



Ascertaining Shareholder Intent Using A Borda Count

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In yesterday's post, I described how an approval voting system could be used to determine shareholder preferences. The Borda count system is another system that also could provide more accurate information about the consensus opinion of shareholders.

The Borda count system is named for Jean-Charles de Borda, an 18th century French mathematician with a practical turn of mind. Monsieur Borda observed that when voters are presented with three or more choices, the choice that receives the most first votes in a plurality voting system may not be the choice with highest overall standing. He therefore concluded that voters should be able to rank their preferences.

The Borda count system is illustrated by the following example.

If a corporation has 100 shares outstanding with each share entitled to one vote per share. Three shareholders hold the following number of shares and votes:

Shareholder	Number of Shares (Votes)
A	40
B	35
C	25

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If shareholders A, B and C prefer a one-year, three-year and two-year interval, respectively, then shareholder A's preference would "win" under the simple plurality voting rule contemplated by the SEC's [proposed rule](#). A significant consequence of the plurality voting rule is that the preference supported by the *largest minority* will often prevail. In other words, a simple plurality voting rule can fail to determine the preference with the *greatest overall support*. If, however, the shareholders are permitted to rank their preferences and a Borda count rule is used, the result could be different as illustrated by the example below:

Preference	Shareholder A (40 votes)	Shareholder B (35 votes)	Shareholder C (25 votes)
1st	One-Year	Three-Year	Two-Year
2nd	Three-Year	Two-Year	Three-Year
3rd	Two-Year	One-Year	One-Year

The Borda count scores for the three alternatives are as follows:[\[1\]](#)

Frequency	Points
One-Year	180
Two-Year	185
Three-Year	235

Thus, the use of a Borda count method allows an issuer to determine the true consensus choice of the shareholders rather than the will of the largest minority.

It remains to be seen whether the Securities and Exchange Commission will recognize the deficiencies in a simple plurality voting scheme and allow corporations the flexibility to implement voting rules that allow shareholders to express, and boards to ascertain, the alternatives that enjoy the greatest overall support. In addition, the use of a Borda count system must be permissible under applicable state law.

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[1] Under the Borda count method, each alternative is assigned a number of points equal to 3 times the number of votes for a first place ranking, 2 times the number of votes for a second place ranking and 1 times the number of votes for a third place ranking. Thus, the number of points assigned to the one-year alternative in this example is $(40*3) + 35 + 25 = 180$.

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