

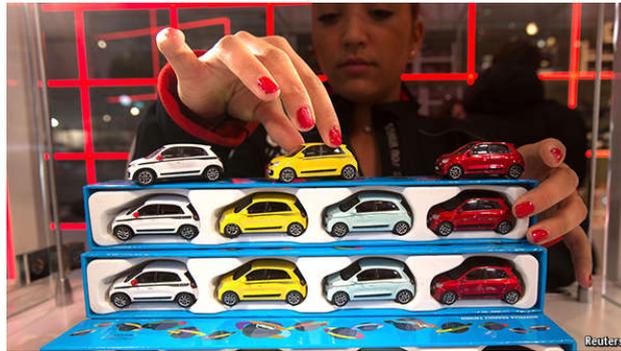
Shareholder rights in Europe

Short-term or short-changed?

Enhanced rights for loyal investors are increasingly touted as a way to make companies think for the long term

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A BATTLE over voting rights, pitting the state against company boards and many



Long-term owners only, please

investors, is raging among French companies. The biggest fight of all involves Renault, a carmaker with global ambitions. According to the so-called Florange law adopted in 2014, after March 2016 listed French firms must begin granting double voting rights to investors who have held registered shares for at least two years—unless two-thirds of shareholders have voted against this rule. The provision aims to counter “short-termism” by encouraging more loyalty between investors and companies. It will also, fortuitously, allow a government intent on selling down some of its stakes in domestic companies to retain its influence over them while banking the cash.

Renault’s outraged boss, Carlos Ghosn, is particularly worried that suddenly doubling the voting clout of the state will upset its Japanese partner, Nissan, which holds 15% of Renault’s capital but no voting rights. The government, determined to defeat the board’s resolution to retain one vote for one share, has temporarily raised its stake from 15% to 19.7% in time for a meeting of Renault shareholders on April 30th. The outcome was too close to call as *The Economist* went to press.

Multiple voting rights are no novelty in France. Even before the passage of the new law, 22 of the companies in the CAC-40, the French blue-chip index, had such arrangements, according to PhiTrust, an investment fund that, along with Proxinvest, a proxy-advisory service, has helped to organise opposition to the Florange law. Various ways of altering the proportionality between voting rights and the underlying share of ownership are common across Europe and elsewhere, even though many pundits, and most institutional investors,

think that this short-changes some shareholders. What is new in France is that double voting rights are suddenly the default position. The remaining, French-domiciled CAC-40 firms that have up to now had one vote per share are scrambling to sort themselves out before the law's provisions come into force.

Of those firms in which the state has no stake, only one has so far ended up with double voting rights for long-term investors. On April 17th over half of the shareholders in Vivendi, a media conglomerate, voted to stick with one vote per share, but they were short of the two-thirds majority required. Vincent Bolloré, Vivendi's chairman, increased his holding from just over 10% to almost 15% for the event, reinforcing his control over the group.

In contrast, at Vinci, a construction firm, L'Oréal, a cosmetics giant, and Unibail Rodamco, a property firm, shareholders have seen off the introduction of double voting rights. BNP Paribas and Crédit Agricole, both banks, are likely to do the same in May, as are Air Liquide, an industrial-gases company, and Capgemini, a consulting firm. (Swimming against the legislative current, Legrand, an electrical-equipment maker, will propose to its shareholders on May 29th that they move back from a double- to a single-vote regime.)

Things are different at companies where the state has a stake and can throw its weight around to ensure its new law is applied. Shareholders at Veolia, a water utility, failed to secure the supermajority needed to override Florange on April 22nd. Engie, an energy giant that is changing its name from GDF Suez, went the same way on April 28th; the state owns a third of the capital and Engie is thought to be near the top of its assets-for-sale list. Few expect Orange, France's biggest telecoms company which is 25%-owned by the state, to vote down Florange at its shareholders' meeting on May 27th, whatever happens in Renault's vote.

For those who thought the French government had thrown off its old interventionism in appointing a more liberal economic team in 2014, the zeal with which it is pursuing double voting rights and its own interests, especially at Renault, is alarming. But France is not alone in questioning whether the governance rules in their current form are producing robust companies able to plan for the future, or desperate ones sucking up to short-term investors who are apt to trade and run.

Italy adopted its own, much milder Florange law in 2014, removing a decades-old prohibition on multiple voting rights (though Italy allows plenty of other mechanisms for big shareholders to enhance their control) and letting companies give long-term shareholders extra voting power. Its "growth decree" was designed mainly to persuade owners of family firms that they could list on the stockmarket, and thus raise capital to expand, without having to give up control. A number of Italian companies, including Campari, a drinks-maker, have changed their statutes to give extra votes to long-term investors.

Similar changes may sweep across Europe. On May 7th a committee of the European

Parliament will debate changes to the Shareholders' Rights Directive of 2007. Among them will probably be a proposal to make all EU countries take at least one of four steps to reward investors who hold shares for two years: extra voting rights, tax incentives, loyalty dividends or loyalty shares. The principle of equal rights for all shareholders is under attack.

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