Why Nvidia CEO had to resign, but other tech lords don't face a similar risk

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Summary
Nvidia CEO Jensen Huang faced departure by the board due to undisclosed relationships with employees and customers, exposing the company to risks, unlike founders with dual-class shares.

The CEO of Nvidia had to resign because he having an affair or two. Isn't that a private matter, and why should he have had to exit?

Here is the thing: It IS a private matter if you have an affair with somebody unrelated to the business. For example, Jeff Bezos of Amazon had an affair, which resulted in his divorce, but did not result in his having to leave the company because that was with somebody unrelated to the business. Never mind that he shared the sort of pictures a 13-year-old would have enough sense not to.

But in Huang's case, there are two supposed affairs with employees of the company.

Now, this is an absolute red line as far as corporate boards in the US are concerned. It is there in the contracts of all CEOs that if they have a romantic relationship with anyone in the company, they are at the very least, supposed to inform the board.

In fact, that is true of everyone else working in the company as well. In their case they are supposed to inform human resources (HR) to ensure there is no reporting relationship between the parties involved. But in the CEO's case, everyone working for the company eventually reports to the CEO.

Everybody is a reportee or a subordinate, so they have to inform the board, because having an affair with an employee leaves the company open to legal liabilities from shareholders, from other employees, and can trigger an SEC investigation.

In the past CEOs of McDonald's, Intel and several others have had to quit for the same reason.

The other so far known affair is with a customer of the company, which is also problematic, because the chips that were being sold to the company that Alicia Huang, or whatever her eventual name comes out to be, was representing, were in short supply.

These were cutting edge AI chips, and CEO Jensen was the one deciding that who should have those chips. So whether or not she was a spy, at least it appears that for a relatively small company, they were getting a lot of out of turn supply of chips from

Nvidia, which is problematic. Whether Jensen knew these were getting routed to China or not, either way there is a problem.

Therefore there were too many things which were intertwined with the business, and the board frankly had no choice but to let him go, even though most of the directors have been around for decades and would be his friends. But the board's priority at this point was risk mitigation, and this was the only way for them. Whether it is great for the business of the company is secondary at this moment.

In such situations, you have to cut your losses, that's where the board came from. Can what happened to Jensen Huang of Nvidia happen to other tech CEOs like Musk and Mark Zuckerberg of Meta if they were to be found in a similar situation?

The short answer is no. And the reason is this: Many of the tech companies have two categories of shares. Now, both categories of shares get the same dividend and they have the same claim on the assets of the company, but the voting rights are different.

So you can have a category A, which goes to the public, where there is one vote per share. And then you can have a category B, which typically goes to founders, promoters, management, which has more than one vote per share. The extreme being SpaceX, where Musk has shares, which carry 10 votes per share.

Effectively the public has given money to SpaceX, but there is almost zero corporate governance. The 'divine right to rule' remains with Musk. The public shareholders cannot enforce anything in that company.

Musk can change the board of directors. He can effectively pay himself what he wants. He can merge his own private company at whatever valuation he wants into SpaceX - and the public shareholders have no recourse. That's the extreme example of having these differential voting rights.

The last time there was a boom in these differential voting rights shares was in the 1920s, when a large number of family businesses went public in the US. And while they raised money from the public, the voting rights remained with the families.

And that, of course, ended badly, to put it mildly. After 1929, there was the big stock market crash that lasted for decades and then the Great Depression. And as a fallout of that, New York Stock Exchange actually banned the listing of companies with two categories of shares.

But slowly they have crept back, especially after Google's IPO in 2004. Many IPOs, especially in technology, have had these two classes of shares. In the case of the proposed Anthropic listing, the founders with only 14% shareholding are proposing to keep the majority voting rights with themselves.

But Nvidia went public in the 1990s when companies did not issue differential voting right shares.

And therefore, Jensen Huang, who now holds less than 4% of Nvidia , could not stop the board from effectively firing him. That is how it goes.

There are dangers to having these two categories of shares, in my opinion, which I will talk about another time.

And of course all these norms only apply to corporations - all those whose names appear in the Epstein files across the world have not had to resign.