Malenko, Malenko, Troy (2026)
"Fragmentation of Shareholder Power"

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Brief summary

- Asset managers respond to heterogenous investor preferences by
  - Creating tailored funds
  - Pass-through voting

- Is this bad for governance?
  - Fund proliferation reduces ownership stakes and incentives for monitoring
    - OK if funds stay within the family
  - Pass through voting profitable but leads to worse governance due to weaker monitoring by dispersed owners
  - Delegating authority to specialized fund managers who serve preferences can help sustain effective monitoring

Key assumptions of model

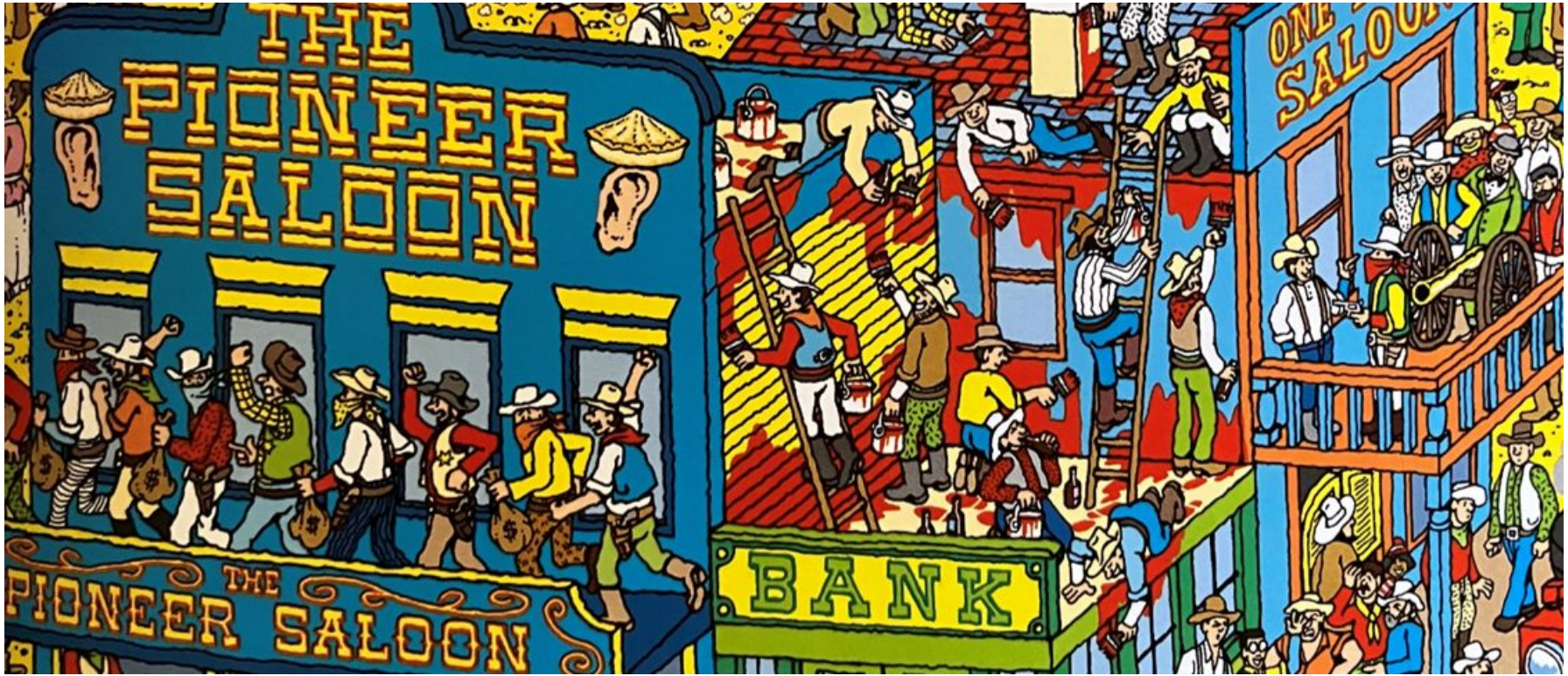
- Governance = monitoring
- Monitoring improves cash flows
- Ownership concentration improves monitoring
- Non-pecuniary investor preferences are cash-flow/firm conduct-neutral
- Only two ways to cater to preferences: new specialized funds or pass-through voting
- Only investors' and fund families welfare matters

Comments

- Accomplished model that captures fear of uninformed voting
- E.g. Fisch and Schwartz (2023)
  - "*return to the previous era of unaccountable corporate executives*"
  - "*beneficiary preferences—which might be incomplete, vague, and contradictory.*"
  - professional fund managers have *"sophistication" and "experience"*

Is concentrating intermediary power the solution?

Comment 1: Where's Luigi?



The First Annual Corporate Governance Academic Forum at the University of Toronto

- “In a world where a handful of asset managers wield voting power over thousands of companies, Luigi Zingales argues that the problem is not too much shareholder influence—but too little democracy within it.”

- “corporate power concentrated in the hands of three giants—BlackRock, Vanguard, and State Street—whose CEOs effectively determine policy for much of corporate America.”

- “the only way the three largest asset managers can save their business model is to shed their voting power in a politically legitimate and neutral manner. This can be done by transferring the decision over value vs. values trade-offs to a body that can legitimately claim to represent the funds’ investors.”

Suggestion:

- Channel Luigi!

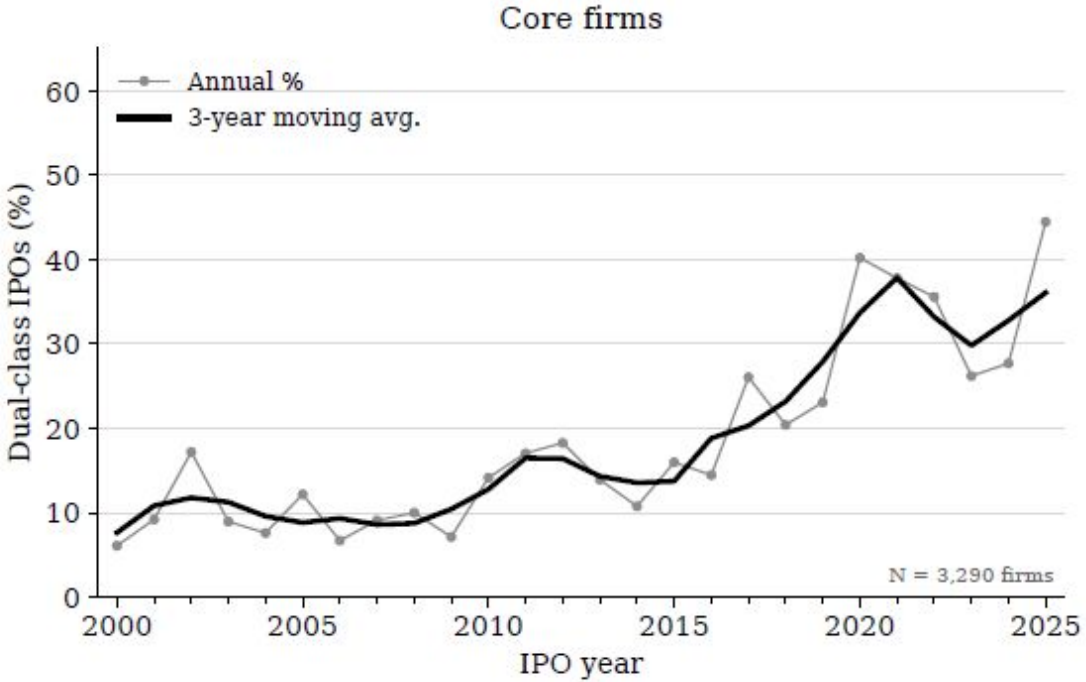
- Some discussion of alternatives to pass-through voting and intermediaries would be important
  - Providing information
  - Citizen assemblies

Comment 2: Who monitors the monitor?

- Agency problem institutions and beneficiaries
- Are institutions that “sophisticated”?
  - Voting with management
  - Voting with ISS

- Defending his demand for greater control at Tesla (a single-class company), Elon Musk explained (Tesla, Inc. (2025)): “I just don’t feel comfortable building a robot army here and then being ousted because of some asinine recommendations from ISS and Glass Lewis who have no freaking clue.”

Concentration of corporate power



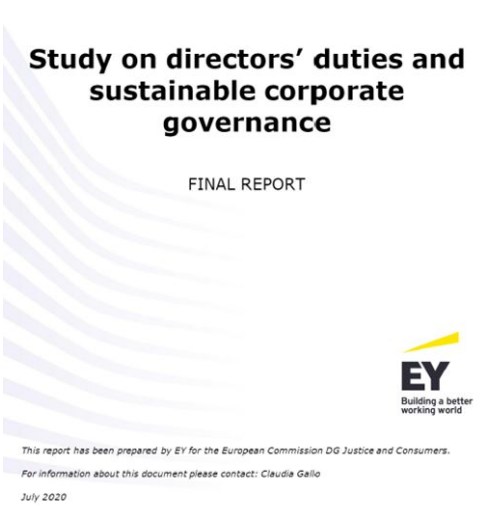
Adams and Ferreira, 2025, “The governance of dual-class firms”

Suggestion:

- Some recognition of limits to institutions would be important
- One-share one vote may not be optimal under asymmetric information
- Dual class structures weaken link between ownership and monitoring

Value versus values

European Commission sustainable corporate governance initiative



- Problem driver #1: "Directors' duties and company's interest are interpreted narrowly and tend to favour the short-term maximization of shareholder's value."

Measuring shareholderism

- Survey of directors across countries in 2011 (Licht and Adams, 2021)
  - Email-driven online survey
  - Original languages: translate and reverse translate
  - Roughly 3% response rate resulting in data from 23 countries (~1,000 observations)
    - Licht and Adams, 2020: Shareholders and Stakeholders around the World: The Role of Values, Culture, and Law in Directors' Decisions

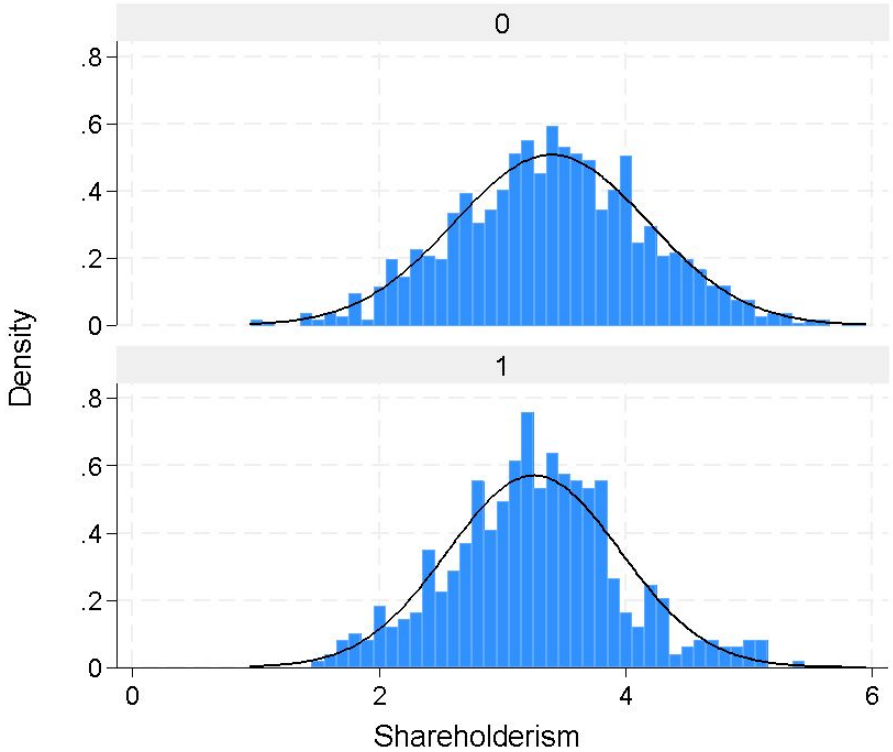
- Survey of Oxford students 2021-2026

Shareholderism-index

- Identify situations of conflict between shareholders and stakeholders using seminal court cases involving shareholder-stakeholder conflicts
- Confront directors with vignettes derived from these cases—ask them how they would decide (without revealing the case)
  - Consumers - *Ford v. Dodge* (1919)
  - Employees - *Parke v. Daily News* (1962)
  - Creditors - *BCE v. 1976 Debentureholders* (2008)
  - Community - *Shlensky v. Wrigley* (1968)

  - Corporate philosophy (Tetlock, 2000)

Comparing directors and MBA students 2021-2025



Graphs by students

Mean of 3.4

Mean of 3.26

unaccountable corporate executives?

- Not clear directors *cannot* represent values of investors (proxied by MBA students) when values are value-relevant

- Not clear investors want “monitoring”. They invest in dual-class “vision”.

Suggestion

- Some recognition of potential limits to institutions when values are relevant, especially when they are value relevant

Who should hold power?

- Interesting paper
- But a bit scary…
- No policy discussion
- I have less fear of uninformed voting than uninformed policy-making
- Providing **information** on limits to agency models and institutions could help!