# An arrogant Coles taken to task

**Alan Jury ajury@afr.com.au**

The Australian Financial Review | 21 Sep 2007 | Page: 84 | Chanticleer

If the proverbial visitor from Mars landed in Australia today and looked at the performance of Coles Group under the stewardship of chairman Rick Allert and chief executive John Fletcher, he might be at a bit of a loss to understand the level of viciousness that has tainted analyses of the Coles profit result.
Merrill Lynch's David Errington, for example, describes the food and liquor division's result as "dreadful" and says of the overall performance simply: "This has to end."

Macquarie Securities' Greg Dring talks of a "circle of business uncompetitiveness" and asks: "Who killed Coles?" Dring alleges that Coles is failing because its strategy is more about dealing with competitors than pleasing customers.

Why such vitriol? After all, the company did report a net profit of $748 million and is being acquired for almost $20 billion, figures that ostensibly compare pretty favourably with the $354 million profit and $9 billion enterprise value of 2002.

The answer to this apparent conundrum has more to do with the attitude and conduct of Coles than the achievement or non-achievement of any financial benchmarks.

The high-handed and supercilious manner in which Allert initially responded to takeover overtures, and then conducted an auction - euphemistically dressed up as an "ownership review" that preposterously purported to include retention of incumbent management and strategy as an option - is symptomatic of the way people at all levels and in all parts of Coles are said to have interacted with counter-parties.

Fletcher, for example, has had run-ins over the years with analysts and investors who took his "aspirational" profit targets as fixed objectives and then accused him of adopting short-term strategies to deliver those numbers while sacrificing long-term business health by rationing capital spending.
It's not just the blokes at the top either. Stories abound from bankers, property executives, logistics and personnel consultants and providers of everything from computer systems to produce for the company's sales bins of endemic intransigence, arrogance and intolerance. The characterisation may not be entirely fair, but it is widespread.

These traits, it must be said, were ingrained long before Allert or Fletcher ever stepped into the opulent head office monolith that was built right next to one of the sorriest looking supermarkets in the Coles portfolio.

No wonder Wesfarmers chief executive Richard Goyder wants to move the support functions for each Coles division out of head office and into the operations "as quickly as possible" (no one wants to contemplate a scenario in which control of Coles doesn't change hands). It probably isn't coincidental that neither Target nor Officeworks, the two best performing parts of Coles and the ones that competitors such as Woolworths and Harvey Norman openly covet, are headquartered at Tooronga.

Goyder will quit the building totally if his property people can do a satisfactory deal with landlords Maurie Alter's Pacific Shopping Centres Australia and ING Office Fund. Fletcher also recognised the incongruity of the Tooronga head office building but was saddled with a lease that doesn't expire until 2016; he had to satisfy himself with simply vacating the chief executive's penthouse suite and turning it over to some of his troops. An improved Melbourne market for office space has estate agents expressing optimism about finding someone to take over the lease, but they could also just be salivating at the prospect of a juicy mandate.

The apparent imperiousness of Allert during the travails of the Coles sales process, and his continued use of investor return figures boosted by takeover-inflated share price gains in defence of management performance sits uncomfortably alongside his statement in a recent letter to shareholders that the Coles directors believe the acquisition of Coles by Wesfarmers in a whole-of-company transaction is the best outcome for shareholders, employees and other stakeholders.

Apart from this one reference, the rest of his letter deals with the value being delivered to shareholders. This has been a pretty constant mantra over the past year, certainly in public statements - although there has been a lot of talk about "customer engagement". Most public talk about employees has had to do with job cuts. So what to make, then, of a key finding in a recent University of Melbourne study that concludes that Australian directors prioritise shareholders only slightly over employees.

Asked to prioritise nine stakeholder groups - shareholders, the company, employees, customers, suppliers, creditors, community, environment and country - 44 per cent ranked shareholders first and 40 per cent their company. An analysis of responses showed 73 per cent listing employees among the top three priorities, together with shareholders (78 per cent) and the company (71 per cent).

Customers rank as a distant fourth priority, with 8 per cent nominating customers as their No. 1 priority and 45 per cent including them among their top three.

Comparable studies in the US found 80 per cent of directors rank shareholders ahead of all other stakeholders, while Japanese studies put employees before all other priorities.

The Centre for Corporate Law and Securities Regulation's Ian Ramsay, who co-led the survey, says it indicates there may be less need to change the law on directors' duties to force directors to take into account the interests of stakeholders other than shareholders. The survey shows 94 per cent of directors believe the law concerning directors' duties is broad enough for them to be able to consider the interests of stakeholders other than shareholders, although it is a little disconcerting that 38 per cent also feel that acting in the best interests of the company meant they were required to act in the interests of all stakeholders to ensure the long-term interests of shareholders.

The survey shows that ensuring customers are satisfied, making the business grow and ensuring employees are fairly treated are the matters rated as important by the largest proportion of directors. Overall, only 45 per cent of the directors surveyed feel that increasing the share price is important to them, although excluding the responses from directors of unlisted companies bumps the priority up 60 per cent.