

BHP BILLITON'S GOVERNANCE PRACTICES have evolved to reflect its global footprint and institutional shareholder base. But perhaps what most differentiates the company's leadership is its longstanding commitment to governance at the very highest level, a commitment that resonates throughout BHP, which is one of the world's largest natural resource companies. The Board and management proactively discuss emerging risks across the business – with investors in particular – to assess possible impact on the strategic direction of the business.

This approach was tested in a dramatic way in 2012 when the company, one of the world's largest coal producers, was swept up along with others in the global climate change campaign to reduce fossil fuel usage.

As part of the Group Management Committee of BHP Billiton, where she served as President of Governance and Group Company Secretary, Jane McAloon, now a Senior Adviser at Brunswick, spent eight years advising BHP's Chairman and Board on strategic and reputational matters including governance and the implications of climate change. Pru Bennett, the current head of BlackRock's Investment Stewardship team for the Asia Pacific region, is one of Asia's leading voices on governance and was responsible for engagement and proxy voting activities in relation to investments in BHP, including engaging with them on matters relating to board governance and climate change.

In the following conversation, Brunswick Partner Tim Payne and Director Jo Donne talk with Ms. Bennett and Ms. McAloon about their respective views on the experience. They describe how BHP's response turned a boardroom challenge into a catalyst for a more positive relationship with stakeholders.

Pru, can you describe how BlackRock expects the companies in which it invests to approach corporate governance?

BlackRock is very supportive of an approach that allows shareholders to raise issues regarding corporate governance directly with the Chairman. That was our experience with BHP. We have been able to have a constructive conversation with the Chairman about material corporate governance matters, such as executive compensation, board succession planning and the required skill set for independent directors. BHP uses the feedback from institutional investors to continually improve its corporate governance disclosures. That ensures the Board is aware

of how institutional investors perceive their company. By contrast, in Asia we rarely get access to company chairmen. That's getting better, but too often our engagements on corporate governance issues are with senior investor relations executives and we cannot be sure our concerns are raised at board level.

Asian boards generally see corporate governance as a compliance issue and not as a strategic issue. But corporate governance is not about "box ticking." Having a competent and engaged Board with an appropriate set of skills and experience contributes to long-term sustainable performance.

Jane, BHP had a proactive approach to governance already. What happened in 2012?

Yes, that is absolutely right. A company can never be immune from challenges. For several years BHP had been publishing a comprehensive Sustainabil-

TEST OF METTLE

ity Report that outlined the company's approach to climate change and its commitments to action. BHP was considered to be ahead of many other companies involved in fossil fuel production. But in 2012, calls for action took on new momentum. A worldwide movement for more concerted action called on institutional investors to divest holdings in companies involved in thermal coal production.

The UN's Intergovernmental Panel on Climate Change had released its latest assessment. An Australian NGO backed by Rockefeller Foundation funding created a legal campaign against coal mining. This created an environment where companies like BHP needed to justify how investments in long-term coal assets were a responsible use of investor capital. Global pension funds and sovereign wealth funds began to seriously question the strategic risk to their investments. There was genuine concern about potentially

JANE McALOON, formerly an executive of mining company BHP Billiton, and **PRU BENNETT** of BlackRock describe how a boardroom challenge on climate change became an opportunity to build trust with investors. Brunswick's **TIM PAYNE** and **JO DONNE** report.



catastrophic value destruction to their portfolios. BHP had been thinking about these issues and was open to investor concerns about whether their investments in companies could be “stranded.” The chairman and management team proactively led the engagement with global investors.

Several investors believed that if they could influence BHP to take further action, it would set a baseline for other natural resources companies. As part of that push, an Australian climate change activist was nominated for election to the BHP Board. We were attracting investor attention as a natural resources company that could and should drive change for an issue that was much bigger than us.

Pru, why was BHP a target?

Simply because of its size and global operations, BHP has a high exposure to what was being termed as “stranded assets.” We were looking to encourage greater disclosure on how boards were managing the issue, in particular future capital expenditures. BHP was one of the companies that was more receptive to shareholder concerns than many others. This is reflected in the continual improvements in disclosure of policies, but more importantly, in actions by

“BHP WAS ONE OF THE COMPANIES THAT WAS MORE RECEPTIVE TO SHAREHOLDER CONCERNS THAN MANY OTHERS.”

PRU BENNETT
BlackRock

the company. When it came to issues such as climate change BHP was not focused only on what was required to be disclosed but wanted to meet the expectations of investors.

There is no doubt the corporate community was slow to respond to growing shareholder concerns on climate change. BHP at the time was one of the few companies to make the chairman available for discussions on the issue.

Jane, can you talk about some of the challenges in responding to an issue as complex as this?

Responding to a global issue with fast-paced and growing momentum was difficult. We could not predict where the campaign on climate change would go, nor the impact on the company. BHP is driven by its values, its charter and its purpose and we knew this would be our base from which to navigate. And that is what we did. We put our best foot forward about who BHP was, what we stood for, the implications of the global dependence on the resources we produce, and why we could be trusted to run a sustainable coal business.

It wasn't easy. The company, under the leadership of newly appointed CEO Andrew Mackenzie, em-

ILLUSTRATION: DAVID PLUNKERT

barked on comprehensive strategic modeling of the impacts of climate change on its portfolio of business. That work in its early stages was shared with investors and governance advisers. It enhanced deeper understanding and awareness in BHP of actions necessary to manage climate change and changed asset planning and management.

Of course, the issue of climate change wasn't going to be "solved" but the joint approach of board and management succeeded in terms of showing how the company was responding on a long-term basis. The impacts and opportunities of climate change were embedded as part of mainstream strategy within BHP. The nomination of the climate change activist to the BHP Board (in 2013 and again in 2014) was not successful. Investors chose to support the Board and greater integration of climate change considerations into the strategic decision making of the company.



Jane, can you tell us about the decision to let your Board and management lead the engagement with investors?

There wasn't really a decision to make. This is the same approach the Chairman has chosen for many years, one that is strongly supported by the CEO and management.

However, the confluence of events that led to investors and governance advisers pressing hard for responses from BHP broadened the investor engagement process. This was done working in parallel with the CEO to ensure the strategic implications were understood throughout the organization.

As it turned out, it was the right approach for the long-term success of BHP. Proactive investor engagement with the highest level of board and executive leadership on significant strategic and reputational matters is the best way to ensure that both the company and investors hear what each other has to say.

In this case, strong engagement and mutual trust with investors helped BHP successfully navigate what had the potential to be very challenging.

"THE COMPANY WAS OPEN TO COMMENT AND CHALLENGE AND OUR ENGAGEMENT WAS CHAIRMAN AND CEO LED. ULTIMATELY, THIS MADE ALL THE DIFFERENCE."

JANE McALOON
Formerly of BHP Billiton

Pru, did you agree with this?

On matters directly relating to the board, our preference is to engage with the Chairman or lead independent director if the Chairman is not independent. In this case, we already had a relationship with the Chairman and it wasn't a case of meeting someone new and deciding whether or not to trust that person. Such an approach creates more efficient and trusting dialogue in cases where there may be a crisis emerging.

We were impressed by the way the company changed its approach to managing climate change risk – not just to show it was responding to shareholder feedback but to take a strategic approach that aligned with the company's long-term strategy. We see other companies taking only a token approach to shareholder feedback on such issues. They fail to see the strategic benefit of managing such risks.

Jane, what lessons did you learn from the crisis?

It reinforced for us the idea that navigating strategic and reputational matters means you have to know who you are and what you stand for – the foundation of the company. BHP's people rely on the company's values and charter to make decisions; this has been the differentiator for successfully navigating change and challenge. In this instance BHP's governance practices stood the company in good stead. It didn't mean there wasn't change internally – there was. But BHP was open to comment and challenge and our engagement was Chairman and CEO led. Ultimately, this made all the difference.

Pru, how much of a difference does this type of active leadership make?

From my perspective, active leadership involves building relationships with not just investors but other key stakeholders. All companies no matter what industry they operate leave a footprint on society and it is incumbent upon boards to understand what that footprint is and ensure that the strategy being implemented by the management team minimizes negative externalities. Boards cannot do this by simply sitting in the board room and receiving information from the management team. BHP certainly demonstrated the benefits of active leadership by listening to shareholders and other stakeholders and embracing climate change risk as a key strategic issue for the longer-term benefit of the company. ♦

This conversation builds on a discussion Pru and Jane held in Bangkok with the Corporate Governance Advisory Committee at CP Group, Thailand's largest private company.

TIM PAYNE is a Brunswick Senior Partner, Head of Asia, based in Hong Kong.

JO DONNE is a Director in Brunswick's Singapore office and formerly a private practice lawyer. Both specialize in advising on reputation management including crisis, litigation and governance matters across Asia.