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THE FUTURE OF EVERYTHING

A New Status Quo for the Boardroom

Ed Garden, chief investment officer of Trian Fund Management, believes the successful management teams of the future will rule through cooperation, not coercion

By **ED GARDEN**

For the better part of a century, there's been a clear separation between the ownership and the management of publicly traded companies. Most shareholders haven't individually owned enough stock or had the expertise to credibly demand a say in decision-making. As a result, most owners have been passive; if they disagree with the direction of a company, their only option has been to sell.

But all that is changing. First, institutional shareholders have gotten bigger, and their ownership of corporate America has become more concentrated. These institutions invest the savings of many Americans, and the amount they manage has swelled. Second, many of these institutional shareholders have developed deep industry expertise, truly understanding the industries in which they invest. Third, poor performance by management and outright cases of



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abuse of power and even fraud have created a mindset among shareholders that management teams have lost their right to be left alone. Lastly, there are a few shareholders, commonly known as "activists" but whom I call "highly engaged shareowners," who are galvanizing their fellow shareholders and providing the catalyst for management to be held accountable.

Critics have accused so-called activists of advocating business decisions that create a short-term bump in stock prices at the expense of the company's long-term

health, and some politicians would like to legislate against the rising influence of shareholders, claiming that it leads to short-termism, rising inequality and low pay for workers.

But in my view, the management and directors of public companies, not the shareholders, have driven such short-term behavior, and the way to build strong companies and create jobs is not through government mandate or protecting weak management teams. It will happen because market forces will reward the companies in which management teams and highly engaged shareowners work together to achieve sustained, lasting growth.

There's no going back: Public shareowners are becoming more involved, more informed and more engaged. That will lead to better long-term growth and performance, a win-win for all constituencies, including customers, employees, shareholders and management.