

CHAZEN INSTITUTE RESEARCH BRIEF

# The Case for Tenure Voting

## KEY TAKEAWAYS

- ✓ Corporate managers who retain at least 20-30 percent of the total number of company shares on a long-term basis will maintain control of the company—even in the face of a proxy battle.
- ✓ Institutional investors are likely to see tenure voting as an improvement over dual-class voting in terms of giving them corporate governance rights.
- ✓ Tenure voting helps promote greater balance between managerial control and shareholder rights.

2018 was the year of proxy battles, with the balance of power shifting between corporate management and shareholders. With many leading tech companies using dual-class voting systems, a source of this tension is the way in which the system insulates corporate governance from investor oversight.

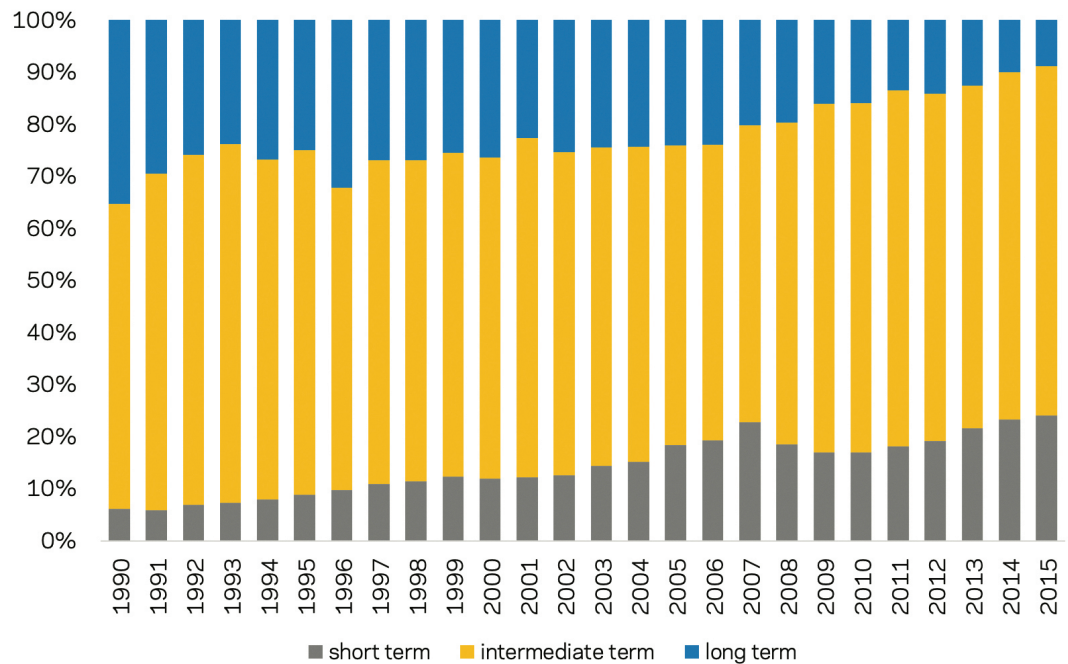
In “[Will Tenure Voting Give Corporate Managers Lifetime Tenure?](#),” Wei Jiang, Chazen Senior Scholar at Columbia Business School; Paul Edelman, professor of mathematics and law at Vanderbilt University; and Randall Thomas, professor of law and business at Vanderbilt University, examine two types of stock voting structures (dual-class and tenure) and posit that tenure voting, which gives all investors equal access to voting power as long as they are willing to hold shares for the long-term, helps promote greater balance between managerial control and shareholder rights.

## Research

Jiang and her co-authors generate a database documenting portfolio turnover rates by different categories of institutional investors. They use this data to inform a mathematical voting model of tenure voting to show how its adoption would affect control rights within a corporation over time.

In a tenure voting structure, control by corporate management is not guaranteed, as voting rights increase based on the length of time any shareholder holds company stock. This is an attractive proposal for investors interested in exercising greater governance controls, but what about for corporate management seeking to maintain their control?

### Shareholder composition in an "average" company: By investor category classification



Source: Thomson Reuters

## Results

The researchers find that when corporate management holds a large block of company stock prior to the implementation of tenure voting and retains at least 20–30 percent of company shares over the long-term, tenure voting ensures that they maintain control of the company—even during a contentious proxy battle in which they lose the support of leading proxy advisors, such as the Institutional Shareholder Service (ISS). But if corporate management chooses to sell its initial block of company stock over time and the majority of long-term ownership is held by institutional shareholders, their position is weakened in a proxy battle and institutions like the ISS wield the real power.

The paper concludes that tenure voting represents a middle ground for corporate managers and investors. From a management perspective, while it does not guarantee control, as dual-class structures do, it does allow those managers who maintain a large equity stake in the firm to maintain control even in the face of highly-motivated dissident shareholders. Institutional investors, on the other hand, are likely to see tenure voting as a

distinct improvement over dual-class voting because it grants them greater corporate governance rights over time. In addition, by encouraging corporate management to retain a substantial stake in the company, tenure voting increases the financial incentive to maximize shareholder value.

While the researchers see tenure voting as progress in terms of balancing the power dynamic of corporate ownership, there are several other costs and benefits of the two systems that they did not compare, such as the negative effect that tenure voting has on the liquidity of trading markets and proxy plumbing.

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[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3107225](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3107225)

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