NACD Chicago Distinguished Speaker Series
Jeff Smith: Activism Beyond the Boardroom

Jeff Smith, the Co-Founder and Chief Executive Officer of Starboard Value LP, was an outstanding speaker for the final Distinguished Speakers luncheon for the NACD Chicago 2015-16 season. After a warm welcome by Shan Atkins, Co-Founder and Managing Director of Chetrum Capital LLC, Smith spent the remaining hour sharing his thoughts on boardroom responsibility and corporate value creation.

Smith's remarks revolved primarily around three topics:

1. Directors represent the interest of the shareholders;
2. Directors need to "think like an owner"; and
3. Best practices for a well-functioning boardroom.

To drive his first point home, Smith polled the audience by asking who in the room would vote for a politician who did not speak with his constituents. With not one hand raised, Smith made the same comparison to directors. If directors truly represent the interests of shareholders, why are directors not allowed to speak with their shareholders? Excuses such as the shareholders cannot be trusted or directors are not trained to speak with shareholders because they might divulge confidential information were unacceptable in Smith's opinion. In order for the board to truly represent the interests of shareholders, directors must know the thoughts of the investor base. One low risk way for directors to get an understanding of the shareholder base is simply by attending investor conferences as an unknown member in the audience. In doing so, directors will get a feel for what questions investors are asking and how the Chief Executive Officer or Chief Financial Officer is addressing the shareholders. Another idea was that Investor Relations should report with a dotted line to the board. Request periodic independent sessions with IR at the Board or the Nominating & Governance Committee to hear unfiltered what shareholders are saying.

The bulk of Smith's comments centered around his belief that a director should operate with the mindset of, "If I owned the entire company, what would I do?" Smith firmly believes this attitude will guide directors to make the best decisions for the company. He continued to support his argument by sharing the following examples of how "thinking like an owner" shapes various boardroom dynamics and decisions.

1. **Do not delegate decision making to advisors.** An owner would never delegate decision making to an advisor, a banker or to attorneys. Boards can, and should, hire advisors who are experts in the field to *advise* but never to make the final decision. Smith warned his audience to carefully review the pricing structure of the advisory firm, and consider the incentive of the consultant to lead the board down a certain path in order to earn more revenues. He specifically shared an example of a firm whose pricing structure became more expensive the further a company went down the process of a proxy fight. Why would this firm advise the board against going further down this particular path, when the incentive for the consultants became more lucrative if the board did so?
2. **Do not simply show up for board meetings.** An owner always knows what is going on with her business and would never wait for a quarterly report to be digested a week before the board meeting. Instead of waiting for information to be provided, directors should ask to be included on the flash reports that are being sent to the executive team. If the business is not going well, directors should call up the executive team to understand the issue and offer support and advice to get ahead of the issue before the quarterly board meeting.

Before opening it up to questions, Smith concluded his remarks with his best practices for a well-functioning board room, including maintaining independence and the fallacy of board self-reviews. Smith also discussed the importance of multiple executive sessions. If needed, the first change he makes immediately upon joining any board is moving the Executive Session to the beginning of a board meeting (versus only at the end). This gives the board the opportunity to go through the agenda and determine what items need the most focus and what items can be shortened or skipped. Ultimately, this is an effective time management tool and gives the board the power to set the agenda and efficiently and effectively utilize the board meeting to focus on the important topics. This is YOUR time!

Smith then opened it up to audience questions, which included questions regarding what characteristics Smith looks for before deciding to invest in a company, his position on the separation of the roles of the Chairman and Chief Executive Officer, term and age limits, as well as what his playbook is for approaching a company where he perceives underperformance.

Michele Hooper concluded the day by thanking Smith for his remarks, the audience for attending, and Atkins for bringing in Smith as a speaker.