

# **Board activities in Lithuania**

**Practical experience**

**Vytautas Bučas**

**2011-11-08**

## AB Invalda

- AB Invalda is one of the major Lithuanian investment companies whose primary objective is to steadily increase the investor equity.
- AB Invalda started its activity in 1991. Shares of the company have been traded on the NASDAQ OMX Vilnius exchange since 1995.

## Investments of AB Invalda

- Currently AB Invalda holds investments into the following sectors:
  - Furniture manufacturing (AB Vilniaus baldai)
  - IT infrastructure solutions (BAIB Group)
  - Road, railroad and civil infrastructure (Trakcja-Tiltra)
  - Real estate (Inreal)
  - Facility management
- Historically AB Invalda had investments:
  - Financial services (AB bankas Finasta)
  - Pharmaceuticals (AB Sanitas)
  - Hospitality (Holiday Inn Vilnius)
  - Agriculture (Agrowill Group)
  - Other

## Background of insigns shared

- AB Sanitas:
  - Nasdaq Vilnius listed company
  - Generic drug production, Poland and Russia are the main markets
  - Owned by a pool of financial investors (CVCI, AB Invalda, Amber trust II, other)
  - Boards consisted of five persons, four representing all major groups of investors plus one independant professional member.
- AB Vilniaus baldai:
  - Nasdaq Vilnius listed company
  - Furniture manufacturing, one customer IKEA
  - Majority owned by AB Invalda
  - Board consists of three members, all from Invalda.

## Activities of the Boards

- Two distinctive periods in both companies:
  - Initial investment period or pre-crisis:
    - Typical financial investor focus, i.e. financial performance
    - Based on monthly/quarterly reporting
    - Financial statement and budget performance based.
  - Post crisis focus:
    - Monthly or based on business events (whatever was/is more frequent)
    - Strategy focus
    - Business oriented – business event rather than financial performance representing results arising from business.

## Shift in focus - Knowledge and discussion topic diversification (I)

- Initial investment period or pre-crisis:
  - Financial performance was a key
  - Planning horizon was limited to expected exit from investment or to the standard planning/budgeting period (typically 1 year)
  - Discussions mainly were around financial ratios, comparisons with similar companies etc.
  - Main attendees from a company side were chief executive officer and financial personnel (CFO and analysts, if any).

## Shift in focus - Knowledge and discussion topic diversification (II)

- Post crisis focus:
  - Understanding of core business processes
  - Understanding of core products (quite complicated in pharmacy, but still essential)
  - Timing horizon was extended beyond financial investment period i.e. Company should be able to operate or to have plans of its activities after the financial investors quit
  - Attendees from a company were extended to key business personnel such as commercial, procurement, technical and productions, personnel and legal matters.
  - Specific business area topics were introduced in the Boards' agendas to be discussed separately and in-depth.
  - More business development scenarios were/are considered.

## Conducting meetings (I)

- Consensus driven – differences in opinions are resolved during argued discussions without formal voting
- Extensive discussions:
  - Addressing various experiences, opinions, etc. including matters caused by differences in experience/background
- Unformal participation:
  - Not only formal member of the Boards, but all key decision makers could participate (subject to confidentiality obligations)

## Conducting meetings (II)

- Not limited or constrained by the pre-agreed agendas:
  - Management should be prepared to answer questions not formally included in agenda
  - Not readiness is appreciated if answers are provided later (but promptly)

## Focus - Operational versus strategic

- Where to stop?
  - Focusing only on the high level is not enough
  - Too much details could create excessive administrative work for organisation (mainly financial departments):
    - Some meetings included too many questions to be discussed
    - Questions consisted of excessive information
    - Meetings took too long time and were not completed on time
    - Some important matters could have been missed or skipped (priority/importance matter)

# Agenda

- At initial stage there were extensive discussions on matters falling under the Boards' "supervision":
  - What kind of business matters
  - Level of details
  - Delegation or limitation to make decisions
  - Where is a boundary between "rights" of managers and boards?:
    - For example, should investments approved within budget approval process be brought additionally to the Boards approval prior to executing?
- At the initial stages a discipline in preparing meeting was an issue:
  - Documents not ready or presented "night before"
  - Presentation in the meeting was not identical to distributed before meeting, etc.

## Experience mix in Boards

- Variety of experience among members of Boards:
  - Majority with financial or economical background – one-sided focus/experience from professional side
  - However, represented knowledge gained from participating in the management of companies/investments form a number of sectors and geographies:
    - Foreign financial investors
  - Independant member was from the appropriate industry and contributed industry specific knowledge
  - Local markets experience was/is essential addressing region specific relationship matters (authorities, financial markets, etc.)