The New York Times
ON THE WEB

Voting Your Shares May Start to Matter

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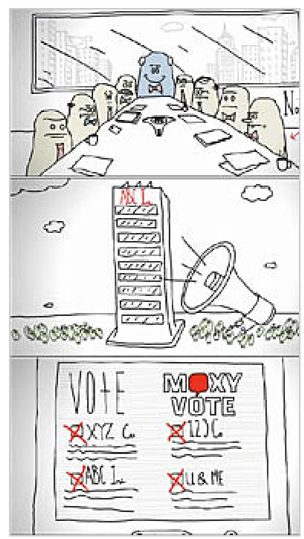
Published: March 5, 2010

What would happen if all the small investors banded together and cast their ballots during proxy season, the time of year when all shareholders get to vote on corporate issues? How much of an impact would they have?

Frames from a short movie on the Web site of Moxy Vote that explains how small shareholders are typically ignored but can join one another to be heard.



A video on Moxy Vote's Web site explains how small shareholders can band together for a voice.

Until recently, the votes of small investors — the ones who didn’t just throw their ballots in the trash — were largely meaningless. Even if they were angry about soaring executive pay and risky business practices, there was little they could do.

Sure, in theory, investors could vote for the people who serve on the board, many of whom are paid handsomely to oversee management and set executive pay. But investors don’t have any say on the nominees. Nor do they have much of a real choice even if they do vote. Say you withhold a vote for a candidate running uncontested. It doesn’t matter, since directors can win without a majority.

And if you chose not to vote? Your broker is allowed to cast your ballot without your permission, and brokers typically vote in line with management.

“Up until now, it’s been sort of a Soviet system,” said Stephen Davis, executive director of the Millstein Center for Corporate Governance and Performance at the Yale School of Management. “We have been operating in the United States under the myth that boards have been accountable to shareholders.”

So much for shareholder democracy.

But the tide is beginning to turn, albeit slightly. In recent years, more companies have adopted a "majority rules" requirement, meaning a single vote can no longer elect the entire board, even if all other votes are withheld (though some companies retain the power to reinstate directors). And starting this year, brokers can no longer vote shares held in their customers' accounts without permission.

On top of that, more voter resources are beginning to sprout on the Web that aim to educate smaller investors, demystify the issues on the ballot and make voting easier.

Investors would also stand to benefit from the so-called Shareholder Bill of Rights, legislation proposed by Senator Charles Schumer of New York and Senator Maria Cantwell of Washington, both Democrats, most of which was included in the original draft of Senator Christopher Dodd's financial overhaul bill. But like many other consumer-friendly measures — including a freestanding consumer protection agency — it has faced sharp opposition from some Republicans and business groups and may not survive.

One provision that has particularly provoked opponents would make it easier for certain investors to nominate independent directors to corporate boards, or what is known as proxy access.

The Securities and Exchange Commission is also pushing the issue, and, after several years of debate, is expected to adopt rules this year. Those rules would require companies to include the shareholders' nominees in their proxy materials, whereas now investors are forced to pay for their own campaigns.

(The proposed rules would allow only those who own at least 1 percent of shares at large companies to nominate directors, as long as those directors fill under 25 percent of the board seats.)

The Senate proposal would require that candidates for director receive at least half the vote in an uncontested election and require all directors to face re-election annually (unless shareholders approve otherwise). It would also give shareholders a so-called say on pay, which is a nonbinding vote on executive compensation practices.

More companies are beginning to do this voluntarily, and corporate governance experts say these votes can actually help curb excessive pay.

"The pressure is really on Chris Dodd as to whether the accountability provisions in the Shareholder Bill of Rights turn out in the final bill," said Mr. Davis, of the corporate governance center at Yale.

Let's assume the worst for a moment, and most of the provisions in the Senate bill are whittled down to nothing. How much power do small investors have right now?

Collectively, they own about 30 percent of outstanding shares. They hold a much larger stake when you consider their holdings in pensions and mutual funds. But since investors technically own shares of mutual funds and not their underlying investments, the fund companies cast the ballots. As you may imagine, many of them do a poor job.

Still, only a small fraction of retail investors vote. And no wonder — we're busy, we think our votes don't matter, and we don't have the time to become experts on corporate governance. Yet experts say small investors hold enough shares to move the needle, at least on some issues.

"Thirty percent of outstanding shares is a substantial portion, easily enough to change the outcome of many proxy voting results," said Mark Latham, a member of the S.E.C.'s investor advisory committee.

Michael Passoff, an associate director at As You Sow, a shareholder advocacy group on environmental issues, has first-hand experience. "There have been many successes shareholders have had in changing corporate policies or practices," he said. "You can imagine virtually all retail shareholders supporting resolutions that would limit or link executive pay to performance."

How much mental energy is required to vote intelligently? Thankfully, it's getting easier. Here are some shortcuts:

THE BASICS If you own stocks, you'll probably receive proxy materials — the company's annual report, a proxy statement and a proxy card/voting form — in the mail or via e-mail. You can vote by mail, by phone, on the Web or, if you're so inclined, you can show up at the annual meeting, where, at the very least, you'll probably encounter some colorful gadflies.