Opinion

THE BOTTOM LINE

Shareholders can no longer exist in accountability Gray area

Fund managers need to take responsibility for behaviour of companies in which they invest

29 March 2017 - 05:59 Audrey Elster and Dugan Fraser

Big chief: Why did Allan Gray not question Serge Belamant’s dual position as chairman and CEO of Net1, the parent company of Cash Paymaster Services? Picture: SUNDAY TIMES

Allan Gray, one of the most powerful and successful fund managers in the country, is to be commended for the speed with which it reversed its position on Net1.

From the perspective of those, like the Raith Foundation, who see a critical role for shareholder activism, the decision by Allan Gray to engage with Net1 on issues that have dominated the media for the past few weeks is encouraging.

Even more encouraging would be some sign of the other 84% shareholders (the list includes the International Finance Corporation) raising their hands.

Not only did Allan Gray urge Net1, in which it has a 16% stake, to make every effort to find an interim solution to ensure grants are paid on April 1, it offered what die-hard capitalists might deem the ultimate sacrifice: "As shareholders, we would be
happy if this meant Net1 foregoing all profits on the extension to ensure it happens."

Twenty or so years ago, this idea of "offering up" profit might have been deemed heresy. Last week, the common response was that it was appropriate.

Indeed, so appropriate that you have to ask why Allan Gray waited until the 11nth hour to make the move.

WITH THIS STATEMENT, ALLAN GRAY REMINDED US THAT SHAREHOLDERS … CAN WALK AWAY AT ANY STAGE

For weeks, the fund manager had stuck to what might be described as the traditional shareholder position. The public was told Allan Gray had asked "the tough questions" and carefully considered the answers.

The fund manager also referred to what you might call a "get out of jail free" card. That card describes what has been the essence of shareholder capitalism for generations: the ability to walk away unscathed from the scene of the crime because there is no legal responsibility.

"We wield some influence over management and the board, but we are not in control of the company, nor are we the largest shareholders. We are not company insiders and the only information we have about Net1 is publicly available."

With this statement, Allan Gray reminded us that shareholders, the owners of the company, can walk away at any stage. This is not Adam Smith-style capitalism in which the owner or owners were usually involved in the day-to-day management of the company. Today there is no bond between a listed company and its owners.

For the owners, there's nothing akin to a fiduciary responsibility binding them to the company in which they are invested. Recall Coronation Fund Management's dramatic dumping of its African Bank shares a few years ago.

The liability of the shareholder is limited to the value of the shares they hold. This arrangement has played a key role in the dramatic growth of capitalist economies over the past 100 years; growth achieved on the back of a profit-at-any-cost approach.

But there is a destructive side to the arrangement, chief of which is the destabilising level of inequality created by the clamour for shareholder wealth.

And, given that shareholders are able to demand profits without incurring the full costs (to the communities and environments in which they operate), there is inevitable environmental destruction.

The sense of responsibility that should come with ownership is further undermined by the growing power of institutional fund managers such as Allan Gray.

These companies play a shareholder role on behalf of millions of distant investors. The complexity of the system ensures that few but the most determined and well-resourced of investors are able to demand any accountability.

But it is increasingly apparent that the world, and certainly SA, can no longer afford the old-fashioned legalistic approach described by Allan Gray.

Shareholders have to be engaged. That means all of us along the chain have an obligation. Society and the environment can no longer afford the luxury of a handful of lucky players scooping up the profits and leaving the mess behind for others to sort out (or not, as is too often the case).

There are signs of change; there is growing pressure from civil society for companies to operate in a more responsible manner. Governance codes have been created, aimed at bridging the gap between shareholders and corporate decision-makers. But more often than not, these codes have led to a form of malicious compliance, with box-ticking taking the place of active engagement. This is the reason the Raith Foundation has adopted a responsible investment strategy that ensures it is actively engaged in monitoring the behaviour of the companies in which it invests.

In this regard, it is important to note that Allan Gray did everything by the book. (Although some aspects of Net1's governance should have raised concerns, such as Serge Belamant as chairman and CEO, and the small board.)

It is also important to note, as Allan Gray has done frequently, that despite several external investigations into Net1's business practices, no evidence of wrongdoing has been found.

But did one of the most successful investors in this country not stop to wonder about the Constitutional Court's concerns as far back as 2013? Yes, Net1 has not been found guilty of anything, but it was party to a contract the highest court in the land deemed irregular. Was this investor even aware of the anger swelling around the social grants contract? Did it really believe 12-million children would benefit from financial inclusion and the aggressive sale of services and products?

In its search for the facts around Net1, why did it make no effort to engage with civil society organisations such as the Black Sash or Corruption Watch? That effort had to wait until days after the finance minister slammed Net1's shareholders for doing nothing. And how bizarre is it that poorly resourced nongovernmental organisations often have to clean up a mess created by powerful companies while their "un-responsible" shareholders looked on?

Now the big question is where Allan Gray will go from here. Are the circumstances around Net1 unique enough for the fund manager to justify retreating to its ivory tower and resuming its strategy of detached compliance? Or does it now realise a new active model is needed?

Allan Gray has made fortunes for many people by being innovative, super-bright and hard-working. Those skills should now be applied to working out how to protect short-term returns, while actively managing for long-term socially sustainable profits.

And doing so in a way that isn't merely designed for a marketing campaign.

• *Elster and Fraser work for The Raith Foundation, a South African philanthropic funder.*