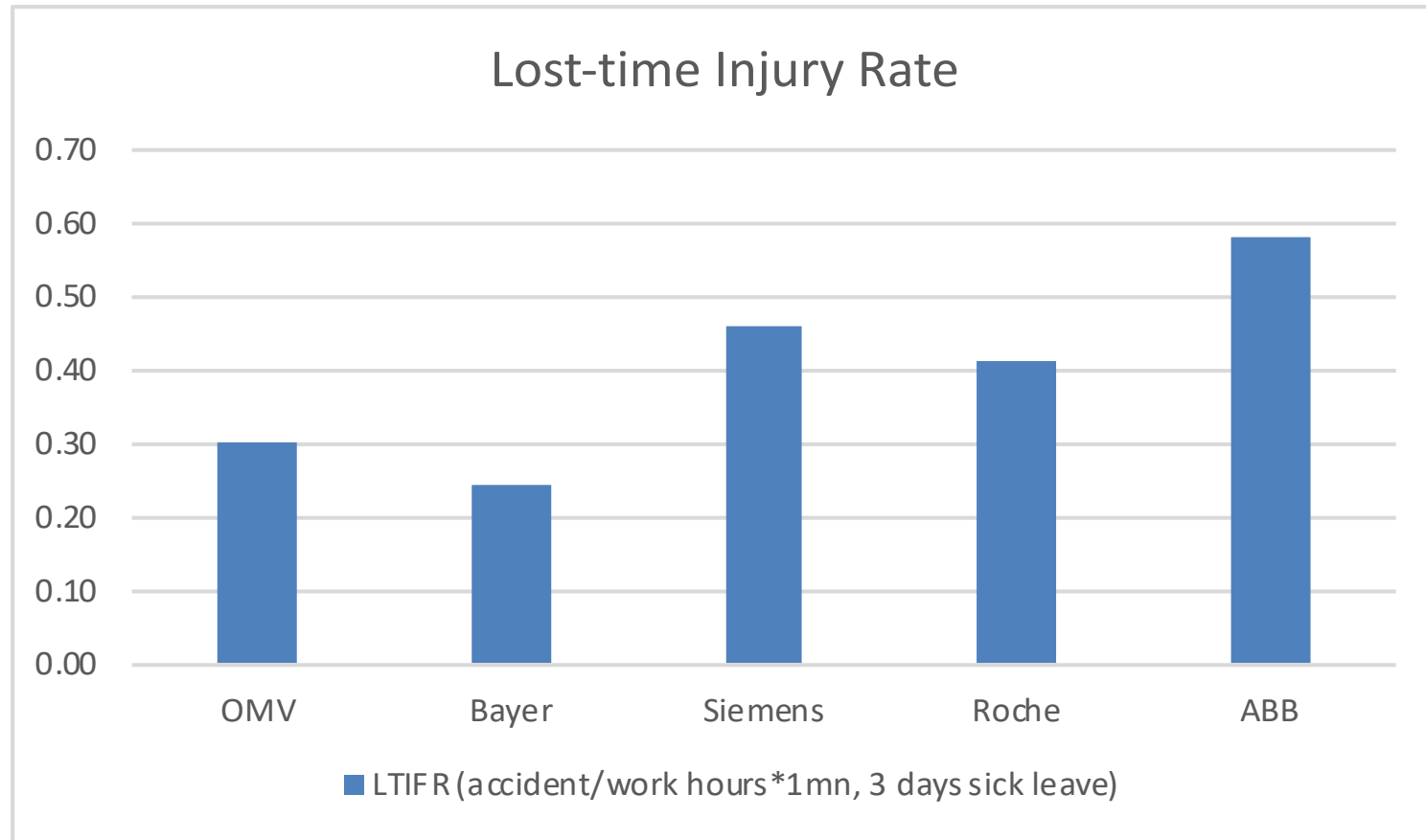
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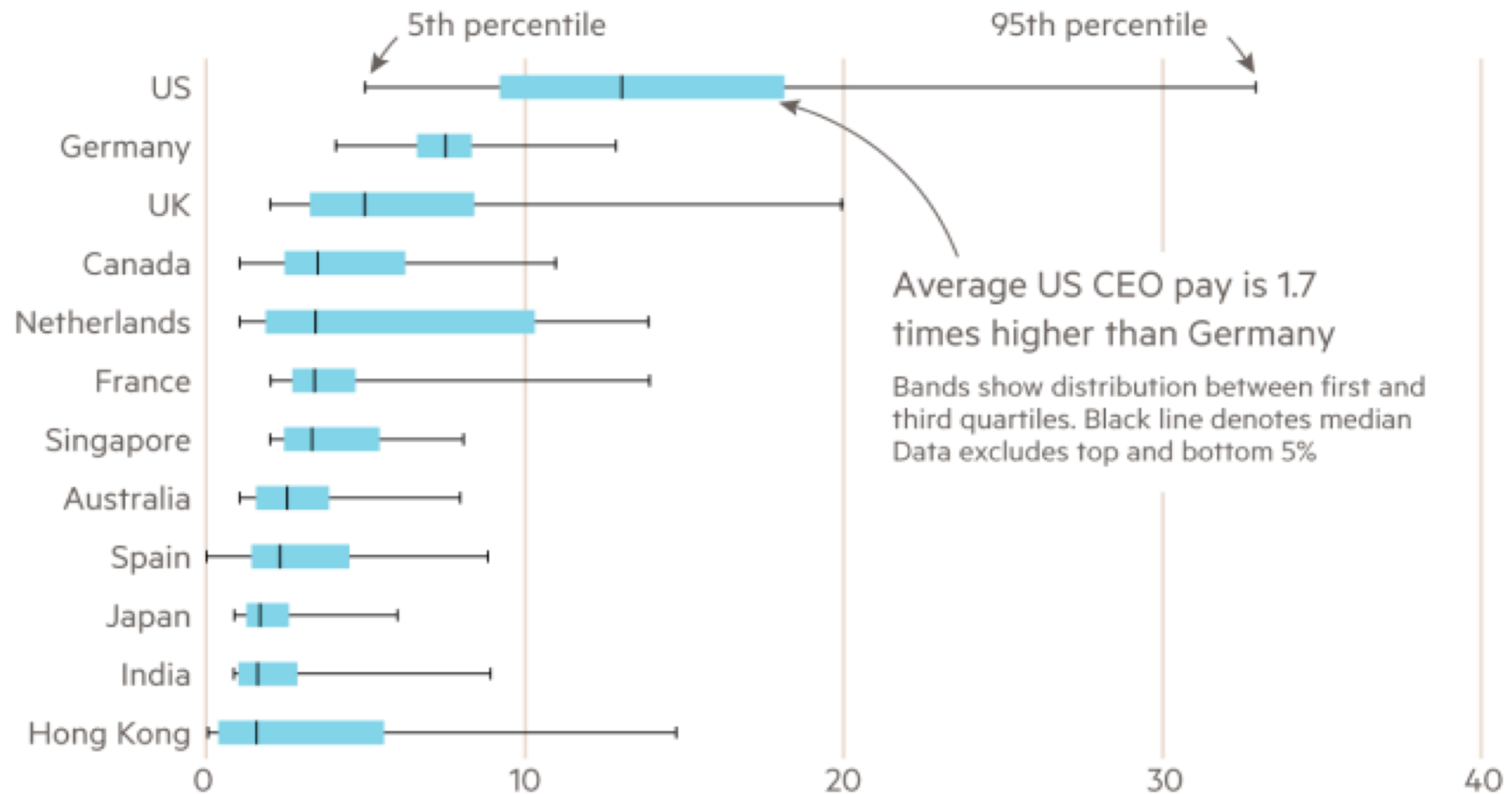
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Appendix

US CEO pay dwarfs other nations

Median annual pay (\$m)



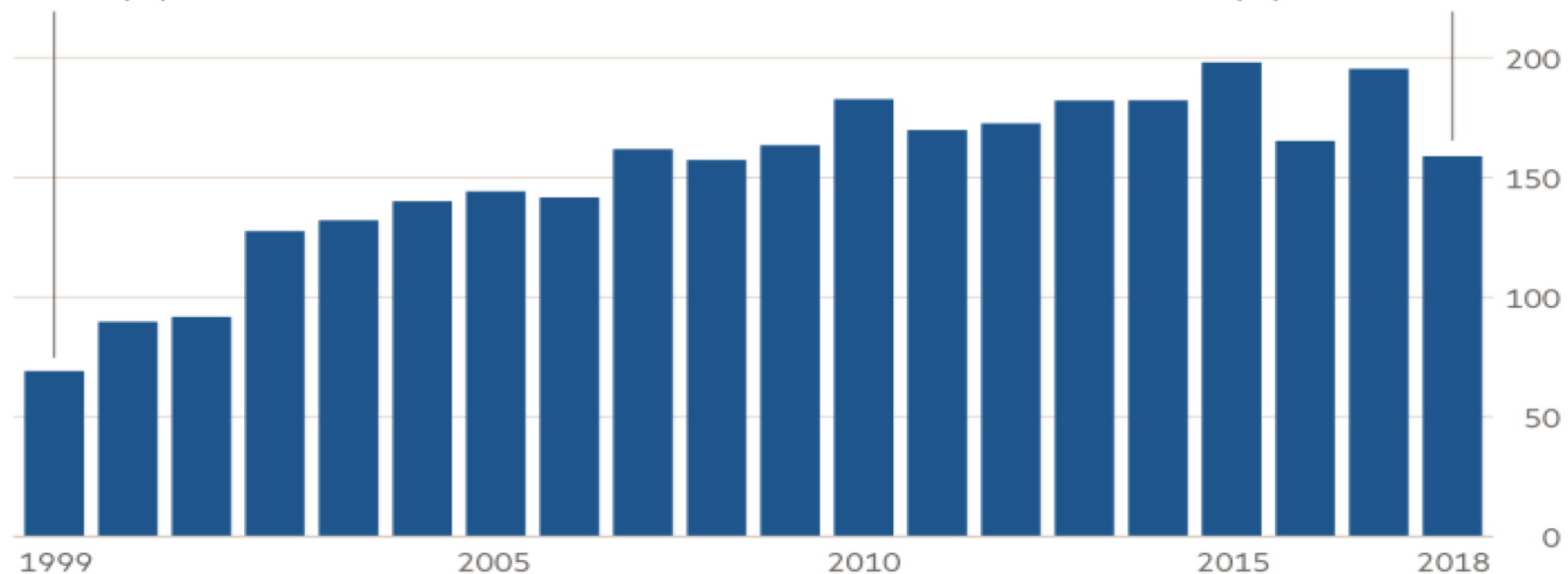
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The pay gap between CEOs and workers has widened

Ratio between the salaries of a chief executive and a full-time UK worker

In 1999, average CEO pay was £1.23m and median full-time worker pay was £17,803

By 2018, average CEO pay was £4.7m and median full-time worker pay was £29,574



Changes to the methodology for recording median pay for full-time UK workers occurred in 2004, 2006 and 2011. Pay ratios for these years calculated using the updated figure

Sources: High Pay Centre; company accounts

© FT

List of Literature

- Colin Mayer: *„Prosperity. Better Business Makes the Greater Good“*, Oxford University Press, 2018
- Thomas Piketty: *„Capital in the Twenty-First Century“*, Harvard University Press, Cambridge/Massachusetts, 2014
- Jonathan Tepper with Denise Hearn: *„The Myth of Capitalism. Monopolies and the Death of Competition“*, John Wiley & Sons, 2019
- Shoshana Zuboff: *„The Age of Surveillance Capitalism. The Fight for a Human Future at the New Frontier of Power“*, Profile Books, 2019
- DIRK und EY Studie: *„Kommunikation von Wertsteigerungspotenzialen in den Investor Relations“*, 2019

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