Can Corporate Shareholders Have Too Much Power?

Stakeholders should play greater role in corporate governance, according to law school conference participants

Some of the most influential minds and players in corporate governance and high finance met on Friday, Nov. 18, at Columbia Law School to debate the role of shareholders in publicly traded corporations.

The conference on ‘Shareholder Democracy: Its Promise and Perils’ was cosponsored by the Columbia Law School Center on Corporate Governance and the UCLA-Sloan Research Program in Business Organizations.

The conference explored the growing debate over shareholder power. Many regulators believe the best response to recent corporate scandals would be to increase shareholder power, according to John Coffee, the director of the Center on Corporate Governance.

‘Shareholders comprise widely differing constituencies and agendas, from hedge funds to pension funds to long-term individual investors.’

‘However, greater shareholder power may increase bottom-line pressures toward socially undesirable behavior,’ Coffee warned. ‘The real question is, how much shareholder power is too much?’

Lynn Stout, a UCLA law professor and the conference co-organizer, reminded participants that shareholders comprise widely differing constituencies and agendas, from hedge funds to pension funds to long-term individual investors.

‘Hedge funds have a very short-term interest,’ Stout said. ‘They don’t care if business pursued a strategy that destroys investment value elsewhere. And greater shareholder power is not going to the mom-and-pop investor. It’s going to Karl Icahn or other hedge funds who may exploit the mom-and-pop investor.

‘One of the most interesting exchanges at the event came when experts on countries outside the United States added their perspectives. Curtis Millham of Columbia Law School discussed his research on Japan, where shareholder power and hostile takeovers are on the rise for the first time. Brian Cheffins of Cambridge University said that in England, by contrast, shareholders have long held a great deal of power but have rarely exercised it.

‘The speakers’ list was a ‘who’s who’ in corporate governance: Stout has collaborated with Margaret Blair of Vanderbilt Law School to develop the ‘team production approach to corporate governance.’ Their research breathed new life into the shareholders-vs.-stakeholders debate by providing evidence to show that over the long run, it is better for all concerned if a corporation keeps the interests of stakeholders, rather than just shareholders, in mind.

In addition to distinguishing himself at Columbia for the quality of his research, publications and teaching, he was known affectionately by his department as a computer whiz, having been the first in his ranks to purchase a Macintosh computer. He is survived by his wife, psychiatrist Doris Blum Nagel, and in the words of current department chair David J. Helland, ‘several generations of undergraduates, graduate students, postdocs and colleagues who hold fond memories of his patience, kindness, humor and quiet joie de vivre.’

Pervez Shahabuddin received the annual Great Teacher Award, presented by the Society of Columbia Graduates, for his ability to make knowledge accessible and exciting to students.

‘There’s an association between religious faith and health,’ says the chief of behavioral medicine at Columbia University, but no proven causal effect. As he points out, it’s probably true that if you carry a lighter, you’re more likely to die of lung cancer but lighters don’t cause cancer’ (‘Does Prayer Heal?’ by Erik Ness, Nov. 16 09).