Rational Apathy of Shareholders: How to Awaken Investors from Their Sleep?

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Retail shareholders' attitude toward the company's decision-making processes is described as rational apathy. The cost-benefit analysis explanation for this rational apathy is that the small number of shares each retail shareholder holds in the company makes it impossible for them to substantially influence the decision-making process; thus, the costs of investor activism are not justified given the lack of benefit therefrom. Retail shareholders therefore tend not to participate in shareholder meetings. Even when they disagree with how the company is being managed, they prefer to express this dissatisfaction by selling their shares rather than by voting at the meetings.

This article analyzes the causes of shareholder rational apathy and examines whether corporate democracy, as manifested in the involvement of shareholders in the company's decision-making, is important and desirable. The conclusions of this normative discussion shed light on both the intrinsic value of shareholder participation in decision-making and its utility.

Moreover, considering rational apathy from an economic cost-benefit perspective provides a structured and coherent framework for discussing new reforms in corporate law and securities law in Israel aimed at encouraging greater involvement of shareholders in the decision-making process. The goals of these reforms are to increase the benefits of participation in shareholder meetings, for example through institutional activism, and to lower the costs of voting, for example by using an electronic voting system. The article analyzes the processes that have led to these reforms, critically examines whether the reforms are fulfilling their purpose, suggests ways to improve them, and sheds light on the expected consequences of their implementation.