Opinion

Net1’s extravagant remuneration policy highlights flaws in system

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Golden handshake: Net1 CEO Serge Belamant got an $8m severance payment. Picture: SUNDAY TIMES

When one of the largest and most powerful shareholders in the country expresses frustration about an issue, it’s probably safe to assume that it has got out of control.

In a recent unprecedented move, Allan Gray expressed outrage at the financial settlement claimed by Serge Belamant on his retirement as CEO of Net1.

"We are very surprised that Belamant was able to negotiate such an extravagant deal after such broad public censure and believe that it is unjustified given current circumstances."

The fund manager said that for a number of years, it had been concerned about these generous ex-gratia payments made to executives and the fact that shareholders are unable to block them. Its attempts to introduce a binding shareholder vote on such payments have come to nothing despite engagements with the King 4 project team and the JSE.

Welcome to the real world, Allan Gray. This is the world of the 99% who are forced to look on in disempowered horror every time a listed firm announces an obscenely generous award for a top executives. Time and again remuneration committees declare their executives to be among the top quartile in the sector.

This is a statistical absurdity, ignored in the desperate bids to justify ever-larger remuneration packages. The generosity heaped upon even the most mediocre of executives is in stark contrast to the devastating cost-cutting that has to be endured by ordinary employees of the same companies.

Allan Gray is to be commended for speaking out against Belamant’s proposed payout. Remarkably, this is the first time a large institutional shareholder — other than the Public Investment Corporation — has expressed concern about any aspect of executive pay. It should also be commended for voting against Net1’s remuneration policy at the group’s 2016 annual general meeting. But the reality is that by the time of that meeting last November, the damage had already been done. Belamant had become accustomed to being handed generous rewards by the firm’s three-man remuneration committee — Alasdair Pein, Paul Edwards and Christopher Seabrooke.

After all, back in 2013, at the height of the controversy about the AllPay [illegible] the investigation by the US Securities and Exchange Commission (SEC), this remuneration committee had deemed it appropriate to ignore predetermined performance targets — which would hav[illegible] payments — in order to pay Belamant one of about R8m.

In recent years, Belamant’s annual remuneration package has been w[illegible] already inappropriately generous payments to executives of similar-s[illegible]nies. The R50m includes the generous share-based awards that featured in his departing financial settlement.

Accelerated vesting and a guaranteed $10.80 a share for his 1-million plus existing shareholding generated a payout of about $12.96m for his Net1 stake. This was the largest part of the $20m plus severance package awarded to Belamant, which included an additional $8m severance payment.

This is how the Net1 remuneration committee blows up the fanciful notion that share-based awards are intended to align the interests of executives with those of shareholders.

Few of the 99-percenters believe such an alignment can ever exist: it is another one of those fictions used to justify ever greater generosity. In Net1's case, it's clearly a fiction. What other shareholder was able to offload a significant block of shares — at an attractive guaranteed price — in a thinly traded stock when sentiment was weighing heavily on the price?

Thanks to a compliant board, Belamant was able to sell all of his shares at around R142 a piece. Few Net1 shareholders will have identified evidence of some alignment of interests in that generous gesture and those who spent time researching the group's remuneration policy will have been deeply perplexed. In one of its many SEC filings Net1 revealed during 2016 that Belamant was employed on an "at will" basis without "employment agreements or severance payment arrangements (except as required by local labour laws)". And given the circumstances surrounding his departure, Belamant could certainly not have claimed a "no-fault termination".

The most distressing aspect of Net1's remuneration policy is that it is just the latest example of a system that is fundamentally flawed. Proposed payouts that run to hundreds of millions of rand — such as those to SABMiller's Alan Clark and Shoprite's Whitey Basson — are symptoms of the deep flaws in the system of rewarding executives of listed firms.

It is a system characterised by cronyism and excess. Out-of-control executive remuneration is a major contributor to destabilising levels of inequality that characterise SA and also encourages the corporate sectors' obsession with short-term horizons. Critical investment decisions are taken on the basis of the expected effect on profit and share price performance over the coming three to five years, the time frame used by remuneration committees.

This has chilled the inclination to invest, which must entail some risk, and has encouraged the unfortunate tendency to devote cash resources to repurchasing shares. When a huge chunk of an executive's pay package is dependent on the level of the share price, supporting it through share repurchases becomes a dangerous temptation. Executive pay undermines society's trust in its business leaders and weakens the inclination to invest, thereby threatening the long-term sustainability of shareholder capitalism.

Allan Gray's engagement on the Net1 debacle is encouraging, but executive remuneration is far too important an issue to be left to well-paid professionals, especially when you consider how many of them are employed by the listed entities whose executives benefit from the same contrived generosity.

The grim fact is that the structure of the system means that the professionals who manage the pensions and savings of millions of South Africans have become part of the problem — so it's unlikely that even the binding vote Allan Gray is calling for would prove effectual.

The Raith Foundation believes the only solution is for the real owners of these shares to stop shirking their responsibility. Outsourcing decision-making on this critical issue has enabled the spread of a disturbing sense of entitlement by executives, most of whom are decent hard-working individuals, but who still don't deserve their obscenely generous remuneration packages.

• *Elster is executive director and Fraser programme director of the Raith Foundation.*

• *An earlier version of this article incorrectly stated that it was written by Theo Botha.*