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Increase Retail Shareholder Participation in Proxy Process

James McRitchie, [February 18, 2015](#) ,



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As I have been mentioning, I will be on a panel at the [2/19 SEC Roundtable](#) discussing how to increase retail shareholder participation in the proxy process. It is the night before the event; so I'm trying to boil it all down, knowing I'll probably only get a few minutes to say anything. The previous posts are all well and good about things that should be done. I tried to focus on what the SEC could do to help, since they are holding the event. Now that our panel is about to convene, I'm just going to mention what *could* prompt participation, whether or not it requires anything from the SEC.



From the SEC notice: *This panel will focus on strategies for increasing retail shareholder participation in the proxy process. The panel will discuss how technology – by providing better access to information or easier means of voting – might affect retail participation. In addition, the panel will discuss whether the format of disclosure could be improved to increase the engagement of shareholders and how the mechanics of voting could be improved to affect retail shareholder participation.*

The biggest problem is voter apathy in corporate elections. Most retail shareholders aren't going to read the proxy, which has grown larger as corporate governance rules and practices have strengthened the rights of shareholder. For years, I have been telling my readers (both of them) to go to [ProxyDemocracy.org](#) before they vote to see how pre-disclosing funds like CalSTRS, CalPERS, Florida SBA, Calvert, Domini, etc. have voted.

The problem is, people have to go there. We're using pull technology and, while people may believe voting is conceptually important, it isn't a high priority for them – with the small amount of stock they own. Yet, these same people are very interested in checking their stock performance. Tens of thousands, maybe millions, go to Yahoo, the Wall Street Journal, Seeking Alpha and other sites to check the price of their stocks. While there, they glance at the news feeds for any stories that might tell them the likelihood that share price rise or fall.

We need to push the information on pre-disclosed votes to them in a news feed. Scenario: Joan and Joe

shareholder check the price of Apple or Tesla and glance down to the news feed and see that CalPERS has voted. CalPERS is a big investor, they think. CalPERS has probably given a lot of thought to how they voted. Let's click and see. After they see how CalPERS voted and maybe why, they might just decide to cast their own proxy ballot. Even if they don't, maybe they will the next day when they see how CalSTRS voted or the day after that when another fund pre-discloses.

That's step one. Use push technology to automatically feed proxy voting information to the news sites that retail investors frequent – sites that are currently news deserts on proxy voting issues. Once the information starts getting used, more funds will pre-disclose their votes because doing so will impact the vote.

Step two is to provide personalized voting recommendations on all corporate proxies based on their responses to a brief survey of their values. Most institutional investors don't read through most of the proxies either. They have proxy-voting guidelines, based on their values, and service providers pre-fill proxies for voting based on those voting guidelines.

Using a simple survey and algorithms tied to the votes of pre-disclosing funds, we can do the same for retail shareholders. It certainly won't be as sophisticated as the proxy voting guidelines developed by large institutional investors but it will make voting very easy and it will better approximate their values than not voting. After using pre-filled recommendations for a while, shareholders might just take more interest in a few proxy topics at a few companies and delve a little deeper.

Step three is client directed voting (CDV), which I've already discussed in previous posts. This can be as simple as combining step 1 and 2 above with a button that casts the pre-filled proxy, an automatic button that doesn't even have to be pressed, or it can be a much more complicated "if then" decision tree. The real point of step three is building the information the retail investors need to vote onto the voting platform itself. Make it a one-stop shop.

Step four, and we really aren't there yet, is that once shareholders see the importance of voting in corporate elections, they will want to research and discuss the issues using social media. We already know how to use that.

OK, it is 3 a.m. in California and I usually go to bed at 10 p.m., so good night. There should be a button to click at [SEC.gov](https://www.sec.gov) to Thursday morning to watch the webcast.

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[Recommendations to Increase Retail Shareholder Participation \(2\)](#)