Nonvoting Shares and Efficient Corporate Governance

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Discussion

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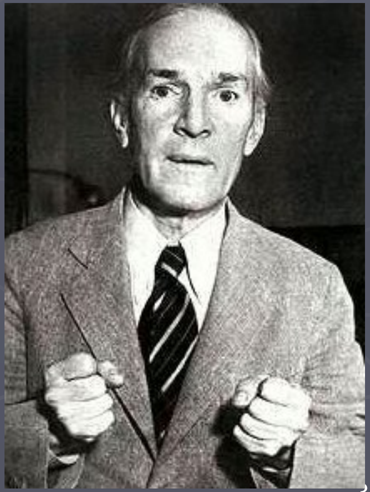
Ackerman Center Corporate Governance Conference
Bar Ilan University, 12 December 2018

The Paper

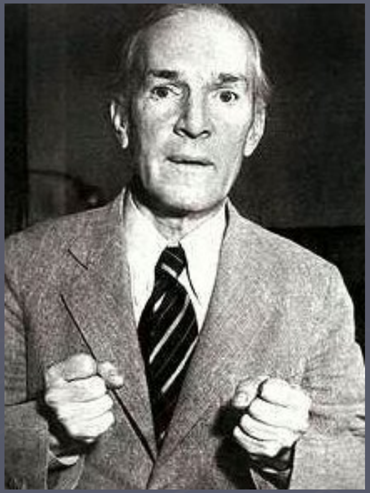
- The question
  - Are nonvoting shares really so bad?
    - In light of literature depicting them as instruments of evil
    - In light of reality seeing them thriving
- The exercise
  - A thought exercise - taking dual class stock to the limit
- The line
  - Nonvoting shares can be good for corporate 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"??