

Why should plural voting rights be forbidden under any circumstances and conditions?

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May I first call to mind some well-known features concerning the ideal company that shareholders dream of.

Intelligent shareholders expect their company to contribute sufficiently to the risk /return ratio of their portfolio, in other words to cover its capital costs.

Shareholders receive the remaining revenue after all other parties concerned have been remunerated according to their contracts. Shareholders wish - and have the right - to maximise this remainder, which is called profit. This gives them the ultimate power, i.e. the power to nominate, motivate and stimulate the management in place, to impose, if necessary, a slimming diet sale of disposable assets or even to replace their staff and, ultimate sanction, to provoke and accept a take-over.

This power is inherent in shareholder voting rights. Everybody wants to maximise his voting rights per euro invested, nobody likes to have his voting rights more restricted than those of other shareholders. "One *share* one vote" would seem to transpose in financial democracy the universal suffrage "One *man* one vote". However, this comparison gives a false picture because it is the relative amount of invested dollars that determines the voting power. This is in effect suffrage based on ownership of property.

But there could be other criteria than the amount of dollars, for example the possibility for a core group of shareholders to express their motivation and choices. To be noted that the system "One share one vote" can obstruct such projects and choices to the detriment of the company and the economy.

Let's for example take an entrepreneur or a pioneer founding family or a team of managers who would like to proceed with an IPO or a management buy-out. An increase in capital or a productive merger could have a dilutive effect as a result of which the company would be exposed, without any functional reason and at an inappropriate time, to the risk of a take-over bid.

If we stick to the dogma "One share one vote", as would be endorsed by an imperative legislation, the above-mentioned operations, which are useful from an economic point of view, run the risk of not being executed. But in any event we could side-step the so-called democratic legislation by substantial (i.e. excessive) recourse to debt finance or even to the issue of preference shares without voting rights, or worse still by creating a cascade of holding companies (50.1 % of 50.1%, etc.), cross-participations with shareholders agreements, poison pills, etc.

In the countries of old Europe, open companies remain rare; these are companies which are not 50.1% controlled by a family group or a coalition of partners. This proves their concern for not

finding themselves exposed to speculative destabilisation at a critical moment and with dilutive effects. As a result, the company's expansion can be inhibited.

Why not simplify matters ? If the shareholders of a company agree freely and by qualified majority that some of them could obtain double or even fivefold voting rights per share, why forbid this ? Why should the law limit the freedom to sign contracts between informed and willing partners. Why should such a dogma be imposed on everybody and in all circumstances?

For example, the extraordinary general meeting might decide with a 75% majority to record in the bylaws that each 2-year stable and permanent shareholder obtains double voting rights. These rights would be attached not to a share or a shareholder by divine right, but to a quality of stability. Everyone would be on an equal footing and could aim for double voting rights by virtue of his stability.

If the rules of the game are known and established in a democratic way, nobody's rights should be infringed.

Institutional investors might not like these agreements that they are prone to qualify as "oligarchic". They may not want to invest, or invest less money in these companies. These investors would then benefit from a discount, i.e. a lower price/earnings of the investee company than its risk-adjusted peers, than they would in a "One share one vote" system.

Presuming that these effects take place, they would imply a higher cost of capital for the investee company, and thus would give a higher return to the shareholder with no enhanced voting rights (of which the theoretical power would have been marginally reduced).

Why should this be deplored ? Why forbid increasing shareholders' equity and investments just for the pleasure of contemplating a lower price/earnings ratio ? Liberal-minded economists such as myself cannot approve of such rules and limitations. What they want is to encourage various experiments and freedom of contract.