Revitalizing the general meeting

April 22, 2009

While shareholders' meetings could do with reform, improving corporate governance practices requires the efforts of institutional investors.

The general meeting is arguably the most important decision-making and supervisory body for protecting the welfare of companies and their shareholders. Yet, despite more than a decade of proposed reforms for strengthening its role, regulators, particularly in Spain and generally across Europe, have tended to look elsewhere to improve corporate governance practices.

Writing in the book, *Board Members and Management Consultants: Redefining the Boundaries of Consulting and Corporate Governance*, Jose Luis Alvarez and IESE Prof. Joan E. Ricart explore the shortcomings of recent reforms and suggest ways to revitalize the general meeting as a governing body.

The authors start their chapter, "The Increasing Role Professional Service Firms Play in the Reform of Shareholders' Meetings," by providing an overview of past reforms, such as those called for in the Aldama Report and the Securities and Stock Exchange Act, which attempted to pave the way for protecting shareholders' rights. While these reports made some good recommendations - such as corporate websites to inform and interact with shareholders better - the authors feel that many of the reforms fell short and had little impact.

This, coupled with a growing demand for transparency, especially in the stock market, opened the floodgates for top law firms to wade in and add more layers of legal complexities. Some would argue that these firms were motivated more by private interests than any real concern for the interest of minority shareholders.

Thus, regulators have turned to other social actors to help improve corporate governance practices in dealing with minority shareholders. This is where institutional investors come into play, say the authors.

Complex but vital activism

Traditionally, these investors, given their shareholdings, have shown little interest in exercising their influence. But all that could be about to change, as they inject new vitality into the general meeting.

While the greater involvement of institutional investors raises some complex issues - such as cross-border voting and absenteeism - these investors are starting to show signs of activism. The authors cite the case of a group of institutional investors calling for the resignation of the board of directors of a Spanish company because they were dissatisfied with the direction it was going. We could be seeing more instances of muscle-flexing like this over time, they say.

And it's not just knowledge workers or professional service firms, such as consultants, that have a role, say the authors. The media, public relations experts and corporate lawyers can also work harder to give voice to the emerging new breed of client: the disenfranchised shareholder.

These agents “can play an important role in the organization of collective action, placing themselves as the key element in the transformation of corporate governance aimed at improving the influence of shareholders in the general assembly and, as a consequence, the overall management of the firm,” state the authors.

The authors suggest several ways to make general shareholders' meetings more than mere rubber-stamping authorities. “Technology plays an important role here,” they note, “as it drastically facilitates information transparency. The new technologies may bring major changes to the existing system with the introduction of electronic voting.” Another step could be the creation of a board-level committee to establish a dialogue with minority stakeholders.

Whatever path is chosen, “In the complex world we live in, we have no doubt that corporations could learn a lot from such interactions. In any case, we would get at least a more informed shareholder.”

Sounding a note of caution, the authors warn of the danger “that reforms based on stricter control and regulation of governance procedures will end up making the decision-making process more rigid. This is the old problem of direct or participatory democracy. Forcing it deteriorates its very essence. Laziness in participation is a democratic right. This is even truer in business polities."

But they remain optimistic that "professional service firms can be the fundamental catalyzer for the emergence of real democracy in corporate governance."

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