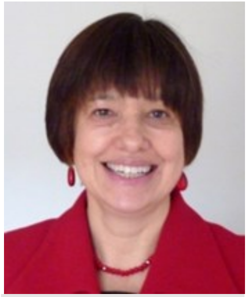
# Corporate Governance: what is the role of private shareholder (continued)?

***by Sue Milton***



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In Part 1 (See *The Private Investor* issue 179) I talked about the barriers that prevent private shareholders from exercising their role on terms equitable with that of institutional shareholders. This article provides some practical ideas on how to overcome this.

Reinstating my main barriers, private shareholders tend to have:

- **a lack of expertise in corporate affairs, no influence over those affairs because the level of shareholding is insignificant,**

- **most of our shares are managed by institutional investors on behalf of the trusts and pension funds in which we have invested, and**

- **no guidance to help on understanding and enforcing private shareholder responsibility.**

And whilst the theoretical answer is that private shareholders have the same role as any other shareholder, the combined force of my three reasons makes it much more difficult to exercise. I therefore identified that the key role, that stood out for me as a private shareholder, is one of moral guidance covering corporate social responsibility not just in the charitable work undertaken but also in how companies treat individuals, whether private shareholders or their clients and customers.

There is no panacea. It does require work. For shareholders who want to remain passive, we might consider a new category in corporate governance terms, that of private speculative holders rather than private shareholders *per se;* but, assuming many of us would like better opportunities to exercise our rights and responsibilities, here are my thoughts.

The first is to decide what is sensible to do. I would leave the strategic and financial aspects to the institutional investors. They will focus on corporate compliance to legislation and on making sure companies pursue profitable undertakings. Yes, we need an awareness of what is going on to be able to understand the context. Do this by looking at companies' own websites, previous annual reports and accounts, and a review of share prices. Look also at the websites of the institutional investors that act on our behalf. They should be publishing information about how they vote. All this is basic research. We will be better informed, able to vote from a position of knowledge and may feel motivated to attend AGMs and EGMs.

The second is to make use of all proxy voting forms. If you do not attend AGMs, the forms provide us with opportunities too, if they include an option to 'withhold' a vote. We may feel that using the binary 'yes/no' vote is inappropriate, so completing the 'vote withheld' could provide useful insight on how much shareholders understand items on the AGM agenda. If a significant number of shareholders actively withhold their votes, the board should see this as a 'red flag': shareholder engagement is insufficient and the board may want to reconsider its stance. Using 'vote withheld' would also counterbalance the weighting of high share ownership, as the volume of shareholders withholding votes reflects the percentage of shareholders, rather than the number of shares. This device could therefore usefully be employed by those shareholders who would otherwise never vote.

The third is to look at the moral tone of the company. Does it have values and mission statements? Do these match strategic objectives and outcomes? Is the board made up of experts in HR, Technology, and Information Security too? How is shareholder and customer data being protected? What audit recommendations have and have not been implemented over the last three years? If the data breaches at *Talk Talk* - three in the last eight months - teach us nothing else, it underlines the fact that boards will not learn from past mistakes unless legislation so requires, or shareholders demand, action. It is crucial that we remind boards continually of the level of due diligence needed. It is money well spent. The influence of private shareholders on more operational rather than strategic issues is, I believe, a great opportunity in engaging with our companies on a more 'day-to-day' basis.

What this all reveals is a part missing from good corporate governance: ways that encourage participation of all shareholders across all aspects of the business. I call it 'shareholder governance'. My fear is that, in the absence of legislation requiring shareholder activism, there will always be less emphasis on listening to private shareholder than there should be, so it is up to us to get this addressed. Based on what I have covered, here are some pro-active ideas to increase opportunities:

- **Focus more on owning the company rather than using it as a commodity.**

- **Create our own shareholder code of good governance.**

- **Set up an education scheme for all existing and potential private shareholders.**

**Don't be intimidated - *they* work for *you*.**

- **Insist on having, and both shareholders and companies using, the 'vote withheld' option.**

- **Seek to have the equivalent of institutional investor meetings for private shareholders with the CEO, chairman and senior non-executive director.**

We could also push for:

Current and long-term share prices.
A higher percentage of dividend distribution for long-term ownership.

This provides private shareholders with a more focused role that is both valuable but currently missing from the governance framework. It allows shareholders to act in ways equivalent to non-executive directors: institutional investors challenge companies on strategy and returns on Investment; and private shareholders challenge on operations and outcomes to society. Moral behaviour grows in importance. Let's contribute proactively.

Sources

The Guardian, 24th October 2015. http://www.theguardian.com/business/2015/oct/24/talktalk-cyber-attack-new-powers-regulators-hacking.
A good summary of the value different shareholders bring can be found in "Investor Relations" produced by the London Stock Exchange. http://www.londonstockexchange.com/home/ir-apracticalguide.pdf.

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