The Nightly Business Report

Majority Voting – More Shareholder Democracy?

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The 2007 proxy season is upon us. The focus is on the new executive compensation disclosure, but there is an important sleeper issue – majority voting.

Currently in most companies, shareholders vote for directors two ways: they vote “for” or they “withhold” their votes. So, even if a majority of votes are withheld, a director can still be elected by just one affirmative vote. Many shareholders are unhappy with this and have been pressing for change.

One response is that some companies have adopted a policy to govern voting. If a director receives a majority of “withheld” votes, that director must resign and the nominating committee or the board decides whether to accept the resignation.

But activists want more. So, this season some shareholders have put forth resolutions that request a company to amend its bylaws so that to be elected, a director must receive a majority of **affirmative** votes. These resolutions are expected to win, and I’m guessing that even more companies will adopt some form of majority voting.

Next year’s proxy season is the one to watch when concerns about executive compensation and the new majority voting standard come together. If shareholders are still upset about excessive compensation, they may focus on unseating compensation committee members or even an entire board. Majority voting makes that easier.

Majority voting sounds good. Let’s hope it’s as good in practice as it sounds.

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