Shareholder value: Shareholder values

What motivates Australian retail investors
Foreword

A piece in the media about the importance of culture to smart investors recently caught my eye.

It referenced an interview conducted by an analyst at Californian asset management firm WCM with the chief financial officer of a large US drug company. The analyst asked the CFO what cultural aspect he admired most about a competitor. The answer he got was “their tax strategy.”

The analyst wrote in his notes that while he was pretty enamoured with the business model of the drug company, the cultural red flag raised by the CFO’s answer should be sufficient to remove the company from WCM’s focus list.

In the two years since, the drug company has hit a major sales practice scandal and churned through three CEOs. Its stock price is down 40 per cent from this peak.

WCM’s co-chief executive Kurt Winrich was quoted as saying, “The culture work saved us from a landmine.”

Nearly every Australian business leader I talk to today understands that creating a culture that engenders trust is vital. The evolution of our national conversation in this area has been rapid and felicitous. In fact, I can scarcely recall a single client meeting I’ve had as Chairman in which the issue of trust has not come up.

Yet still I think we fall short of recognising how deeply practical this problem is.

Trust and culture are not high-minded, amorphous discussion points, but rather rigid prerequisites for success. They are factors that are pertinent not just to our consciences, but to our hard-headed investment decisions. Many modern fund managers know this, and superannuation funds have notably stepped up their focus as well.

But what this new piece of research from KPMG Acuity makes clear for the first time is that institutional investors do not have a monopoly on sophisticated judgment. The data shows that Australian retail investors are now keenly aware of the importance of reputation, transparency, ethical behaviour, values alignment, and social responsibility.

This is a hugely significant finding, because it reinforces just how complex the idea of ‘shareholder value’ is in the modern era. These investors are not looking for directors and management with a laser focus on short-term returns. They expect more of corporate leadership and will shift their investment elsewhere if they don’t get it.

Of course, identifying this new reality is only the first step. No one should pretend that addressing challenges like trust and culture are straightforward.

Nevertheless, I believe the data and insights in this report help bring these issues down from the clouds and into the realm of actionable pragmatics.
Introduction

It is now well established that modern corporations should strive for a more rounded view of their place and purpose.

Yet the public discussion around the role of corporations and trust is hardly limited to C-suite executives. Government, advocacy groups, community bodies and, of course, customers – all have strong opinions and increasingly effective means of making them heard.

When KPMG Acuity considers complex issues, we look for data gaps that we can interrogate and analyse. When we looked at this national conversation about trust we felt a key voice was largely missing: that of retail shareholders.

This has been a significant oversight. So we decided to probe the question properly. This year we surveyed 1510 active Australian retail investors; those who have been personally trading or selecting investments within the last year.

The result is a rich picture of retail investor priorities, and one I hope you’ll find illuminating.

In this report, we’ve lifted the key findings from our data so you can digest them quickly and easily. We then asked relevant leaders from across KPMG to consider our research and contribute short, sharp think-pieces about the implications for their area of expertise.

The ideas you’ll find are diverse. But taken as a whole they deliver a fascinating and clear insight: there is no neat trade-off between delivering for shareholders and delivering for society.

In fact, this survey indicates that boards and management have a green light from shareholders to pursue genuine efforts to become more transparent, more honest, more ethical, and more values-driven. This is an exciting finding.

The results, we believe, should drive a genuine advancement in the way we think about the phrase ‘delivering value for shareholders.’
Key findings

1. Transparency and honesty is more sought after than any other factor aside from returns

Aside from delivering positive financial returns to investors (which 60 per cent rate as a Top Five Factor out of a possible 22 factors) the most important factor when considering what company to buy shares in is being ‘transparent and honest’ (which 51 per cent cite as a Top Five Factor.)

Importance of All Factors – Buying Shares

How important are each of the following when deciding which Australian companies to buy shares in?

Rank Top 5 (of 22 factors)

- Delivers positive financial returns to investors/shareholders 60%
- Is transparent and honest 51%
- Offers quality services or products 42%
- Conducts their business ethically 42%
- Balances needs of shareholders with employees & community 37%
Lower financial returns would be accepted if a company acted ethically

A majority (57 per cent) of shareholders say they would accept lower financial returns if it meant companies they invested in always behaved ethically towards customers, employees and community. Australian shareholders also consider the reputation of companies they invest in to be more important than recent dividends. 72 per cent of shareholders cited ‘reputation’ as either extremely or very important compared to 69 per cent who cited ‘recent dividends paid by the company’ as very or extremely important.

Lower returns for ethical company:
And to what extent would you, or would you not be prepared to accept lower financial returns on your investment, if it meant the company always behaved ethically towards customers, employees and the community?

Importance of Overall Factors
(very/extremely important)
Thinking now about when you are deciding which Australian companies to buy shares in, how important are each of the following overall when buying shares?

- Recent Financial Performance: 79%
- Overall Reputation: 72%
- Recent Dividends: 69%
- Ethical Behaviour: 54%
- Environmental Sustainability: 40%
Executive pay is a major trigger for selling

While paying leadership and executives fairly does not drive shareholders to purchase shares, excessive leadership pay will drive them to sell. Only 10 per cent of shareholders rank ‘paying leadership and executives fairly’ in their Top Five Factors when deciding which companies to invest in. However, 38 per cent rank ‘paying leadership and executives excessively’ as one of the top five reasons for selling shares in a company they already own.

Importance of All Factors – Would make you sell Shares

And thinking about what would make you sell shares in a company you already invest in, how likely are you to sell shares you already own in a company if it:

<table>
<thead>
<tr>
<th>Rank Top 5 (of 22 factors)</th>
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<tbody>
<tr>
<td>57%</td>
<td>Delivered poor/inconsistent financial returns</td>
</tr>
<tr>
<td>46%</td>
<td>Was not transparent and honest</td>
</tr>
<tr>
<td>41%</td>
<td>Had poorly regarded leadership</td>
</tr>
<tr>
<td>43%</td>
<td>Did not conduct its business ethically</td>
</tr>
<tr>
<td>38%</td>
<td>Paid its leadership and senior executives excessively</td>
</tr>
</tbody>
</table>
Key findings

4. Philanthropic support for charities and causes no substitute for integrated values

Sponsoring and supporting charities, sports, or culture does not significantly help make companies attractive to shareholders. Being actively involved in supporting charities/causes (27 per cent rate extremely/very important) and promoting/sponsoring Australian sports, culture and arts (23 per cent) were seen among the lowest important attributes when considering which companies to invest in.

Importance of All Factors – Buying Shares

How important are each of the following when deciding which Australian companies to buy shares in:

Rank Top 5 (of 22 factors)

- Takes a stand on important social/progressive issues: 7%
- Is actively involved in supporting charities and causes: 5%
Young investors are more likely to care about trust factors, middle-aged likely to care least

Middle aged investors are more likely to be focused on purely financial matters when buying shares, compared to those older and younger than them. For example, a majority of shareholders aged under 30 (66 per cent) and over 60 (55 per cent) cite ‘ethical behaviour’ as an important factor in making investment decisions, but just 49 per cent of those aged 41-50 agree. Young investors are significantly more likely to consider environmental concerns than other age groups.

<table>
<thead>
<tr>
<th>Importance of Overall Factors (extremely/very important)</th>
<th>Total</th>
<th>&lt;30 yr olds</th>
<th>31-40 yr olds</th>
<th>41-50 yr olds</th>
<th>51-60 yr olds</th>
<th>&gt;60 yr olds</th>
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<tbody>
<tr>
<td>Ethical Behaviour</td>
<td>54%</td>
<td>66%</td>
<td>57%</td>
<td>49%</td>
<td>51%</td>
<td>55%</td>
</tr>
<tr>
<td>Environmental Sustainability</td>
<td>40%</td>
<td>59%</td>
<td>51%</td>
<td>32%</td>
<td>38%</td>
<td>35%</td>
</tr>
<tr>
<td>Pays its fair share of taxes to Australia</td>
<td>63%</td>
<td>65%</td>
<td>63%</td>
<td>57%</td>
<td>61%</td>
<td>68%</td>
</tr>
<tr>
<td>Treats its employees well</td>
<td>55%</td>
<td>67%</td>
<td>57%</td>
<td>49%</td>
<td>51%</td>
<td>57%</td>
</tr>
<tr>
<td>Has values beyond just making profit</td>
<td>52%</td>
<td>65%</td>
<td>55%</td>
<td>48%</td>
<td>46%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Female investors are more likely to prioritise trust factors

On many (but not all) factors female shareholders are more likely to consider non-financial matters when making investment decisions. Female investors are significantly more likely to care about ethical behaviour, environmental sustainability, and whether the companies in which they invest are paying their fair share of tax.

<table>
<thead>
<tr>
<th>Importance of Factors – Buying shares</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conducts its business ethically</td>
<td>65%</td>
<td>62%</td>
<td>70%</td>
</tr>
<tr>
<td>Is committed to environmentally friendly policies</td>
<td>43%</td>
<td>37%</td>
<td>52%</td>
</tr>
<tr>
<td>Is transparent and honest</td>
<td>77%</td>
<td>75%</td>
<td>81%</td>
</tr>
<tr>
<td>Takes responsible and appropriate actions to address issue/crisis</td>
<td>69%</td>
<td>67%</td>
<td>74%</td>
</tr>
<tr>
<td>Pays its fair share of taxes to Australia</td>
<td>63%</td>
<td>59%</td>
<td>70%</td>
</tr>
</tbody>
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Investors do read annual reports, and they want to know what’s next

The majority of retail investors are reading annual reports, and they’re not just looking at financial performance. The future strategy, which should include the company’s ESG plans, is more likely to be read than remuneration or the company’s leadership reports.

Sections of Annual Report (Read in detail/Skim read)
And which of the following sections of annual reports do you read (either in detail, or skim):

- Financial Performance: 97%
- Future Strategy: 95%
- Board/Executive Remuneration: 89%
- CEO/Chair’s Report or Message: 88%

Readership of annual reports
And to what extent do you read annual reports/shareholder reviews issued by Australian companies you have shareholdings in?

- I generally read annual reports in detail: 16%
- I generally read key parts or skim all of annual reports: 73%
- I do not read annual reports: 10%
Shareholder value: Shareholder values

What motivates Australian retail investors
Trust in institutions has plunged over the past twenty years. The community’s belief in political structures, in banks, in religious institutions, in corporations – has dropped.

In the corporate world this drop in trust has corresponded with increased expectations about corporate behaviour. Boards understand investors want their companies to act ethically and responsibly.

This desire for better transparency and higher standards of honesty is well established when it comes to customers, regulators, and institutional investors. What the new KPMG Acuity research confirms is the desire is acute among retail investors as well.

Front-end your humility, and other lessons learned from audit

Eileen Hoggett
Partner in Charge, Audit
KPMG Australia
In my experience as an auditor, the overwhelming majority of corporations are keen to meet society’s raised expectations.

Boards understand the stocks of goodwill they once relied upon to get through turbulent times is running dry. The great shock absorber of trust has been removed and that leaves corporations exposed.

But making the shift towards greater transparency and honesty is not as easy as it might first appear. In reality, an effective transition requires not just good intent, but diligent and focused efforts. So where can these efforts be made?

**Think beyond compliance**

Corporations need to be aware that the onus now lies squarely on them to not only disclose what is legally required, but to actually conceive of what else might be relevant to report.

The lens that needs to be applied is ‘what is the right thing to do?’ But don’t expect this to neatly align with the existing compliance lens.

Empathy is key here. Boards questioning their management teams need to put themselves into the shoes of the customer, the community stakeholder, and the investor.

**Sit down, be humble**

Asking the right questions is the first step. The next is to be honest and forthright in your answers.

Company reporting procedures have traditionally been weighted toward justifying behaviours, rather than building trust. But in the modern context, if serious problems exist the likelihood is a humbling moment lies somewhere down the track.

Front-ending that humility to a pre-crisis setting makes much more sense than saving the big mea culpa for the eye of the storm.

Furthermore, owning up quickly to a problem or mistake is a critical facet of building trust. People are naturally inclined to believe those who display vulnerability and authenticity.

So if a company shows not just the good, but also the bad and the ugly, it mitigates risk.

Conversely, if you just spin shiny stuff, it will naturally come as a surprise to investors when crisis strikes. That’s when big, disruptive fluctuations in share price tend to occur.

Often when a company is in crisis the accusation that ‘we should have been told about this earlier’ can sting harder than the root problem. This is also when reputational risk can turn to class actions.

**Tell your story well**

Reporting continuously, honestly, and humbly is vital. But companies committed to securing trust can’t stop there. The risk of information overload in a bid to be transparent and trustworthy is one directors should also be conscious of.

Boards and management have an obligation to communicate effectively and ensure the most relevant information is prioritised and understood. The responsibility for action can’t lie entirely with directors, however. boards need to focus on ensuring a culture of transparency permeates the organisation. This is perhaps the hardest task of all, but there are practical places to start.

Historically, boards tend to interact with just senior executives. But many directors are now wanting to get more connectivity, deeper into the business. So people well below senior leadership are coming to present to the board, which is an extremely positive development.

Engaging in deeper analysis on people surveys is also key. If there’s low engagement in a section of the business, for example, we know that generally corresponds with a greater risk of that section not complying with policies and procedures. Boards need to be vigilant about those dark spots, because they have the potential to tarnish the entire transparency initiative.

Another important way boards can enhance transparency – and one that is close to my heart – is to support their auditor accessing information. Good auditors have inquiring minds, good emotional intelligence, and broad experience. They occupy a unique position, because they spend time within an organisation talking to people at all levels.

When I hear a client say: “don’t just tell me the numbers are OK, tell me what else I should know,” it’s music to my ears.
This research challenges a number of the myths you hear about investor behaviour. For example, the traditional view of retail investors is they’re there to book gains and little else. This new KPMG Acuity research confirms just what a myth this is.

Another myth is that you can slice and dice stakeholders into discrete groups with well-defined and distinct interests. The truth is shareholders can be customers, customers can be employees, and they’re all citizens. Most are conscious they live in a society, not just an economy. And reflecting that, most think long-term.

This new survey identifies a range of factors that are high priorities for retail investors: sharing value more evenly among stakeholders beyond executives, treating the workforce with care and respect, contributing to the national interest, being environmentally responsible. These are also things that make organisations more durable and profitable in the long run. You can indeed do well by doing good.

Most retail investors, along with institutional investors, are not inclined to be twitchy. They prefer to sit tight and buy into the long game. However, for a long-term commitment they need to trust the organisation.

So the big question for business leaders becomes: if investors want long-term thinking to drive value, how can my organisation foster trust to secure their backing?

Become a better listener, because retail investors can spot risk which management can’t

Corporations are under increased scrutiny from government, from activists and from the community. As Royal Commissioner Kenneth Hayne emphasised, failing to meet community societal expectations is a high-risk strategy, and one long-term investors are increasingly unwilling to bear.

However, community expectations can shift very quickly, and this is where listening to retail investors can help businesses prepare against the unknown unknowns.

Retail investors have a different perspective, meaning they can often spot risks organisations can’t see.

Boards too need to get better at listening. Most Australian directors of major corporations still report they are not in receipt of good information about how their organisation is perceived. Given the benefits and the plethora of modern tools available, this is an area where boards and management teams need to focus.

Intent, however, is only half the battle. Good listening, above all else, requires diligence. That means ensuring repeatable, benchmarkable processes and measurements are in place.
Communicate with your customers... and everyone else

Transparency and trust go hand in hand, but there’s no point in being open if people can’t understand the message. Effective two-way communication with customers, employees, the community, NGOs and other stakeholders, so they’re empowered to understand, doesn’t just build trust, it ensures accountability.

The recent banking Royal Commission revealed a yawning gap in understanding between banks and their customers and the community around a range of practices. This can be rectified over time.

Banks, along with other corporates, can get much better at communicating the value they contribute to the economy and society. There’s also an educative role for companies to play in making sure people are informed about their broader purpose and how their products and services serve customers and society.

The key is making this information free and transparent and being creative and engaging in how you disseminate it. And if directors find themselves becoming uncomfortable about the open disclosure of a given practice, this is a valuable insight in and of itself. It prompts the question: even if we can do this, should we?

Chances are it constitutes a risk that your investors will not like.
It’s no surprise to see ‘excessive pay to leadership and senior executives’ ranked among the top factors likely to cause retail investors to sell. Concerns about remuneration have become a real lighting rod among shareholders for broader governance and performance concerns, a dynamic unlikely to change in the foreseeable future.

Pre-GFC, companies were happy enough to participate in an ever upward spiral, as boards benchmarked executive packages to the ballooning expectations set by their competitors or peers. Post-GFC, this has proven a hard cycle to break.

Remuneration is almost always looked at in relative terms. Executives want their efforts to be rewarded in line with
their peers. Shareholders want the size of rewards to have some relationship with relative performance. The baseline expectation of executives for much of the 90s and 00s was that an incoming CEO would receive a package more generous than their predecessor. Bonuses became to a large extent expectations. Incentive pay became a misnomer, as much of the ‘short term’ incentive was expected to be paid for delivering annual targets.

However, after some difficult years of expectation adjustment, we are now seeing a cultural shift. Retail investors, along with powerful institutional investors including industry superannuation funds, have put executive remuneration squarely in the crosshairs. Boards recognise this.

We are now seeing CEOs taking the reins at major Australian organisations on packages more modest than that of their predecessors. We are also seeing greater variability of incentive outcomes as Boards become more conscious of the links between performance, executive accountability and reward. The increasing prominence of these practices is likely to become self-fulfilling as expectations shift.

Overall the correction on executive pay levels is welcome. Yet boards must still offer attractive packages to secure senior leaders. The talent market is global, and boards must often look outside Australia for the skills required to keep pace with international markets and new technologies.

So a core challenge for companies today is striking the right balance between meeting investor expectations on remuneration and remaining competitive in the global market for senior talent. Unsurprisingly, there’s no easy answer here. There are, however, some considerations worth bearing in mind.

**LTIs are not a panacea**

It’s become popular to claim the problem with executive remuneration is more about calibration than quantum. According to this argument, if there is reform necessary it is in making sure executives are not disproportionately rewarded for hitting short-term targets that may not be in the long term interests of investors.

There’s some truth to this. Executives are often the beneficiaries of windfall gains when factors outside their control have led all tides to rise. But structuring appropriate long-term incentives (LTIs) to provide the counterbalance to short termism is hardly a straightforward matter either.

Three or four-year performance conditions tend to throw up their own challenges. For CEOs in cyclical industries, LTIs would punish those who enter at the top of a cycle and reward those who take over at the bottom. For many companies, investments may take years to impact financial results. With the average tenure of an ASX100 CEO still below five years, this may often mean only one or two LTI vestings in the CEOs term. Inevitably, this will lead to more focus on achieving the short term incentive targets.

More sophisticated approaches are worthy of consideration. Boards might, for example, consider cutting the size of short term ‘incentives’ and provide for smaller but more attainable ‘rewards’ through an annual grant of shares, restricted over the longer term, which align the future value of those rewards with the experience of longer term shareholders.

**Alignment between pay and purpose is the key**

Regardless of pay structures, the fundamental issue for boards to focus on is aligning incentive pay to broader company goals and transparent communication. This is how trust may be rebuilt between corporates and their shareholders. This is an area, thankfully, in which corporations have made excellent recent headway.

As a rule, remuneration reports have traditionally been dry compliance documents. Today, smart companies use them as a powerful communication tool capable of mitigating shareholder concerns. A good remuneration report provides the opportunity to show how the incentive structure for executives is tightly tied to the strategy in the company’s corporate plan. If a corporate plan has three or four key targets, it is integral to any remuneration report that it is structured around incentives to hit those same targets.

It is interesting to note that the KPMG Acuity research shows retail investors are still dissatisfied with the information they receive regarding remuneration. Hopefully this is starting to shift.

The core point for boards is you can’t fudge the issue. The best way to convince investors your executive packages are connected to your strategic purpose and reasonable is to ensure that they genuinely are.
It’s good news that most Australian retail investors would be prepared to accept lower financial returns in exchange for ethically and responsible corporate behaviour. The better news is they don’t have to.

It’s intuitive to assume a zero-sum relationship between ethics and money, and possible to imagine examples where this might be the case. But when you consider the big picture in the modern context it’s clear that acting ethically, and being a responsible business, are generally joined at the hip.

Take, as a recent example, the latest annual Benchmark Report issued by the Responsible Investment Association of Australasia (RIAA), with data compiled by KPMG. The report finds responsible investment funds continue to outperform most mainstream Australian and international funds across one, five and ten year horizons.

“The findings of our report refute any misconception that investing responsibly comes at a cost in terms of performance,” RIAA Chief Executive Simon O’Connor noted.

“[I]t contributes to the mounting body of evidence showing that responsible and ethical investing leads to better investment outcomes, alongside benefiting people and the planet.”

For some, however, this can still feel like wishful thinking. The allure of zero sum reasoning persists. Yet when you break it down it makes abundant sense that ethical and responsible behaviour should be associated with strong long-term investment outcomes.

Dialing down risk

First, ethical and responsible behaviour reduces risk. Investors, customers, community stakeholders, and regulators are asking increasingly sophisticated and challenging questions. Failure to manage these issues can result in reputational damage and legal exposure.

For example, companies are now under increasing pressure to identify and address human rights issues like modern slavery in their operations, supply chains, and portfolios. Those who fail to do so don’t just risk harming people, they threaten brand value and critical relationships as well as failing to comply with a growing body of human rights legislation.

Investors know this. Most understand that misalignment with community expectations can be value impairing. Companies with robust mechanisms to identify harm and remedy it swiftly are going to be increasingly attractive. Yes, these mechanisms will result in more ethical outcomes, but it’s also just prudent business practice.

Ethical behaviour indicates deft management and attracts talent

Appropriately managing this range of expectations and risks is not an easy task. Ensuring safeguards are installed
and functional is complex, and requires a deft approach. This fact leads to another reason smart investors are seeking out ethical companies: it’s a useful indicator of management quality.

Investors realise that if management is capable of steering a course through the complexity of ethical challenges, chances are they’re capable of generating shareholder value as well.

These factors then compound. An ethical company, with high-quality management, is a company much more likely to attract top shelf talent. In-demand people, especially younger people, increasingly want to feel as though their work is contributing to a higher purpose. They are interested in changing the world for the better and attuned to legacy.

Old-school philanthropy won’t cut it
What all this underscores is that acting ethically is absolutely core to the running of any business. As this survey makes clear, retail investors are not particularly impressed by stand-alone initiatives to ‘do the right thing,’ whether that’s charity or sponsorship. The old idea that ‘as long as they see me being good over here I can be bad over there’ no longer works.

Of course, there remains a role for corporate philanthropy. But it cannot function as a substitute for aligning a business’ core capacity with making a positive difference. Philanthropic efforts can and should continue, but they will deliver greater impact if tightly aligned with an organisation’s broader positive purpose.

Keeping an ear to the ground
This research also makes clear that a significant majority of retail investors are eager to be consulted more about ethical and social decisions. This actually represents an opportunity for any company looking to mature its practices.

A vital first step for any organisation wishing to avoid ethical pitfalls is to more effectively listen to those you might not have been hearing. If you make the effort to consult with your most vulnerable customers, for example, you are far more likely to spot canaries in the reputational coal mine.

Vulnerable customers have personal experiences that can be generalised, and the same logic applies to listening more intently to retail investors. These are investors that have traditionally been the easiest to ignore, as they are generally unable to book a meeting with the chair. Their opportunities to be heard have often been limited to questions from the AGM floor. But listening and consulting more broadly will open organisations to spotting hotspots of risk before they start burning out of control.
As this research indicates, the investment community is increasingly comprised of what might be termed educated investors.

A range of factors are contributing to the trend. The improving wealth of the Australian middle class; the introduction of the superannuation guarantee; and the rise of self-managed super funds – are all delivering a more engaged and demanding retail investor.

As five million baby boomers straddle the early-to-mid retirement years, they will seek out yields that underpin an older but active lifestyle. In addition to older boomers looking for reasons to invest, and for a rationale to divest, Australia’s stock market will also garner more attention from millennials. These are the kids of baby boomers. They’re Australia’s most educated generation and they take a keen interest in saving and superannuation.

Millennials will be exposed to superannuation issues across their entire working lives, and the stock market is more accessible to them than property. They might also prefer to invest in the Australian share market rather than in say buying a home (which would, after all, require millennials to stop eating smashed… oh, never mind). Seven million millennials now occupy the lower rungs of the workforce and will continue to make investment decisions for decades to come.

In between is gen x, the six million or so Australians who now quietly straddle the peak-working, the teenager-rearing, the job-scrambling stage of the lifecycle. The advantage gen x has over boomers is they have had superannuation for much of their working lives and, like millennials, are better educated and maybe even more confident about their investment decisions.

Common psychology cuts across generations

But then again, this survey and report by KPMG Acuity shows that for all these demographic factors, at the end of the day the decision to buy or sell is driven by behavioural and even psychological factors.

The survey opens by asking two important questions: what would make you buy shares in an Australian company and what would make you sell shares in an Australian company? Respondents were free to offer as many reasons as they wish; in all, there are 22 reasons cited for buying and 22 reasons cited for selling. More than half the respondents found 14 different reasons to invest in shares including “dealt with whistleblowers fairly”. But when asked for reasons for disposing of shares, more than half the respondents found just five reasons.

So when we want to buy, we find umpteen reasons to ‘press ahead’ as evidenced by this survey. But when we want to sell, we offer a short sharp excuse and – like a jilted lover – we move on.

Multiple reasons to buy are like gateways to the same destination. None of these reasons should be ignored by business; they all coalesce to reassure investors that they are making the right decision. Oftentimes, investors like to reaffirm their decision by looking for, and being able to cite, supporting facts. This is especially so in a market in which everyday Australians are taking a more active role in deciding where their money is invested.
Shareholder value: Shareholder values

What motivates Australian retail investors
Gender equity leading to better balanced investing

Deborah Yates
National Managing Partner, People, Performance & Culture
KPMG Australia
Female investors place a greater emphasis on reputation, ethics, and social responsibility than male investors on just about every metric, according to this new KPMG Acuity research.

Now it’s vital not to overstate the gap. This research also shows that most male and female investors will be in lock-step on most issues. Nevertheless there are intriguing differences in key areas that should not be overlooked.

More so than men, women want the companies they invest in to balance the needs of shareholders with employees and community (65 per cent v 55 per cent). More so than men, women want the companies they invest in to have values beyond just making a profit (60 per cent v 47 per cent.) More so than men, women want the companies they invest in to be committed to environmentally friendly policies (52 per cent v 37 per cent).

So what can we make of this?

**Wrong to assume women are being ‘nicer’**

A traditional read might be to suggest that women are more empathetic, more sensitive, or just ‘nicer.’ I think we should be extremely wary of this view. There is nothing in our biological makeup to suggest men are likely to be better investors. Indeed, much of the recent data suggests stereotypically feminine traits might actually be more correlated with success in the field.

Warwick Business School recently tracked the performance of 2,800 investors over three years. The men in the study outperformed the FTSE 100 by 0.14 per cent. The women outperformed the benchmark by 1.8 per cent. Another three-year study by Hargreaves Lansdown, the UK’s biggest consumer investment platform, found women returning 0.81 per cent more than men. It’s far from conclusive, but it’s certainly food for thought.

Of course, theories for why female outperformance might occur are highly contested. But one thing the BlackRock Investor Pulse survey found is that women investors tend to be less likely to make risky financial decisions than men. This places this new KPMG Acuity research in an interesting light.

Perhaps women are not trying to be ‘nice,’ but rather that they see an absence of ethics and good corporate citizenry markers as a risk. Certainly this would be my theory.

I think it’s likely that when the average female investor looks at a company making good annual returns, but being dicey on the ethics front, they see danger. But a company that puts its customers and employees ahead of short term profits is one that is likely to be a better investment over the long run.

**Women may be more rounded investors**

There’s also an argument that women are more engaged in the community, especially as customers, and therefore the rising primacy of customer-centricity may be concept that sits more intuitively. Certainly it is clear from these results that women investors are more likely to take a broader view of what constitutes value.

It’s now cliché to note the world is more intricately interconnected than at any other point in time. Yet there remains a stubborn tendency among some investors to view companies as discrete entities operating within specific silos. The broader role for companies today as good corporate citizens – as moral agents – is one it seems female investors may be more in tune with.

Perhaps it is no coincidence that as women start to fill their rightful places in the investor community, and in roles of influence more broadly, we are seeing CEOs similarly redefining their roles in society. For a business leader to take a public position on an issue like same-sex marriage or Indigenous constitutional recognition would have been anathema a generation ago.

Yet as a more gender-balanced, truly representative world emerges, it is likely we will see this trend continue and get rewarded.
Show them where you’re going and make sure they want to come

Adam Twemlow
Partner in Charge, Queensland, Enterprise
KPMG Australia

When they peel back the cover on an annual report, Australian retail investors are obviously keen to read about financial performance. What this new KPMG Acuity research shows is they’re now equally keen to read about future strategy.

This should not come as a major surprise. When the CEOs we work with conduct roadshows the vast majority of questions they face from potential investors and brokers is about their long-term strategy.

Given the market environment is evolving faster than any other time in history, investors want reassurance that management has a plan to surf the choppy waters of change.

Investors want to understand what your priorities are, where you plan to innovate, and where you think you can forge a competitive edge.
Yet what we have seen change rapidly in recent years is how much investors want to hear about your values as well.

For most investors today, it’s not all about the numbers. It’s the numbers plus responsibility.

**ESG and future strategy becoming one and the same**

ESG used to be a siloed section within an annual report.

Now shareholders are increasingly keen to understand, as a top line, whether the company in which they are invested is being a responsible corporate citizen.

What used to be a nice-to-have has readily become a must have.

Brokers and wealth advisors don’t want to put their money into an entity they think will struggle to earn trust.

The advice we are increasingly giving to our clients when it comes to ESG is to assess what ESG means to them specifically.

Making it truly bespoke gives it a better chance of being repetitively ingrained into the company’s culture. Because there’s no point having a great strategy that sits in the filing cabinet.

So what’s driving this investor desire to see ESG woven tightly into future strategy?

Well, partly it’s pragmatic and hard-headed. Investors are wary of risk and a poor culture around ESG creates plenty of it. If you’re an importer of goods, for example, and you are making no obvious effort to ensure your supply chain is free of slave labour, there’s a solid chance you will get embroiled in legal strife or reputational assault.

But partly investor behaviour is being driven by a values dynamic.

Investors are people with beliefs and morals. While they are eager for returns, they would prefer those dollars to have been earned through improving the world.

So while a company with poor ESG reporting may be generating healthy profits, it’s typically not too hard for investors to find an alternate company with similar returns and better values.

Essentially, ESG is getting hyper-competitive.

**What else investors are looking for in future strategies**

Of course, when investors flick over to the future strategy section of an annual report they are looking for more than just assurances on ESG.

Key among the factors they will look for is innovation strategy, especially as it relates to customer-centricity.

Where once organisations may not have considered customer experience a first-order priority, today global disruptors like Uber, Airbnb, Amazon, and Netflix have altered consumer expectations irreversibly. How companies plan on adjusting to these raised expectations is pivotal.

A strategy for using data effectively is also key. Game-changing tech, like machine learning and AI, is fuelled by data, meaning that data is shifting from something that is stored and managed, to something that can fuel a competitive advantage and growth.

A sound plan for digital and tech innovation is also high on the priority list for most investors. The Internet of Things, driven by 5G, is putting real pressure on companies to prepare for the possibilities of a truly interconnected world. Shareholders are eager to see that the company in which they are invested is ready for this step change.
About this report

Methodology
KPMG Acuity conducted a nationwide online survey of 1,510 Australian retail shareholders between March and April 2019, asking them about what is important to them when making investment decisions. All respondents had been personally trading or selecting investments within the last year. The key findings from the data were then summarised in this report – with relevant KPMG leaders additionally contributing short think pieces about the implications for their area of expertise.

About Acuity
KPMG Acuity is KPMG’s dedicated Market Research team that offers the full breadth of research services. KPMG Acuity was formed in June 2017, when KPMG acquired Acuity Research & Insights; it brings together KPMG’s leading brand and innovative thinking, with the long term customer insights expertise of one of Australia’s leading boutique insights consultancies.

Full results
This report talks to a number of important key findings, however there is a wealth of other data coming from the survey. Please contact Amanda Hicks for further details.