Nonvoting Shares and Efficient Corporate Governance

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Discussion

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The Paper

► The question
  - Are nonvoting shares really so bad?
    - In light of literature depicting them as instruments of evil
    - In light of reality seeing them thriving

► The exercise
  - A thought exercise - taking dual class stock to the limit

► The line
  - Nonvoting shares can be good for corporate governance.
    - Channel voting power to those who deserve it
    - Deny voting power from apathetic, lazy, free-riding institutions
Some comments

► Late to the party
  ▪ Still, some potentially helpful points

► Zero power → Absolute power
  ▪ Lord Acton
  ▪ Distinguish tyrannies from aristocracies
    ▪ Corporate voting ≠ civic voting - elevate to text
    ▪ Blue-blood investors vs. commoner investors
  ▪ The argument could hold for aristocracies
    ▪ Differential motivations for being informed

► The difficulties of understanding
  ▪ Upton Sinclair
  ▪ Informeds’ motivations to be informed - benign?
    ▪ Maximize the firm’s value?
Some more comments

► Are institutionals really lazy, uninformed?
  - Upton Sinclair redux
  - Consider Iliev et al. (2015), Dimson et al. (2015), ...
  - If not, denying them votes is inefficient.

► Accountability without responsibility
  - Are fiduciaries accountable if they can’t be ousted?

► Accountability with reduced transparency
  - Consider Solomon (2018)

► Is diluted accountability bad?
  - Query if no voice is better than a weak voice.
Conclusion

► An important paper
  ▪ A significant contribution to a raging debate

► At bottom -
  ▪ Nonvoting stock - a valuable financial instrument
  ▪ A flat ban - e.g., Israel - could be an overkill
  ▪ Deserves legal development, beyond sunsets
  ▶ Is this really “equity”??
