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Breaking the share-owning monopolies

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We are witnessing fundamental change in the Australian capital market that is beginning to impact both governments and large company boards.

At this stage it is creating a sense of bewilderment and power reduction among boards and governments.

But out of that confusion will come consideration of new ways of raising money for companies and governments.

This commentary is about exploring some of those new ideas.

In adapting, Australia has an advantage over most countries in the world -- one third of our giant superannuation money pool is held by "mum and dad" investors via self-managed superannuation funds. Some will have the same agendas as the large institutions but others will not.

In the past big companies and governments have found it easy and simpler to deal with the big institutions rather than an uncoordinated mass of small shareholders who are not professional investors and must be "protected".

But as the institutions, including banks, increasingly unite in their attitudes to both social and corporate issues we are creating a monopoly in the provision of capital.

And that monopoly might have very different views to boards and governments on issues like carbon, the environment and social agendas, plus the way a company should remunerate its top people.

So let's consider different funding models to some of the major projects and undertakings of governments and companies

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Social housing

. Right now state and federal governments are under pressure to provide social housing and this pressure will increase because the combination of the actions of state governments and the rise in real estate values is set to balloon rents. In states like Victoria and to a lesser extend Queensland government actions will reduce the availability of rental properties. In other words our social housing problem will get a great deal worse.

Australian Landlords Association chief Andrew Kent suggests that the defence forces housing model makes it much easier for governments to fund social housing. Under the defence housing system the dwelling is owned by private investors, both individuals and self-managed funds. The government manages the property and is required to make sure it is properly maintained and the rent collected. Investors receive a regular income backed by ownership of a dwelling. Of course members of the defence forces who rent these dwellings might be a lot easier to manage than those who need social housing but the system divides the capital provision from the tenancy management. And it works

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Power generation

. The federal government believes that we are going to need gas power generation to provide the backup required for the investment in renewables and the reduction of coal power generation. That's a politically incorrect view in Australia so gaining institutional capital backing will be difficult. The government has a power generation company, Snowy Hydro, which will need capital to undertake the operation. Clearly the federal government can borrow and lend the money to Snowy Hydro. But it might prefer to see Snowy Hydro raise the money on the market. The views of the big superannuation funds and banks might make that difficult. But there is an army of smaller investors who would love a slightly higher return to invest in energy bonds, albeit gas. They might be led by the local community that benefits from the power station.

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Other carbon energy assets

. The large companies are looking to rid themselves of assets that emit a large amount of carbon. The best way is, of course, to develop new techniques but if large companies are in a hurry to please institutions they are inclined to sell. Those institutions are unlikely to back a purchase so the assets will need to be sold overseas. But many in self-managed funds will not have the same the same carbon agenda and they will enjoy the much higher returns on offer.

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Toll roads and politically unpopular infrastructure

. These sorts of assets normally have community support in certain areas so the project should include the opportunity for beneficiaries and other small investors to invest. That creates a totally different community involvement to projects that are all funded by governments or big institutions.

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Large capital raisings

. Under the current system most of the equity is raised in a placement to large institutions. An entitlement is normally set aside for small investors and self-managed funds but it's a relatively small part of the raising because it can be dangerous to have the capital raising process extended too long. Markets can turn down. But gradually that increases the dominance of the big institutions on the share register. The pooling of their votes is even leading the ACCC to investigate whether there is collusion between institutions taking place to virtually control a company.

In past decades companies made "conventional" share issues which were heavily discounted entitlement offers. This, of course, reduced "returns" on capital in the corporate books but small shareholders base their returns on the capital invested, not the corporate book value.

So we may need to bring back that mechanism or make it much easier for small investors in a company to share in capital raising.

Companies are their own worst enemies because their public statements are directed to large institutions rather than the needs of smaller investors.

I fully understand that some of these concepts will create differences of opinion.

But it's time we started to look again at how we raise capital because if we don't we may end up with share-owning monopolies that will impose their agendas on the corporate and government sectors.

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Robert Gottliebsen has spent more than 50 years writing and commentating about business and investment in Australia. He has won the Walkley award and Australian Journalist of the Year award. He has a place in t... Read more