

# Evenlode Global Investment View

April 2020 – Applauding Multi-Stakeholder Responses

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After one of the strongest and longest bull markets in history, the end came as few had predicted. The global lockdown, in response to the onset of Covid-19, has shaken global markets and drastically reduced the ability of many companies to generate revenues. The measures that governments take in these uncertain times are rightfully being recorded and analysed to determine what lessons can be learned and strategies should be followed. Equally investors should be keenly aware of the behaviour of individual companies during the global pandemic, as actions taken now will have direct ramifications for profitability in the coming years.

The Stakeholder Theory proposes that the fortunes of a business are dictated not only by the shareholders and management, but also by relationships with customers, suppliers, employees and society at large. At Evenlode, we believe that this makes sense not just in theory but in practice too. A company's long-term profitability is dependent on maintaining a balance with these stakeholder groups. Overwork and underpay your employees and they become unmotivated; tighten the screw on suppliers too much and input quality drops and supply flexibility degrades. The ability of a company to sustain this equilibrium is often dependent on the behaviour of individuals, which is in turn guided by the culture of the business. The current crisis has presented challenges for all companies and observing how they respond to these tests will give investors an unparalleled insight into the strength and health of company cultures.

In this article, we consider the good undertaken by some of the companies in the Evenlode Global Income portfolio and how we believe these actions will benefit not only the stakeholders listed above but ultimately the shareholders in the long term too.

As individuals, we have all found our lives disrupted, whether through illness, working from home and/or additional childcare responsibilities. **PepsiCo** produces a wide range of beverages and snacks, and employs 260,000 people globally, including 90,000 frontline employees in the United States alone. When it became clear that the U.S. was going to be badly affected, the company communicated a clear, detailed and generous support policy for employees. This included wage increases for frontline employees and improved medical coverage for all employees. Actions like these demonstrate to workers that they are a valued part of the PepsiCo organisation and improve the engagement and relationship between company and staff. This has a direct consequence of reduced employee turnover and increased productivity per worker. In turn, this should reduce costs (particularly for training and hiring), increase the return on labour spend and improve company profitability in the long term.

Another company looking after stakeholders (and therefore ultimately the long-term shareholder) is the online marketplace provider, **eBay**. In response to the coronavirus outbreak, eBay has put in place a raft of actions to support its primary customers, the thousands of sellers who choose to do business on the site. These are often small and medium sized businesses with little cash in reserve and a predominantly physical presence, meaning revenues have been damaged by reduced footfall. eBay has deferred fees from these sellers, increased free listings and protected seller reputation metrics against supply chain delays. The platform provider has also boosted a task force to set up eBay stores for the 70% of US businesses that have no digital presence, waiving selling fees for three months. Combined these actions are expected to cost eBay over \$200 million but this may prove a good

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investment in exchange for increased vendor loyalty. If this can be achieved, vendor acquisition costs should fall and retention should rise, driving improved future revenues from sales and advertising.

Many societal institutions have also been required to rapidly change the way they operate in response to the lockdown and social distancing rules. This includes an additional need for communication tools to allow governments, educational institutions and healthcare organisations to continue operating and respond effectively to the crisis. Cisco is working closely with both the United Nations and World Health Organisation, and the company has agreed to provide much needed equipment for free to public organisations and front-line service providers. The company has also enabled virtual response meetings for the French, Canadian, German, Colombian, and other governments around the world. While such actions will aid society in the fight against the virus, increased implementation of network technology also improves Cisco's installed base and positions them to win future contracts across a wide range of organisations.

By adopting a multi-stakeholder approach in their various responses to the pandemic, these companies are demonstrating a commitment to the long-term over short-term profit taking and will, we believe, ultimately improve their competitive position. For long-term investors such as Evenlode, there is not a conflict between the stakeholder theory and traditional shareholder value maximisation theories. To put it simply, our view is that the "right thing" is most often the "profitable thing" in the long-term. As former Intel CEO, Andy Grove, put it, "bad companies are destroyed by crises; good companies survive them; great companies are improved by them."

At Evenlode, we continue to carefully monitor the actions of the companies in our investable universe and we fully support the good that they are doing in times of crisis.

**Chris Elliott, Sawan Kumar and the Evenlode Team**

**28<sup>th</sup> April 2020**

*Please note, these views represent the opinions of Chris Elliot and Sawan Kumar as of 28<sup>th</sup> April 2020 and do not constitute investment advice.*