Shareholder voting hardly democratic way

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Through wars, recessions, civil rights demonstrations and social upheavals, the right to vote has remained intact. In fact, it has grown.

The record number of us who vote today, or voted in advance thanks to new conveniences, do so for two major reasons. First, it is our right. And second, our votes truly do affect the outcome of elections and how we are governed.

If only life were so in the corporate world.

"Shareholder voting and political voting, they're almost the flip side of one another," said Patrick McGurn, a shareholder rights expert who advises big institutions on how to proceed in proxy battles and other corporate contests.

Votes in political campaigns have real-world consequences. Someone gets a job, someone loses one. Political agendas advance or stall. Issues of pay and power are wrapped into the vote by implication.

Thanks to the last two presidential elections, it's no longer just an abstraction to state that every vote counts.

In shareholder votes, none of the above is true in any meaningful way. True power is wielded only rarely. The votes that matter most, appointing boards of directors, are very rarely contested. Even when that happens, rules strongly favor incumbents and board-designated nominees.

Shareholder proposals virtually never win management support, sometimes even after they garner sizable shares of the cast votes.

It's no wonder that less than one in five individual shareholders bothers to cast a ballot.

U.S. Rep. Barney Frank (D-Mass.) has seen up close the anemic state of shareholder voting power. Frank's "say on pay" proposal passed in the House last year but has not advanced in the Senate, even though it would give voters only an advisory say on executive pay packages.

"Companies used to talk about shareholder democracy, until people wanted to actually use their vote," Frank said.

Indeed, the trend of recent years has not been positive. The Securities and Exchange Commission last year rejected a proposal that would have forced companies to publish the names of board candidates proposed by their large, institutional shareholders. And discrepancies in the way Yahoo announced results of shareholder votes for company founder Jerry Yang this summer, at

first reporting much broader support than was the case, has raised questions about how diligently corporations look out for shareholder rights.

The financial crisis, though, may give an opening to make some headway. Financial firms that accept government help must agree to clawbacks on excessive pay and limits on pay packages going forward.

That may be the start of a change in perception: An idea that boards should be held accountable for pay, and executives held accountable for performance.

"The shareholder vote can be a big way to put some checks and balances on corporate behavior," Frank said.

Even so, shareholder votes never will have quite the same sway as votes in governmental political elections.

Lucian Bebchuk, a professor at Harvard Law School who has written extensively on shareholder rights, said people approach the different sorts of votes with different expectations.

"In the political context, voting is viewed by many, and rightly so, as an end in itself," Bebchuk said. "In the corporate context, the argument for shareholder voting is a functional argument. It's not that voting is desirable in itself."

Very few individual shareholders vote, in part because they believe their agenda is aligned with big institutional holders. And that voting bloc has an almost 100 percent turnout.

In political contests, people tend not to trust big institutions to act on their behalf. And that's yet another way in which individual voting is better than the corporate kind.

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