INVESTMENT & PENSIONS EUROPE

Shareholder Spring?

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The recent AGM votes on executive pay at UBS, Barclays, Aviva and Citi are obvious signs of fundamental change, no?

Certainly the context is changing. Last year, I heard the CEO of a large European company say that his greatest fear was political instability and violent social unrest. Some thought this over-dramatic. Today they would appear complacent.

What responsibility do corporate leaders take for how we got here and how things turn out?

In recent elections in Europe, the winners have been the radicals; in Greece, the centre left and right were decimated. You might not like Syriza but do you prefer New Dawn? It advocates putting immigrants into camps and planting landmines along the border, and saw a 30-fold increase in votes.

The Dutch ultra-nationalist party has toppled the government. And in France, although Hollande won, the biggest gains were made by the extreme National Front. Indeed, in a desperate bid to hold on to power, Sarkozy actually legitimated the view of a majority of French voters that the FN is “a party like any other”.

Even where support for extremists is less obvious, the reality is worrying as the public switch off. ‘We don’t vote’ has become a lifestyle choice in the UK, with the clear winner being the ‘stay at home party’.

Things outside the EU are far from reassuring. In the US, the extremist Tea Party tail wags the Republican dog. And a recent poll of global public shows a major fall in influence of the EU, which is directly equalled by the rise in influence of China.

Ferdinand Mount, Margaret Thatcher’s head of policy is more critical than many modern socialists, let alone investors: “We are ruled by a gang of fat cats with fingers in every pie.” So back to what corporate leaders are able to ‘see’.

Can they see how, by fetishising shareholder value and investing heavily in lobbying – legal and sometimes illegal – they’ve co-opted governments and stopped them from acting in the public good? Can they see how, by staying silent – German business on austerity, US business on climate change – they’ve colluded with dangerous trends? Can they see that they have become too wealthy, too incestuous and too powerful for the well-being of the wider society?

Getting in the way of these insights is a simple truth. As Upton Sinclair said: “It is difficult to get a man to learn something when his salary depends upon his not understanding it.” Companies can profit handsomely when they align with authoritarian parties. History has many examples and today bankers routinely extol the virtues of (authoritarian) China versus (democratic) India. Corporate leaders, who once denied that serious problems existed, now argue for enlightened autocrats because things are now so complex. Even if this breed exists, once in power they rapidly transform.

Let’s be real. Today, there’s no lifeboat good enough for corporate elites if disruptive change continues. For institutional investors, given their fiduciary duty to their members/customers and their inter-generational remit, it’s even more incumbent on them to be take bold action now. It is a challenge getting good performance when the economy is in crisis, we have hit an eco-resources crunch and society is unravelling.

In this context, the ‘Shareholder Spring’ is welcome. But it’s still only a minority of funds that are brave enough. Standard Life – which boasts its corporate governance credentials – justified voting with Barclay’s management on pay. And even when investors voted in greater numbers, their effect is still more akin to a band aid rather than a health-restoring, whole-systems intervention. Much greater vision and creativity is needed to avoid the preventable surprises that are now looming on our horizon.

But until investors manage to escape their group-think handcuffs, answering these ‘how to’ questions is largely a waste of time. Readers who are worried about political trends, please get hold of Mount’s The New Few. It’s one not to leave for the summer reading pile.

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