

Capital Allocation, Corporate Governance, and Investor Relations

This article is excerpted from a letter by MOI Global instructor Phil Ordway, Managing Principal at Anabatic Investment Partners, based in Chicago, Illinois.

Replay Phil's presentations on this topic at [Best Ideas 2019](#) and [Best Ideas 2020](#).

The ideas and commentary that I [published on this topic](#) last year created an intriguing response. Several investors, executives, and board members reached out with interest and feedback, and the presentation made its way to at least a handful of boardrooms. During the year I presented on the subject to the boards of two major companies (one of which we own), and I learned a lot along the way.

I am more convinced with each passing day that there is a massive investment opportunity in this regard. The world is inundated with news, information, and noise, and that constant barrage is pushing some investors' holding periods toward an asymptote of days and weeks instead of years and decades. Private markets and public markets each have increasing amounts of capital that is allocated without regard to valuation or investment merit. Companies are balancing an evolving mix of stakeholder concerns, and even capitalism itself is under fire.

With that backdrop, there is a clear need for engaged, constructive, long-term investors to fill the void. The question then becomes how to engage. Persuading by reason is not known for good results. Persuading by interest is more powerful, but it could prove insufficient in this realm. Many investors and executives have significant personal capital – of the financial and reputational varieties – at stake, but their decision-making can still be anchored to illogical or outdated practices.

Most businesses have laser-focused supply chains and lean, rational operations overall, but that discipline somehow dissipates when it comes to financial capital decisions. Mergers and acquisitions become sacrosanct. Dividends and buybacks – the third rail of finance – get nonsensical treatment, often under the guise of a “balanced approach.” Executives tout a “return of capital to shareholders” – which implies no use for that capital inside the company – while they are often raising capital from other sources at the same time.

For now, the best practical solution might be to start small, as little changes can snowball over time. Streamlining quarterly guidance can be a first step to eliminating it. Creating a published “owner’s manual” might begin the development of an internal investment capability and a culture of ownership. Clear, sensible reporting might start to build a sense of partnership and mutual trust.

The right kind of “high-quality” shareholders – engaged but patient partners in the business – can be a force for good. Proper alignment can ensure that business leaders get the support they need to make the right long-term decisions for their companies and the economy while investors avoid the kind of expensive, short-term tail-chasing that often results in poor performance.

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