

Shareholder Rights and Engagement at European AGMs

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Abstract - This paper examines shareholder voice at company general meetings in Europe. Using management and shareholder proposals submitted in 17 countries, we investigate whether dissent against management is affected by meeting, proposal and firm characteristics, as well as the various regulatory provisions that have been argued to affect meeting access and participation. We find that while shareholder engagement at European meetings remains limited, it tends to be well-placed. Shareholders are most likely to act on anti-takeover devices and executive compensation, and submit their own proposals against large and poorly performing firms. Critically, national regulation plays a major role in galvanizing shareholders, lending strong support to the European Commission's Shareholder Rights Directive, and the broader pro-shareholder regulatory trend that has emerged post-crisis worldwide. We find that shareholders use their voice more at the firm level when concerned about the institutional environment at the country level, and the quality of minority investor protection in particular. We conclude that shareholder engagement at company general meetings is a part of good governance, and regulators should go beyond minimum standards pro-actively to support shareholder rights.

Keywords: Shareholder rights; shareholder activism; general meeting; corporate governance; Shareholder Rights Directive.

JEL Classification: G34.

1. Introduction

The European Commission has formally pursued modernizing and harmonizing shareholder rights in the European Union (EU) for close to a decade. Its May 2003 Action Plan stated that shareholder engagement at company general meetings was a particular priority, and set out to remove the obstacles that prevented cross-border shareholders in particular from exercising their participation rights (European Commission 2004). The Shareholder Rights Directive 2007/36/EC (the Directive) was finally adopted in July 2007, introducing minimum standards in shareholder admission to meetings, the dissemination of meeting-related information, proxy allocation and distance voting, and participation rights in terms of shareholders asking questions and tabling proposals of their own. This pro-shareholder tendency has been further deepened with the onset of the Global Financial Crisis, with the European Commission (2011) issuing a Green Paper on the European corporate governance framework and the governance role of institutional investors, and member states updating their corporate governance codes to better accommodate shareholder voice.

Empirical research on the role and benefits of shareholder engagement in Europe nonetheless remains limited, largely due to data availability constraints. There is ample evidence that in the US, shareholder activism both at general meetings (e.g. Ertimur et al. 2010; Renneboog and Szilagyi 2011) and behind the scenes (e.g. Bradley et al. 2010; Greenwood and Schor 2009) plays a useful role in addressing managerial agency problems. The European Commission (2006) and Hewitt (2011) only provide descriptive analyses of shareholder participation at European general meetings. European shareholder proposals are examined by Cziraki et al. (2011), and for the UK and the Netherlands by Buchanan et al. (2012) and De Jong et al. (2006), respectively. Shareholder interventions outside general meetings are investigated by Armour (2008), Becht et al. (2009) and Girard (2009).

This paper is the first to provide a comprehensive analysis of shareholder voice at European general meetings. We examine 42,170 management proposals and 329 shareholder proposals submitted to general meetings in 17 European countries during the period between 2005 and June 2010. We seek answers to the following questions:

- (i) Why and under what conditions do shareholders voice governance concerns by refusing to support management proposals?
- (ii) Why and under what conditions do firms get targeted by shareholder proposals?
- (iii) What drives the level of voting support attracted by these shareholder proposals?

We answer these questions by investigating the impact of not only meeting, proposal and firm characteristics, but the various regulatory conditions that have been argued to affect shareholder participation at general meetings. Our results indicate that the Directive points to the right direction in enabling shareholder engagement. While shareholder dissent at European general meetings remains limited, there is evidence that it tends to be well-placed. The level of dissent over management proposals is predominantly driven by the proposal characteristics, with shareholders mostly objecting to the adoption of anti-takeover devices and executive compensation. Shareholder proposals are most likely to be submitted to large and poorly performing firms, which indicates that as in the US, the sponsoring shareholders have the “correct” objective of disciplining management. The shareholder proposals targeting anti-takeover devices are by far the most successful, again showing that the voting shareholders seek to discipline management, through exposure to the market for corporate control.

Shareholder dissent has increased somewhat over time, with management proposals enjoying less and shareholder proposals enjoying more support. However, management proposals still attracted an average 96.3 per cent of the votes cast in 2010, and there is no evidence that the number of shareholder proposals tabled has increased at all, all else equal. This still-limited scope of shareholder participation can partly be explained by the concentrated

ownership structures of Continental European firms in particular. The presence of controlling-interest shareholders, as well as deviations from the one share-one vote principle, lead to “rational apathy” among minority shareholders. We find that investment funds and other pressure-insensitive institutional investors are prepared to vote against management proposals, and their own proposals enjoy relatively strong support from other shareholders. Nonetheless, they remain – and post-crisis have increasingly been – criticized for not being sufficiently engaged by both regulators and academics (European Commission 2011; McCahery et al. 2010).

We confirm that national regulation plays a very significant role in galvanizing shareholders, lending strong support to the provisions of the Directive. Dissent against management proposals is significantly greater when shareholders can freely trade their shares and exercise their voting rights, including when there is no share blocking, record date restrictions are reduced, and electronic voting is permitted. Shareholder proposals become more frequent when minimum ownership requirements are reduced, and shareholders are better able to access information and communicate with other shareholders. The voting support for shareholder proposals is also increased by the abolishment of share blocking.

Finally, we find critical evidence that shareholders ultimately use their votes to address governance concerns at the firm-level when concerned about the general governance and institutional environment. All else equal, management proposals are actually met with less dissent in countries that are ranked highly in the composite index we construct from the World Bank’s Worldwide Governance Indicators. The probability of shareholder proposals increases in both the World Bank index and the quality of minority investor protection as measured by Djankov et al. (2008). The actual success of these proposals, however, is related negatively to both these measures. This implies that allowing shareholders to raise their voice at general meetings is a part of good governance, and the shareholders themselves are discerning enough that they will not do so unless deemed necessary. We conclude that not only is the Shareholder Rights Directive a move in the right direction, national regulators should go beyond the minimum standards introduced by the Directive to support shareholder rights.

The remainder of this paper is outlined as follows. Section 2 reviews the theoretical and empirical evidence on shareholder engagement at general meetings, and discusses the provisions of the Directive. Section 3 provides a detailed discussion of our sample, and observes recent developments in shareholder participation at European meetings. The multivariate analysis of proposal submissions and their outcomes follows in Section 4. Section 5 finally allows for some concluding remarks.

2. Background

2.1. The role of shareholder engagement in corporate governance

Shareholder interventions in corporate governance can be placed on a continuum of responses that shareholders can give to concerns over managerial performance and governance quality. At one extreme, shareholders can simply vote with their feet by selling their shares. At the other extreme is the market for corporate control, where investors initiate takeovers and buyouts to bring about fundamental corporate changes (Gillan and Starks 2007).

The role of shareholder interventions as a disciplinary mechanism has historically been widely debated. Bebchuk (2005) argues that it has an important role in mitigating the agency problems associated with managerial decisions. Harris and Raviv’s (2010) theoretical paper agrees, by showing that when agency concerns are exacerbated in the firm, it is always optimal that shareholders seek control over corporate decisions. Opposing arguments nonetheless

remain, especially in the legal literature. Lipton (2002) and Stout (2007) argue that shareholders can be beset with conflict of interest motivations, or be simply too uninformed to make effective governance decisions. Bainbridge (2006) goes as far as claiming that activist shareholders can outright damage the firm by disrupting the authority of the board of directors, and infers that shareholder voice should actually be restricted.

Despite these concerns, regulators have actively promoted shareholder engagement at company general meetings since the onset of the Global Financial Crisis. Indeed, Masouros (2010) argues that there is a clear pro-shareholder tendency around the world, despite marked differences in national corporate governance regimes. The United States (US) led the charge with the adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010, and the subsequent measures taken by the Securities and Exchange Commission (SEC) to (i) introduce say-on-pay and say-on-golden parachutes provisions, (ii) permit shareholder proposals on CEO succession, and (iii) allow certain shareholders proxy access for director nominations, subject to majority consentⁱ. The Directive was adopted in 2007 so it actually predates the crisis, but it also promotes shareholder voice at general meetings. Many European countries have since updated their corporate governance codes not only to transpose the Directive but to implement further reformsⁱⁱ. Governance codes have also been updated in Nigeria, the Philippines and the United Arab Emirates, among many others.

The recent US literature implies that efforts to promote shareholder engagement at company general meetings point to the right direction. Ertimur *et al.* (2010) and Renneboog and Szilagyi (2011) show that shareholder proposals submitted to meetings tend to target firms that underperform and have poor governance structures. The authors find no evidence of systematic agenda-seeking by activists, as well as show that the voting shareholders tend to only support proposals with discernible control benefits. They also argue that the control benefits of shareholder interventions are at least partly realized from the reputational pressure imposed on management, rather than the interventions themselves. Indeed, Buchanan *et al.* (2012) find that firms targeted by shareholder proposals are subsequently more likely to replace their CEOs and elect independent board chairmen. Each of these studies report that shareholder interventions with clear control benefits are met with positive market reactions.

The empirical evidence on the benefits of behind-the-scenes interventions circumventing general meetings is decidedly more mixed. In the US, pension funds shifted towards private negotiations with management in the early 1990s, although their interventions are relatively non-controversial despite some concerns (Woitdke 2002). Private engagement by hedge funds and other investment funds has been a much more contentious issue. Hedge funds are well-known to rely on controversial activist strategies, whereby they take positions in underperforming firms and target management directly. A source of concern has been that these interventions may push towards short rather than long-term gains, resulting in investment inefficiencies and excessive leverage (Becht *et al.* 2009; Bradley *et al.* 2010; Brav *et al.* 2008; Clifford 2008; Greenwood and Schor 2009; Klein and Zur 2009).

Empirical research on the role and benefits of shareholder engagement in Europe remains relatively rare. Buchanan *et al.* (2012) compare shareholder proposals submitted to general meetings in the US and the UK, and find that while there are systematic differences in the proposal objectives, the sponsor identities as well as the voting outcomes, the target firms tend to be poorly performing in both countries. This is confirmed by Cziraki *et al.* (2011), who examine shareholder proposals submitted in both the UK and Continental Europe. The authors also highlight, however, that shareholder interventions at European company meetings are not met with positive market reactions and remain relatively rare. Indeed, De Jong *et al.* (2006) find no evidence at all of proposals submitted by shareholders to Dutch meetings, and even report little shareholder opposition to submissions made by management.

A few other studies report evidence on shareholder interventions outside general meetings. Girard (2009) studies activist strategies in France, and finds that civil lawsuits are the preferred method of activists engaging firms over governance concerns, and that this particularly aggressive strategy is also the most likely to succeed. Armour (2008) develops a taxonomy of shareholder activism in the UK, and conversely finds that informal private and public enforcement is significantly more prevalent than formal enforcement. Becht *et al.* (2009) examine the strategies of a single UK investor, the Hermes UK Focus Fund, and confirms that the fund predominantly pursues behind-the-scenes negotiations with management. The authors attribute the success of this strategy to the credible threat that if management refuses to negotiate, the fund will call an extraordinary meeting, with the looming prospect of a proxy fight. The credibility of this threat is underpinned by the fact that unlike in the US, proposals that pass the shareholder vote are legally binding in the UK, as in most of Europe, and shareholders can remove directors by an ordinary proposal.

2.2 Participation at European general meetings

General meetings are the formal forum where firms present relevant matters to shareholders, and where shareholders vote upon these matters and put questions to management. However, shareholder absenteeism remains significant in much of Europe. In the market-oriented corporate governance regime of the UK, the average turnout rate is 68 per cent on average (Hewitt 2011), while the turnout of companies' free float – shares not held by managers, directors or controlling shareholders – is 40-52 per cent (European Commission 2006). In the stakeholder-oriented governance regimes of Continental Europe, shareholders are far less engaged. Turnout rates are less than 60 per cent on average and below 50 per cent in Belgium, Denmark, Norway and Switzerland. The gap is even more pronounced in the turnout of companies' free float, which stands at only 17 per cent in France, 10 in Germany and 4 in Italy.

[Insert Table 1 about here]

The obstacles that limit shareholder engagement at European company meetings have long been part of the dialogue on the future of European corporate governance. Zetzsche (2008) argues that low turnout rates in Continental Europe are partly driven by concentrated ownership structures, which have historically remained in place due to poor shareholder protection (La Porta *et al.* 1998; Martynova and Renneboog 2008). Dominant shareholders have strong incentives to participate and vote at meetings, which should technically boost turnout levels. However, their presence exacerbates “rational apathy” among minority investors, i.e. the perception that their vote would make little difference. Indeed, while US firms tend to have widely dispersed ownership structures, their average turnout rate is 82 per cent. Ownership is slightly more concentrated in the UK and significantly more concentrated in Continental Europe. Of UK listed firms, 63 per cent are regarded as being widely held, and the typical voting block is twice the size of that in the US, at around ten per cent. In contrast, the largest voting blocks often constitute controlling interest in Continental Europe, reaching 20 per cent on average in France, 44 in the Netherlands, and 57 in Germany (Becht and Mayer 2001; Faccio and Lang 2002; Goergen and Renneboog 2001). The types of blockholders present are also quite different. Blockholders in the US and the UK tend to be corporate insiders and institutional investors (Becht 2001). In contrast, 50-60 per cent of Continental European firms are effectively owned by families, and many are controlled by banks that both sit on the board and extend their voting power by voting the shares deposited with them (Barca and Becht 2001; Faccio and Lang 2002; Franks and Mayer 2001; La Porta *et al.* 1999; Nibler 1998)ⁱⁱⁱ. Table 1 shows that

Continental European firms also often deviate from the one share-one vote principle by granting multiple voting rights, introducing voting right and ownership ceilings, and creating pyramidal and cross-ownership structures^{iv}.

[Insert Table 2 about here]

The more immediate concern of European regulators is that due to a variety of reasons, minority shareholders in Continental Europe must pay significant costs to exercise their participation rights, without enjoying the economies of scale that concentrated owners do. These costs include not only procedural but information and decision-making costs. The European Commission (2006), the OECD (2007) and Georgeson (2008) report that the main impediments to shareholder engagement in Europe have been (i) limited access to information about upcoming and past meetings; (ii) limited access to meetings e.g. through share blocking, which requires participating shareholders to deposit their shares; (iii) restrictions on proxy allocation and distance voting; and (iv) restrictions on shareholder engagement, including the right to ask questions, call general meetings, and submit shareholder proposals. A summary of these impediments, as reported by the pre-Directive period in these studies, is shown in Table 2.

Cross-border investors find the procedural and information costs of meeting participation particularly burdensome. Cross-border investment has been actively stimulated by the EU to create integrated financial markets, and has now reached over 40 per cent of market capitalization on average (FESE 2008). However, foreign attendance at general meetings remains poor. Foreign investors typically hold their shares through accounts with securities intermediaries, which in turn hold accounts with other intermediaries and central securities depositories. To vote *in absentia*, they must go through global custodian banks, or their proxy vendors, which in turn must engage proxy-related services from local market subcustodians (OECD 2011). The European Commission (2006) argues that overall, the administrative costs of cross-border voting are twice the costs of domestic voting, and are largely prohibitive for foreign investors.

2.3 The Shareholder Rights Directive

The impediments to shareholder participation at general meetings were widely recognized during the public consultation launched by the European Commission in 2004, and subsequently formed the motivation behind the adoption of the Shareholder Rights Directive (Directive 2007/36/EC) in July 2007.

The Directive expressly states that effective shareholder control is a prerequisite to sound corporate governance and should, therefore, be facilitated. Its declared objective is “to strengthen shareholders’ rights, in particular through the extension of the rules on transparency, proxy voting rights, the possibility of participating in general meetings via electronic means and ensuring that cross-border voting rights are able to be exercised”. The key provisions of the Directive include:

- a minimum notice period of 21 days; this can be reduced, if shareholders agree in a public vote, to 14 days if electronic voting is permitted;
- internet publication of the convocation and any documents submitted to the GM at least 21 days before the GM;
- abolition of share blocking, and introduction of a record date that may not be more than 30 days before the GM;
- abolition of obstacles to voting by post and electronic voting;
- right to ask questions and obligation on the part of management to answer questions;

- abolition of constraints on eligibility to act as proxy holder and of excessive requirements for the process of proxy appointment;
- the possibility that shareholders put items on the agenda and table draft resolutions for items on the agenda, with a minimum ownership requirement that does not exceed five per cent of the company's share capital;
- disclosure of voting results on the firm's internet website.

While the Directive has generally been regarded as a move in the right direction, it remains criticized for imposing only minimal standards that still fail to ensure a level playing field for all shareholders. For example, Davies *et al.* (2011) argue that cross-border shareholders often remain uninformed about future meetings, and their votes are often not exercised, or exercised by others, due to the intermediaries they go through. Masouros (2010) adds that the provision on shareholder proposals is “empty letter”, because the five per cent ownership threshold is still highly prohibitive, and shareholders are unable to communicate and form coalitions due to a lack of infrastructure for proxy solicitation and even access to share registries. Many countries even dragged their feet over the transposition of the Directive itself. Although the 27 EU members were required to transpose by August 2009, 14 did not complete the process by January 2010, and the European Commission threatened action against nine of them in April 2010 by issuing reasoned opinions. In some cases, this may well have reflected government concerns that the Directive was unduly facilitating shareholder engagement and activism at general meetings.

2.4 Shareholder activism at European general meetings

Shareholder activism in the form of tabling proposals has historically been a prominent feature of US general meetings. Shareholders in the US are not allowed to call extraordinary meetings unless the corporate charter or bylaws allow otherwise. However, each year between 1996 and 2005, an average 14.1 per cent of S&P 1500 firms were targeted by shareholder proposals, peaking at 21.3 per cent in 2003 (Renneboog and Szilagyi 2011). This largely owes to SEC's fairly liberal Rule 14a-8 governing shareholder proposals, which allows submissions to be made by any shareholder owning USD2,000 or one per cent of voting shares.

While there is now ample evidence that shareholder proposals play a useful and relevant role in US corporate governance (Buchanan *et al.* 2012; Ertimur *et al.* 2010; Renneboog and Szilagyi 2011), the Directive stopped short of truly encouraging proposal submissions in Europe. The five per cent minimum ownership requirement is indeed quite stringent and, as also shown in Table 2, had already been met by all EU member states except Belgium. This cautious approach may be due to ongoing concerns that shareholder activism can come at a cost. European policymakers also often argue that US lessons on the governance role of shareholder proposals may not be readily applicable in the European context. Firstly, proposals in the US are non-binding even if they pass the shareholder vote, whereas they are legally binding in Europe with some exceptions (notably the Netherlands). Secondly, cross-country variations in the regulation of proxy solicitation may affect the incentives of and costs borne by activist shareholders. And thirdly, the market-oriented Anglo-American governance model is indeed quite different from the stakeholder-oriented regimes of Continental Europe. As has been discussed, minority shareholders enjoy much better protection under US and UK common law, and are better incentivized and equipped to challenge management in the absence of controlling-interest shareholders.

Masouros (2010) describes the procedural barriers that are likely to prevent shareholder proposals from becoming more prevalent in both the UK and Continental Europe. Activists must build sufficient support for their proposals to pass, and even form coalitions just to make submissions if they do not meet the stringent ownership requirements. However, potential allies

are difficult to identify^v. For example, UK shareholders must hold ten per cent equity to order an inquiry into who the ultimate shareholders are, German shareholders do not have the right to inspect share registries at all, and registries do not even exist in the Netherlands because all listed shares are bearer shares. As shown in Table 2, the deadlines set for proposal submissions can also be fairly tight for activists to reflect on the agenda and submit additions. Finally, shareholder proposals in the UK, as in the US, can be included in the firm's proxy documents and distributed to shareholders at no major cost to the activist. In other countries, however, proxy solicitation at the firm's expense is prohibited.

It is important to remind that in Continental Europe, the investor base that is likely to submit and lend voting support to shareholder proposals is relatively narrow. Foreign shareholders tend to be institutional investors, but they often face prohibitive high voting costs. Of domestic institutions, pension funds, insurance firms and investment funds hold 41 per cent of equities in the UK, but only 29 in France, 14 in Germany and Italy, and 8 in Spain (FESE 2008). Many of these investors also pursue predominantly passive investment strategies, preferring to vote with their feet by selling their shares. McCahery *et al.* (2010) find that 80 per cent of institutional investors would consider selling rather than engaging, and while 66 would vote against management to address governance concerns, only ten would voice their concerns publicly. Indeed, institutional investors have often been criticized post-crisis for their passivity and not doing enough due diligence.

3. Analysis of management and shareholder proposals

In order to investigate the scale and scope of shareholder engagement and dissent at European general meetings, we now examine both management and shareholder proposals submitted in 17 European countries during the period between 2005 and June 2010. While comprehensive data on meeting attendance rates are largely inaccessible, we can investigate (i) what drives the level of shareholder dissent over management proposals; (ii) why firms get targeted by shareholder proposals; and (iii) what drives the level of voting support attracted by shareholder proposals. We relate these issues not only to proposal and firm characteristics, but to country-level regulation potentially affecting shareholder participation at company meetings.

Data from the meetings were gathered from the Manifest and International Shareholder Services (ISS) databases for the periods 2005-2007 and 2008-2010, respectively. Each database covers, although not exhaustively, firms that are members of the main market indices in each sample country: ATX20 (Austria), BEL20 (Belgium), OMXC20 (Denmark), OMX-H25 (Finland), SBF120 (France), DAX30 and MDAX50 (Germany), ASE20 (Greece), ISEQ General (Ireland), FTSE MIB and MIDCAP (Italy), LuxX (Luxembourg), AEX25 and AMX25 (Netherlands), OBX25 (Norway), PSI20 (Portugal), IBEX35 (Spain), OMXS30 (Sweden), SMI20 (Switzerland), and FTSE350 (UK). The total number of firms in the combined sample is lower and increases over the sample period, for several reasons. Firstly, the coverage of Continental European firms by Manifest in the early years of the sample period is limited^{vi}. Secondly, some firms in the national indices are incorporated in other jurisdictions. And thirdly, we only include proposals with available outcomes (either vote count or pass/fail) in the analysis^{vii}. Missing and ambiguous data on vote counts, the classification of proposal objectives and the sponsors of shareholder proposals (not reported in either database) were hand-collected and double-checked using Factiva and company filings.

3.1 Number of proposals

Table 3 shows the number of proposals and general meetings covered in our combined sample over the sample period between 2005 and June 2010. The table shows that we have proposal data from 3,484 general meetings, including 3088 annual meetings and 396 extraordinary meetings of 921 firms.

[Insert Table 3 about here]

At the sample meetings, 42,170 management proposals were put to shareholder vote^{viii}. There is significant variation in the number of proposals per meeting across countries. In Italy, the average meeting had just four management proposals, compared with 20 in France and Sweden. The average number of proposals per meeting is 12.1 across the whole sample, increasing over time from 10.7 in 2005 to 13.0 in 2010.

It is clear from Table 3 that shareholder proposals remain relatively rare in Europe. For the 3,484 general meetings we find only 329 shareholder proposals, submitted at 136 meetings of 87 firms. Most of these proposals were submitted in Germany (82), France (57), Denmark (41) and the UK (34). However, the countries where firms were most likely to be targeted are Portugal (22 per cent of general meetings) and the Nordic countries of Finland (31), Sweden (21), Denmark (15) and Norway (11). We find no shareholder proposals submitted to the general meetings held in Greece (75 meetings), Luxembourg (33) and Spain (161). Table 3 shows that the frequency of shareholder proposals increased over time, indicating a gradual rise in activist interventions in Europe, with 0.3 per cent of general meetings targeted in 2005, 2.3 in 2006, 4.1 in 2007 and 4.7 in 2010.

To put these findings into context, it is useful to revisit Renneboog and Szilagyi's (2011) analysis of shareholder proposals submitted in the US to S&P1500 firms. The authors examine an earlier sample period of 1996 to 2005, and find that of 10,590 general meetings, 1,494 (or 14.1 per cent) were targeted with 2,436 proposals. The percentage of meetings targeted also increased in the US over time, from 11.2 per cent in 1996 to 16.1 in 2005, with a peak of 21.3 in 2003. These findings clearly show that on the whole, the use of shareholder proposals to confront management has historically been much more prevalent in the US.

3.2 Management proposals: characteristics and voting outcomes

Table 4 reports the number and voting success of both the management and shareholder proposals stratified by a variety of proposal characteristics. Voting success is defined as the number of votes cast in favor divided by the total number of eligible votes. Eligible votes include abstentions, because any vote not cast in favor can be interpreted as shareholder dissent. The table shows that the vote counts are available for 38,564 management proposals and 251 shareholder proposals. For the remaining proposals, which include most of the proposals submitted in Denmark, Finland and Sweden, only the pass/fail outcomes are known.

[Insert Table 4 about here]

Panel A of Table 4 shows little objection to management proposals in all 17 countries, with a mean 96.3 and median 99.3 per cent of the total votes. In fact, only 255 of the sample proposals, submitted to 167 meetings, failed to pass the shareholder vote. The voting outcomes were the weakest in France (93.7 per cent), Ireland (95.8) and the Netherlands (96.4). Interestingly, they were the strongest in Denmark (100 per cent), Sweden (99.2) and Finland (98.9), which may indicate that firms in these countries withhold vote counts unfavorable to management. It is notable, however, that activist interventions were among the most prevalent

in these same countries. Hewitt (2011) reports that in the US, management proposals achieve an average 93.2 per cent of the votes.

Panel B of the table provides further evidence that European shareholders tend to vote in line with management. Voting support was 96.7 per cent on average when management recommended a vote in favor, and a respective 88.4 and 11.8 per cent in the rare cases when it made no recommendation on a proposal or recommended a rejection^{ix}. Panel C shows that the voting outcomes were comparable in annual and extraordinary meetings.

There is some evidence in Panel D that voting dissent is on the rise at European general meetings. The average voting support for management proposals declined from 97.6 per cent in 2005 to 96.3 in 2010 in the sample – in fact, 215 of the 255 failed proposals were submitted in the latter half of the sample period. Importantly, Panel E and F show that public opposition by shareholders to management goes at least some way in swinging voter sentiment on management proposals. The votes in favor fell to 94.3 per cent on average when a shareholder proposal was presented simultaneously, and 93.5 per cent when management had actually been defeated already at a previous meeting, i.e. a management proposal had failed or a shareholder proposal contested by management had passed.

The final Panel G of Table 4 shows that the voting outcomes on management proposals are strongly affected by the proposal objectives. We classify both management and shareholder proposals into mutually exclusive categories: (i) operational and routine issues; the (ii) election, (iii) discharge from liability or (iv) removal of directors; (v) board governance; the (vi) adoption or (vii) repeal of anti-takeover devices; (viii) voting and disclosure issues; (ix) executive compensation; (x) capital authorizations; (xi) corporate restructuring, (xii) dividend policy, and (xiii) social issues. The proposals classified as being on director removals and dividend policy were all shareholder proposals. Management proposals on dividend and income allocation are part of the regular course of business and therefore classified as operational proposals.

Unsurprisingly, the results show that of the various types of management proposals, the routine operational proposals enjoyed the most voting support, with an average 98.5 per cent of the votes. These include proposals to approve annual accounts and audit reports, dividend and income allocation, article amendments, and auditor appointments. Proposals on board governance and the election and discharge of directors also received more than 97 per cent of the votes.

Evidence of shareholder dissent was strongest for proposals on executive compensation and anti-takeover devices. Compensation-related submissions received only 91.7 per cent of the votes, while proposals to adopt provisions blocking potential takeover attempts received 76.2 per cent. This latter result is unsurprising. The market for corporate control facilitates managerial accountability to minority shareholders, and takeover bids generate high shareholder returns in the range of 25-35 per cent even in Europe (Martynova and Renneboog 2008 2011a)^x.

3.3 Shareholder proposals: characteristics and voting outcomes

Table 4 clearly shows that shareholder proposals submitted to European firms do not attract a great deal of voting support. The average proposal received 35.3 per cent of the votes, although Panel A shows substantial variation across countries: the votes ranged from 11.8 per cent in Germany and 15.2 in Switzerland to 75.1 per cent in Finland and 86.3 in Portugal. Some of these country outcomes are driven by small sample sizes and limited diversity in the proposal objectives and types of proposal sponsors. For example, 12 of the 17 Finnish proposals were submitted by the Finnish government, which has a competitive advantage in proxy solicitation, and sought the establishment of a nominating committee on the board. Similarly, while 24 of

the 25 Portuguese proposals actually passed, 19 were sponsored by controlling owners such as firms, banks and wealthy individuals, and 18 were actually supported by management. Possibly due to such issues, Panel D of the table shows no discernible trend in the voting success of shareholder proposals over time.

Table 4 confirms that the shareholder proposals supported by management enjoyed very strong voting success. All 34 management-approved proposals passed the shareholder vote, whereas those opposed by management received only 26.5 per cent support. Once again, we find that shareholder dissent is greater if there is a history of public opposition to management: shareholder proposals attracted an average 84.9 per cent of the votes when management had already been defeated at a previous meeting. Panel C confirms that the voting outcomes were comparable at annual and extraordinary meetings.

Panels G and H finally stratify the number and success of shareholder proposals by proposal objective and the type of sponsoring shareholder. Panel G reports that a third of the proposals nominated new directors or sought to remove existing ones, and another fifth targeted the quality of board governance. These submissions attracted substantial support, at a respective 49.7, 27.6 and 46.1 per cent of the votes on average. Submissions targeting anti-takeover devices were relatively rare in the sample, but they also enjoyed a significant 40 per cent support. Conversely, proposals calling for restructuring of the target firm and capital and dividend changes received only 18.9, 8.5 and 6.6 per cent of the votes, respectively.

Panel H shows that of the proposal sponsors, governments enjoyed very significant voting support. Submissions were made by the Finnish, French, German, Portuguese and Swedish governments, and received an average 82.3 per cent of the votes. Affiliated companies and banks similarly attracted 65.9 and 94.2 per cent of the votes on average. However, 14 of the 23 company proposals and two of the three bank proposals were submitted by controlling owners and supported by management.

A particularly important finding is that the submissions made by institutional activists enjoyed considerable success. Aside from individual investors, investment funds were the most prolific proposal sponsors with 30 per cent of all submissions. They also attracted an average 51.3 per cent voting support, and 40 per cent of their proposals passed despite opposition from management. Pension funds and shareholder associations received 30.8 and 37.3 per cent of the votes, respectively. These are critical results, because they show that traditionally passive minority shareholders are in fact receptive to institutional interventions in Europe. Investment funds sponsored the most proposals in the three biggest European markets, the UK (28), France (22) and Germany (12). They mostly sponsored board-related proposals, often nominating or seeking the removal of existing directors^{xi}, but they also targeted anti-takeover devices and sought restructuring of the target firm.

3.4 Shareholder proposals: comparison with the US

To provide a comparison of the characteristics and voting success of European shareholder proposals, Table 5 reports details on the 2,436 US proposals examined in Renneboog and Szilagyi (2011) over the period between 1996 and 2005.

[Insert Table 5 about here]

The table suggests that shareholder proposals receive similar voting support in Europe and the US, at an average 35.3 and 33.8 per cent of the votes, respectively. However, the success of US submissions is in fact greater. On one hand, practically all US submissions were opposed by management, with comparable proposals achieving only 26.5 per cent of the vote in Europe. On the other, the US sample ends in 2005, the first year of the European sample. The table

shows that the support attracted by US proposals had actually increased over time, to 37.9 per cent by 2005.

Panel A of Table 5 shows that US proposals most frequently target anti-takeover devices, followed by executive compensation and board quality. Taken together, these constitute 75 per cent of all submissions compared with 30 in Europe. This is largely because proposals seeking personal changes on the board, which are prevalent in Europe, remain largely prohibited under the SEC's Rule 14a-8. Panel A shows that anti-takeover proposals are by far the most successful in the US, with an average 63.2 per cent of the votes in 2005. Such submissions, mostly targeting classified boards, poison pills, golden parachutes and supermajority provisions, remain relatively rare in Europe.

Panel B of Table 5 stratifies the US sample by sponsor type. The results show that as in Europe, shareholder proposals are most frequently submitted by individual investors. However, the similarities are otherwise limited. In the US, the government and firms make neither hostile nor friendly proposal submissions. Investment funds also rarely submit, as they typically prefer to target management behind the scenes, or they need to launch proxy fights if they seek a place on the board (Szilagyi 2010). The panel reveals that in the US, the most prolific institutional proposal sponsors are in fact unions and union pension funds, engaging firms over a wide range of issues including anti-takeover devices, executive compensation, voting issues, and board quality.

An important rule specific to the US market is that, in contrast with European countries, firms have no obligation to implement shareholder proposals even if they pass the shareholder vote. Nonetheless, passed proposals are now implemented in most cases, with Renneboog and Szilagyi (2011) reporting an implementation rate of 70.1 per cent for 2005. Indeed, US firms ignoring passed proposals can suffer in a number of ways, including by drawing negative press, receiving downgrades by governance rating firms, or ending up on CalPERS's "focus list" of poor performers. Ertimur *et al.* (2010) add that the directors of these firms are also less likely to be reelected and more likely to lose other directorships, in many cases due to dissatisfied activists targeting director elections with "just vote no" campaigns (Del Guercio *et al.* 2008).

4. Multivariate Analysis

To gain further insight into the drivers and success of shareholder engagement at European shareholders' meetings, we now use multivariate analysis to examine (i) what drives shareholder dissent over management proposals (Section 4.2); (ii) which firms get targeted with shareholder proposals (Section 4.3); and (iii) what drives the voting success of these activist submissions (Section 4.4).

The analysis includes extensive controls, defined in the Appendix, for meeting, proposal, firm and country characteristics. Firm-level accounting and performance data are taken from the Thomson ONE Banker and Datastream databases, while data on firm ownership are collected from CapitalIQ and company filings.

We use information reported by the European Commission (2006) and Georgeson (2008) to capture country-level differences in shareholder rights potentially relevant to shareholder participation at general meetings. We control for (i) the notice period shareholders must be given before a general meeting; (ii) the number of days before a meeting that the register of shareholders must be closed; (iii) whether shareholders must have their shares deposited i.e. blocked to attend a meeting; (iv) whether firms can issue bearer shares; (v) whether shareholders have the right to ask management questions prior to a meeting; whether shareholders can vote (vi) by proxy and (vii) electronically, and (viii) whether voting can be

concluded by show of hands. For the analysis of shareholder proposals we also control for (ix) minimum ownership requirements that shareholders must meet to table proposals.

Two additional indices are included to capture governance quality at the country level. We employ the anti-self-dealing index of Djankov *et al.* (2008) to measure the quality of protection that minority shareholders enjoy against expropriation by corporate insiders. We finally construct a dynamic annual governance index for the general institutional and governance environment, using the World Bank's six Worldwide Governance Indicators: (i) voice and accountability, (ii) political stability and absence of violence, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption (Kaufmann *et al.* 2010). The six indicators are added up to form a single index for each year.

The country-level shareholder rights and corporate governance variables, with the exception of the annual governance index, are cross-sectional and predate the transposition of the Directive into national laws. While our sample period ends in June 2010, EU member states were required to comply with the Directive by August 2009. However, only six of our sample countries completed the transposition process by January 2010, so the Directive was largely not in force by the 2010 proxy season^{xii}.

4.1 Descriptive statistics

Descriptive statistics on the characteristics of the sample firms are reported in Table 6. Panel A shows that the firms, all constituents of their home market indices, were very large with total assets of €61.0 billion on average and €4.0 billion at the median. The mean (median) market leverage, defined as the value of debt to the market value of assets, was 20.5 (17.5) per cent in the sample. The mean (median) book-to-market ratio was 0.67 (0.49), significantly higher than that in the US sample of Renneboog and Szilagyi (2011), showing that European firms are comparatively undervalued. This is surprising somewhat, because the sample firms had actually outperformed their home market indices in the year up to two months before their general meetings, by 6.79 per cent on average and 0.60 at the median (both significant at the one per cent level).

[Insert Table 6 about here]

Ownership data for the sample firms are shown in Panel B of Table 6. More than 76 per cent of the firms reported shareholdings by insiders, of 6.0 per cent on average but only 0.3 at the median. Holdings by affiliate companies, families and the government were reported by 41, 39 and 8 per cent of the sample firms, with average stakes of 27.8, 28.3 and 0.4 per cent, respectively. Pressure-sensitive institutional investors – which Brickley *et al.* (1988) call banks and insurance firms due to their existing or potential business ties with investee firms – held an average 2.7 per cent in 77 per cent of the sample firms. Pressure-insensitive institutions – pension funds, investment funds and investment advisors – held 32.2 per cent, significantly less than the 49.2 per cent reported for the US by Renneboog and Szilagyi (2011).

The country-level variables are summarized in Table 7 and show an interesting picture. With the exception of Belgium, the sample countries had met the Directive's five per cent ownership requirement for shareholder proposal submissions even before the Directive was transposed. Interestingly, ownership restrictions have not existed at all in the Nordic countries – and Ireland –, which possibly explains why activist interventions have been more prevalent in these countries. As has been mentioned, proposals may be submitted by any shareholder with USD2,000 worth of voting shares in the US.

[Insert Table 7 about here]

The other variables show significant variation across countries. The notice period that had to be given before general meetings was 21 days on average – the maximum prescribed by the Directive –, but it ranged from seven days in Finland to 35 days in France. The record date for the register of shareholders was an average five days before meetings; none of the sample countries exceeded the Directive’s maximum of 30 days, but there was no record date requirement in four countries. Bearer shares, not regulated by the Directive, are permitted in all countries except Finland, Norway and Sweden. In terms of shareholder participation, the drawback of bearer shares is that the ultimate owners are very difficult to identify. Share blocking existed in Southern European countries, as well as Austria, Belgium and Switzerland. Shareholders could be prohibited from requesting information from management prior to meetings in nine of the 17 countries. The voting process itself was also liberalized to varying degrees. Voting by proxy and by electronic means was fully permitted in seven and eight countries, respectively. Voting by show of hands, also not regulated by the Directive, remains allowed in nine countries including the UK – although in controversial cases, the voting rights held by each shareholder can be counted.

Djankov *et al.* (2008) report that the anti-self-dealing index for the sample countries ranges from 0.93 and 0.79 in the UK and Ireland, to 0.21 in Austria and the Netherlands and 0.17 in Spain. The authors confirm the general observation that English common law countries provide much better protection to minority shareholders. The governance index constructed from World Bank data is the highest for Finland, Denmark and Sweden, and the lowest for Greece, Italy, Spain and Portugal. There is some deterioration in the index over time for the countries most affected by the European funding crisis, including Ireland.

4.2 What determines the voting outcomes of management proposals?

The multivariate pooled panel regressions explaining the voting success of management proposals are shown in Table 8. As the dependent variable – the percentage of votes in favor – is between 0 and 1, the logistical transformation $\ln[\text{votes for}/(100-\text{votes for})]$ is applied to create a continuous variable with both negative and positive values.

[Insert Table 8 about here]

The model statistics in Table 8 show that the success of management proposals is predominantly determined by the proposal characteristics. The recommendation of management is the single biggest driver of proposal success. Importantly, however, we confirm that shareholder dissent increases when management is simultaneously challenged with a shareholder proposal or has been defeated at a previous meeting. Once again we find that operational proposals are the most successful, while voting dissent is the strongest over the adoption of anti-takeover devices and executive compensation. The results now show that voting support is limited for social proposals, mostly related to charitable donations and political expenditures. The year dummies in the regressions confirm that shareholder dissent increased somewhat after 2008.

Surprisingly, we find no evidence that the voting outcomes on management proposals are affected by poor firm performance in the form of a high book-to-market ratio or underperformance relative to the home market index. They are strongly determined however by the size of the firm and the composition of the voting shareholders. Management proposals are generally supported by insiders, affiliate firms, governments, and pressure-sensitive institutional investors. However, they are significantly less successful in large, widely held firms with diverse shareholder bases, as well as in firms held by pressure-insensitive

institutional owners. This latter result is particularly important. It confirms that investment funds and other pressure-insensitive institutions are prepared to use their vote to publicly challenge management. It also promises that as institutional ownership increases further in Europe, minority shareholders will become increasingly discerning at general meetings.

Most importantly for European regulators, Table 8 confirms that country-level regulation plays a very significant role in galvanizing shareholders. The voting success of management proposals is significantly lower when shareholders can freely trade their shares and exercise their voting rights, including when (i) record date restrictions are reduced, (ii) bearer shares permit at least some level of anonymity, (iii) there is no share blocking, (iv) electronic voting is permitted, and (v) vote counts cannot be distorted by a show of hands. Interestingly, there is evidence that proxy voting increases rather than decreases support for management proposals – presumably due to the ultimate beneficial owners not giving specific voting instructions. Finally, we find some indication that the general governance environment matters, with management proposals seeing less dissent in countries with a high governance index. On the whole, these results critically demonstrate that the Directive’s provisions are headed in the right direction in terms of enabling shareholder voice.

4.3 Why do firms get targeted by shareholder proposals?

To examine why activist shareholders resort to submitting their own proposals against European firms, we now analyze the probability that a shareholder proposal contested by management is tabled. Table 6 has already provided univariate statistics on the financial and ownership characteristics of target versus non-target firms. These statistics show that target firms tend to be much larger and more levered than non-targets, with a mean (median) asset value of €167.5 billion (€29.6 billion) and market leverage of 26.4 (24.4) per cent. Importantly, activists also tend to target firms that underperform, with a mean (median) book-to-market ratio of 0.86 (0.63). For the US, Renneboog and Szilagyi (2011) demonstrate that target firms also have generally poor governance structures, including anti-takeover devices, ineffective boards and ill-incentivized CEOs. While we cannot replicate their analysis due to a lack of data, these findings uniformly imply that shareholder proposal submissions, in both Europe and the US, are motivated by the “correct” incentive of disciplining management rather than self-serving interests.

Table 6 has also shown some evidence that the activists submitting shareholder proposals first examine the target firm’s shareholder base to see the level of voting support they can potentially attract. Firms significantly owned by insiders and other companies are less likely to be targeted. This is unsurprising, because investors with major control benefits in the firm rarely have the incentive to support a hostile activist. Proposals are more likely to be submitted against state-owned firms, but we have found that the proposal sponsors are often the governments themselves. The univariate results surprisingly show that target firms tend to have more of their equity held by pressure-sensitive and less by pressure-insensitive institutional investors.

The multivariate pooled probit models explaining the probability of management-contested shareholder submissions are shown in Table 9. We find that firms are significantly more likely to be targeted if they have been targeted in a previous year, or management has previously been defeated in a shareholder vote. Importantly, the results confirm our univariate findings that target firms tend to be large and poorly performing. Controlling for firm size, we find no evidence that targets tend to be more levered. This is expected, because large firms have more debt capacity and therefore tend to employ somewhat more leverage.

[Insert Table 9 about here]

The multivariate models regressions fail to confirm that all else equal, shareholder proposals have become more prevalent in Europe over time. This implies that the greater frequency of proposal submissions in the latter part of the sample period is driven by other time-varying factors such as poor firm performance. The regressions show little evidence for the relevance of shareholder composition in the target selection process. There is some indication that state-owned firms are more likely to be targeted, but this is not robust to the inclusion of the country-level variables in Model 4.

Table 9 provides conclusive evidence that like the success of management proposals, the probability of activist interventions is heavily affected by country-level regulation. Proposal submissions become more frequent (i) when entry costs are reduced through lower minimum ownership requirements; (ii) when shareholders have better access to information, including longer notice periods and the ability to request information from management; and (iii) when activists have a better chance of identifying and communicating with the ultimate shareholders, because bearer shares are not permitted. To some extent, this latter assertion is also supported by the positive relation between the probability of proposal submissions and share blocking. Share blocking is a major impediment to shareholder participation at general meetings because it prevents investors from trade their shares. However, the firm's shareholders should reveal themselves in the process, enabling activists to communicate with them.

Finally, we find strong indication that shareholder activism at general meetings largely a function of the corporate governance environment. Table 9 shows that the probability of proposal submissions increases substantially in both the anti-self-dealing index and the general World Bank governance index. This implies that with the protection and empowerment of minority shareholders, which fundamentally encourages equity investment itself, comes the more active involvement of these shareholders in the corporate governance process.

4.4 What determines the voting outcomes of shareholder proposals?

The final Table 10 shows the multivariate pooled panel regressions explaining the voting success of shareholder proposals opposed by management. As before, we apply the logistical transformation $\ln[\text{votes for}/(100-\text{votes for})]$ to the voting outcomes. The regressions contain only 217 observations, as the full set of explanatory variables is only available for 117 target firms.

[Insert Table 10 about here]

The results show that the voting success of shareholder proposals is also predominantly determined by the proposal characteristics. We find that all else equal, the voting shareholders attribute by far the greatest benefits to takeover-related proposals. This is very much line with the findings of Renneboog and Szilagyi (2011) for the US, and confirms that minority shareholders are keen to expose management to takeover threat and reap potentially significant takeover premia. We also confirm that submissions made by investment funds attract particularly strong voting support, along with those made by the government and employees. There is no robust evidence that proposals achieve more support when another proposal has previously passed. However, the votes cast in favor of shareholder proposals clearly increase over time, implying that shareholder dissent at European general meetings is on the rise.

The model statistics show that the firm characteristics have relatively limited explanatory power, and their impact on the voting outcomes is quite sensitive to alternative specifications. As with management proposals, shareholder submissions are less successful when made against large, widely held firms where voting coalitions are more difficult to build.

Surprisingly, however, there is evidence that shareholder proposals also attract less rather than more voting support when the target firm is underperforming. It is similarly interesting that proposal success increases somewhat in ownership by pressure-sensitive but not pressure-insensitive institutions. As expected, insider and company owners tend not to support shareholder proposals.

Table 10 finally confirms that country-level regulation has a major impact on the proposal outcomes. It is expected that voting support increases in the stringency of minimum ownership requirements: proposal sponsors are certain to support their own proposals, and more powerful sponsors should better be able to build voting coalitions. We confirm that the voting shareholders are more likely to support submissions when their shares are not blocked and can therefore be freely traded. It is interesting, however, that proposal success declines in the notice period and increases when proxy voting is allowed. As with management proposals, vote count distortions due to voting by a show of hands increases the voting support recorded.

The most important result is that while good governance increases the probability of proposal submissions, it actually reduces the voting support they achieve. Table 10 shows that the success of shareholder proposals is related negatively to both the protection of minority shareholders and the general governance environment. This latter finding is fully consistent with the negative relationship between governance quality and voting dissent in Table 8. Fundamentally, these results show that while allowing shareholders to raise their voice at general meetings is a part of good governance, they will not feel the need to do so, or indeed support any such initiatives, unless they deem it necessary.

5. Conclusion and policy implications

There is now considerable evidence in the US academic literature that shareholders participating at company general meetings are valuable monitoring agents. In Europe, the empirical investigation of this issue has been complicated by data availability, as well as the fact that European countries are very diverse in terms of ownership structures, legal provisions governing shareholder rights, as well as the monitoring incentives of and costs borne by shareholders. Shareholder absenteeism remains frequent in Continental Europe in particular due to “rational apathy”, and voting dissent at general meetings has increased only marginally in the last decade.

Whether shareholder participation in corporate governance should be facilitated has been subject to heated policy debate around the world. With the onset of the Global Financial Crisis a clear pro-shareholder tendency emerged, and corporate governance codes have been updated accordingly. Nonetheless, regulators continue to drag their feet about truly enabling shareholder voice. The European analysis presented in this paper has confirmed earlier US evidence that shareholder engagement at general meetings is actually a part of good governance. Shareholders tend not to have self-serving agendas and are discerning enough to only intervene at the “correct” firms and when deemed necessary. In fact, there is evidence that they use their voice not simply to discipline underperforming managers, but also to make up for inefficiencies in the broader governance and institutional environment that potentially lead to managerial agency problems and underperformance in the first place.

Ultimately, our results indicate that national regulators in the European Union should go beyond the minimum standards introduced by the Shareholder Rights Directive to support shareholder participation in corporate governance. The Directive’s provisions still fail to ensure a level playing field for all shareholders. The procedural and information costs of cross-border voting remain largely prohibitive and must be further reduced. Communication between atomistic minority shareholders should be enabled, including by promoting registered rather

than bearer shares while easing registration rules, and by reducing and harmonizing ownership disclosure thresholds, perhaps at the 3 per cent already in place in the UK or 2 per cent in place in Italy. Shareholders should also have access to company proxies and face less stringent minimum ownership requirements to table their own proposals. Some proposals may even be made routinely put to shareholder vote to reduce the need for shareholder intervention, as has been the case for some form of say-on-pay not only in the US and the UK, but in Belgium, Denmark, Italy, the Netherlands and Sweden, among others. These are of course only some of the issues that regulators must consider, and a transition from soft to hard law may be commendable.

Our bottom-line conclusion is that the rules governing shareholder engagement at European general meetings should be further relaxed and harmonized. Minority shareholders are useful monitoring agents, and we have found that criticism that they might abuse their rights is exaggerated. It is critical to point out that beyond helping to address the managerial agency concerns highlighted by the Global Financial Crisis, the harmonization of shareholder voice would also aid the European Commission's declared objective of deepening equity market integration within the EU. The fundamental purpose of integration is to create liquid markets that bring down financing costs for European firms. However, shares will always trade at a discount if investors cannot freely exercise the voting rights attached to them. Market liquidity will also continue to be hindered by the persistence of concentrated ownership structures, which have historically remained in place in countries where shareholders have been hesitant to diversify due to restrictions on the rights of minority shareholders.

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Table 1. The use of control-enhancing mechanisms

This table presents control-enhancing mechanisms used by European companies. The percentages show the percentage of listed firms examined that use each mechanism; where percentages are not shown, the mechanism is not permitted. *Multiple voting rights shares* are shares giving different voting rights based on an investment of equal value. *Non-voting shares* are shares that carry neither voting rights nor special cash flow rights. *Non-voting preference shares* are shares that carry special cash flow rights but no voting rights. Pyramidal structures are chains of companies, where an entity (a family or a company) controls a company that in turns controls another company. *Priority shares* are shares holding powers of decision or veto rights, irrespective of the proportion of equity holding. *Depository certificates* are financial instruments issued to represent underlying shares, which are held by a foundation that administers the voting rights. *Voting right ceilings* are restrictions prohibiting shareholders from voting above a certain threshold. *Ownership ceilings* are restrictions prohibiting shareholders from taking ownership above a certain threshold. *Golden shares* are priority shares issued for the benefit of governmental authorities. *Cross-shareholdings* are structures where companies holds equity stakes in each other. *Shareholders agreements* are formal and/or informal shareholder alliances. Source: *Shearman & Sterling (2007)*.

Country	Multiple voting rights shares	Non-voting shares	Non-voting preference shares	Pyramidal structures	Priority shares	Depository certificates	Voting right ceilings	Ownership ceilings	Golden shares	Cross-shareholdings	Shareholders agreements
Belgium			0%	40%	0%	0%	0%	0%	0%	0%	25%
France	55%	0%	0%	25%	0%		20%	10%	5%	20%	15%
Germany			20%	15%	0%		5%			10%	0%
Greece			5%	15%				20%		0%	5%
Italy		0%	30%	45%	Unclear			30%	20%	5%	40%
Netherlands	42%			11%	11%	21%	0%	0%	0%	11%	5%
Spain			0%	20%			35%	5%	15%	0%	5%
Sweden	80%			65%	0%	Unclear	5%			25%	5%
UK	5%	0%	50%	0%	0%		10%	10%		0%	5%

Table 2. Statutory requirements with respect to general meetings

This table presents statutory requirements with respect to general meetings (GM). *Notice period* is the number of days that must pass between the (last) publication of a convocation and the day of the meeting. *Share blocking* is the number of days before a meeting that shareholders must deposit their shares. *Record date* is the number of days before a meeting that the register of shareholders is closed. *Submit proposals* and *Call EGM* are the minimum ownership required to place items on the agenda of a meeting and call an extraordinary meeting, respectively. *Proposal deadline* is the deadline before a meeting for shareholders to submit proposals. *Proxy representation* shows provision on the appointment of proxies to vote. *s.t.a.* is subject to articles of association. Source: *European Commission (2006)* and *Georgeson (2008)*.

	Notice period	Form of notice	Share blocking	Record date	Submit proposals	Proposal deadline	Call EGM	Proxy representation	Voting by post	Electronic voting	Post-GM dissemination
Belgium	24 days; mailed at 15 days	gazette, local paper, mail	3-6 workdays	s.t.a.; 5 workdays, max.15 days	20%; 5% is advised		20%	may limit to shareholder or spouse		yes	on request
France	35 days, 'notice of call' at 15 days; 15 if takeover	gazette, website plus mail and email	no; shares immobilised at 5 days	3 days	0.5-4%, depends on firm size	25 days; 5 days from notice if takeover	5% to appoint court representative to convene	spouse or shareholder; no permanent	yes	s.t.a.	
Germany	1 month	gazette, mail		21 days	all on agenda; 5%/€500k for new items	10 days from notice	5%	permanent for bearer shares		instruction to proxy representative	register, on request
Greece	20 days	gazette, national paper	5 days	5 days	5%		5%	must submit 5 days before GM			
Italy	30 days; 20 if GM called by shareholders	gazette or paper	s.t.a., min. 2 days	s.t.a., 2 days	2.50%	5 days from notice	10%, lower s.t.a.; not on certain issues	no permanent; restricted at coop banks individual	s.t.a.	s.t.a.	Consob, on request
Netherlands	15 days	national paper or letter if all shareholders known	s.t.a., 7 days	optional for AGM, min. 7 days	1% or €50m	30-60 days	10%, must apply at Amsterdam Court			yes	website, on request
Spain	15 days	gazette and provincial paper	s.t.a., min. 5 days	5 days	5%	5 days from notice	5%	can be restricted by articles up to 1 year	yes	yes	website; no vote count
Sweden	28 days; 14 for some EGMs; max. 6 weeks	gazette and national paper		5 days	all	7 weeks	10%			yes	yes
UK	21 days; 14 days for EGM	post, news services through LSE		48 hrs	5%, or 100 shareholders with GBP100 paid-up shares	6 weeks or when notice given	10%	no obstacles	yes	yes	website, LSE, on request

Table 3. Number of management and shareholder proposals in Europe by country and year

This table shows the number of management and shareholder proposals submitted to firms in 17 European countries between 2005 and 2010. The number of firms the proposals were submitted to is shown in brackets. Source: *Manifest, International Shareholder Services*, own calculations.

	Management proposals (<i>firms</i>)						Shareholder proposals (<i>firms</i>)							
	All	2005	2006	2007	2008	2009	2010	All	2005	2006	2007	2008	2009	2010
All	42,170(3,484)	3,875(363)	4,754(432)	6,118(509)	9,706(802)	8,534(674)	9,183(704)	329(136)	1 (1)	23(10)	79(21)	88(38)	57(33)	81(33)
Austria	623 (72)	37 (4)	40 (5)	85 (9)	164 (21)	129 (16)	168 (17)	5 (4)			2 (2)	3 (2)		
Belgium	1,105 (90)	107 (11)	101 (11)	192 (16)	239 (21)	181 (15)	285 (16)	5 (1)					5 (1)	
Denmark	644 (48)				163 (15)	159 (16)	322 (17)	41 (7)				3 (3)	4 (1)	34 (3)
Finland	929 (59)			1 (1)	241 (20)	336 (19)	351 (19)	27 (18)				11 (6)	8 (7)	8 (5)
France	7,505 (375)	306 (15)	604 (39)	1,062 (46)	1,797 (97)	1,931 (88)	1,805 (90)	57 (28)	1 (1)		21 (8)	11 (5)	15 (9)	9 (5)
Germany	4,328 (337)	389 (37)	486 (35)	632 (50)	1,051 (80)	864 (67)	906 (68)	82 (17)		1 (1)	38 (4)	26 (5)	9 (3)	8 (4)
Greece	519 (75)	6 (1)	23 (4)	46 (8)	138 (15)	160 (27)	146 (20)							
Ireland	1,877 (175)	253 (24)	230 (23)	271 (28)	467 (43)	323 (25)	333 (32)	8 (6)		1 (1)	2 (1)	2 (2)	3 (2)	
Italy	1,287 (318)	137 (29)	84 (18)	146 (33)	284 (73)	260 (68)	376 (97)	4 (4)				1 (1)	2 (2)	1 (1)
Luxembourg	378 (33)	6 (1)	27 (3)	73 (7)	105 (9)	78 (7)	89 (6)							
Netherlands	2,240 (195)	147 (13)	249 (24)	389 (32)	522 (47)	432 (36)	501 (43)	5 (1)			5 (1)			
Norway	739 (66)		16 (3)	23 (3)	238 (23)	203 (19)	259 (18)	8 (7)				3 (2)	1 (1)	4 (4)
Portugal	482 (51)		34 (2)	23 (3)	167 (17)	90 (11)	168 (18)	25 (11)		6 (3)	6 (2)	8 (3)	4 (2)	1 (1)
Spain	1,892 (161)	132 (15)	262 (27)	317 (25)	351 (29)	386 (33)	444 (32)							
Sweden	1,213 (61)		4 (1)		423 (19)	373 (20)	413 (21)	22 (13)				12 (5)	3 (3)	7 (5)
Switzerland	1,127 (106)	62 (7)	166 (17)	162 (18)	312 (29)	203 (17)	222 (18)	6 (4)		3 (1)		1 (1)	1 (1)	1 (1)
UK	15,282(1,262)	2,293(206)	2,428(220)	2,696(230)	3,044(244)	2,426(190)	2,395(172)	34 (15)		12 (4)	5 (3)	7 (3)	2 (1)	8 (4)

Table 4. Votes FOR management and shareholder proposals in Europe

This table shows the percentage votes cast in favor of proposals, taken from the three-way voting results (for/against/abstain). Source: *Manifest, International Shareholder Services*, own calculations.

<i>Proposal type</i>	Management proposals			Shareholder proposals		
	N	Mean	Median	N	Mean	Median
All	38,564	96.3	99.3	251	35.3	23.7
<i>Panel A: Country</i>						
Austria	611	98.5	99.9	5	24.5	1.9
Belgium	1,082	96.6	99.8	4	70.6	74.1
Denmark	21	100.0	100.0			
Finland	466	98.9	99.8	17	75.1	84.9
France	7,382	93.7	98.2	53	36.4	29.1
Germany	4,247	97.4	99.5	82	11.8	2.8
Greece	376	97.0	99.8			
Ireland	1,656	95.8	99.5			
Italy	1,204	98.1	99.8	4	48.6	49.4
Luxembourg	345	98.3	99.9			
Netherlands	2,142	96.4	99.3	5	60.1	67.9
Norway	623	97.5	99.9	8	30.0	16.5
Portugal	409	97.5	99.9	25	86.3	91.0
Spain	1,727	97.8	99.6			
Sweden	111	99.2	100.0	5	36.1	34.0
Switzerland	956	97.2	99.1	5	15.2	0.3
UK	14,955	97.6	99.4	30	36.5	41.7
<i>Panel B: Management recommendation</i>						
For	38,296	96.7	99.4	34	91.3	91.6
None	14	88.4	95.3			
Against	3	11.8	13.3	217	26.5	10.5
<i>Panel C: Meeting type</i>						
Annual	37,226	96.7	99.4	201	35.5	24.1
Extraordinary	1,087	96.8	99.5	50	34.3	16.5
<i>Panel D: Year</i>						
2005	3,696	97.6	99.5	1	7.3	7.3
2006	4,619	97.4	99.4	23	45.7	54.3
2007	5,947	96.7	99.4	79	26.7	2.9
2008	8,527	96.9	99.5	64	31.8	14.7
2009	7,312	96.0	99.2	44	47.5	34.6
2010	8,212	96.3	99.2	40	39.2	26.2
<i>Panel E: Shareholder proposal presented at the meeting</i>						
No	36,868	96.8	99.4			
Yes	1,445	94.3	98.7			
<i>Panel F: Dissent at a previous meeting</i>						
No	35,189	97.0	99.4	235	31.9	16.9
Yes	3,124	93.5	98.7	16	84.9	86.0

Table 4 (continued). Votes FOR management and shareholder proposals in Europe

This table shows the percentage votes cast in favor of proposals, taken from the three-way voting results (for/against/abstain). Source: *Manifest, International Shareholder Services*, own calculations.

<i>Proposal type</i>	Management proposals			Shareholder proposals		
	N	Mean	Median	N	Mean	Median
All	38,564	96.3	99.3	251	35.3	23.7
<i>Panel G: Proposal objectives</i>						
Operational	11,668	98.5	99.7			
Elect directors	9,678	97.0	99.2	66	49.7	42.4
Discharge directors	2,203	97.1	99.4			
Remove directors				21	27.6	15.1
Board governance	1,327	97.9	99.7	52	46.1	43.0
Adopt antitakeover device	102	76.2	76.9			
Repeal antitakeover device	9	95.2	99.1	9	40.0	35.0
Voting and disclosure	497	96.8	98.5	18	26.9	3.8
Compensation	3,014	91.7	96.2	19	25.9	18.7
Capital	8,306	95.9	99.3	4	8.5	5.7
Restructuring	715	94.8	99.5	18	18.9	5.7
Dividends				7	6.6	1.9
Social	439	96.5	97.7			
Other	606			37	23.3	4.1
<i>Panel H: Proposal sponsors</i>						
Pension funds				7	30.8	27.4
Investment funds				76	51.3	46.6
Banks				3	94.2	93.8
Companies				23	65.9	83.8
Employees				20	20.1	17.5
Dissidents				2	26.7	26.7
Shareholder associations				6	37.3	35.0
State				18	82.3	90.9
Individuals/other				96	8.0	2.6

Table 5. Number of shareholder proposals and votes FOR the proposals in the US

This table shows the number of shareholder proposals submitted to the S&P1500 firms in the US by year, issue and sponsor type. Source: *Renneboog and Szilagyi (2011)*.

<i>Proposal objectives</i>	All		Repeal antitakeover		Board governance		Voting and disclosure		Compensation		Restructuring		Other	
	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean
All	2,436	33.8	847	55.1	437	20.1	303	33.1	551	22.4	91	14.5	207	15.3
<i>Panel A: Year</i>														
1996	181	29.4	72	43.8	54	20.8	25	25.7	20	12.5	3	17.6	7	13.8
1997	193	24.7	51	46.8	50	14.6	32	27.5	31	11.5	13	22.5	16	8.2
1998	188	27.7	58	49.7	35	20.1	39	29.4	23	7.9	17	10.3	16	7.9
1999	206	31.1	82	50.6	36	21.3	31	28.2	34	10.8	13	13.2	10	7.2
2000	185	33.3	77	52.7	35	20.2	20	35.1	18	10.6	21	17.0	14	10.4
2001	194	32.2	80	51.9	39	13.9	20	36.0	27	16.5	13	11.2	15	15.9
2002	214	38.6	98	57.9	36	19.1	23	35.7	23	18.1			34	19.3
2003	404	38.6	141	60.7	59	22.0	16	33.9	155	30.1	2	3.2	31	17.2
2004	362	35.0	105	61.4	54	23.7	31	28.8	129	25.2	5	20.8	38	18.9
2005	309	37.9	83	63.2	39	24.2	66	42.7	91	24.7	4	2.8	26	17.7
<i>Panel B: Proposal sponsors</i>														
Pension funds	116	44.1	55	58.9	34	32.6	8	36.6	9	31.0			10	20.0
Investment funds	39	42.6	17	57.5	5	23.7			2	5.9	11	32.8	4	48.3
Companies	2	68.4	2	68.4										
Coordinated investors	168	29.7	68	49.9	33	22.8			19	13.4	48	12.3		
Unions	810	35.6	241	52.8	124	22.5	80	38.4	289	30.1			76	20.0
Socially responsible/religious	112	20.4	10	70.2	48	22.2	2	44.7	44	8.4			8	7.8
Individuals/other	1,189	33.1	454	56.2	193	15.2	213	30.9	188	14.7	32	11.4	109	11.0

Table 6. Financial, performance and ownership characteristics of the sample firms

This table shows descriptive statistics on the financial, performance and ownership characteristics of the sample firms. Targets are defined as those firms targeted with shareholder proposals. The variables are described in the Appendix. The difference in means t-test assumes unequal variances when the test of equal variances is rejected at the 10% level. The significance of the difference in medians is based on Wilcoxon ranksum tests. *, ** and *** denote significance at the 10%, 5% and 1% level, respectively.

	All				Non-targets			Targets			<i>Difference in means</i>	<i>Difference in medians</i>
	N	Mean	Median	Stdev	N	Mean	Median	N	Mean	Median		
<i>Panel A: Financial characteristics</i>												
Assets (€bn)	3543	61.01	4.04	220.10	3426	57.37	3.86	117	167.49	29.61	-110.12 ***	-25.76 ***
Market leverage	3543	20.5	17.8	15.7	3426	20.3	17.7	117	26.4	24.4	-6.1 ***	-6.7 ***
Book-to-market	3543	0.67	0.49	0.67	3426	0.66	0.48	117	0.86	0.63	-0.2 ***	-0.15 ***
Abnormal performance (%)	3543	6.79	0.60	43.30	3426	6.87	0.75	117	4.45	-3.78	2.42	4.53
<i>Panel B: Ownership characteristics</i>												
Insiders	3543	4.60	0.12	11.70	3426	4.71	0.12	117	1.40	0.03	3.31 ***	0.09 ***
Companies	3543	11.55	0	20.04	3426	11.58	0	117	10.52	0.64	1.06	-0.64 *
State	3543	2.14	0	9.64	3426	1.94	0	117	8.02	0	-6.08 ***	0 ***
Families	3543	0.02	0	0.17	3426	0.02	0	117	0.02	0	-0.001	0
Pressure-sensitive institutions	3543	2.08	0.09	4.77	3426	2.06	0.09	117	2.85	0.53	-0.79 *	-0.44 ***
Pressure-insensitive institutions	3543	32.16	29.39	20.90	3426	32.23	29.45	117	30.11	27.66	2.12	1.79 **

Table 7: Country-level shareholder rights and corporate governance

This table shows the country-level variables used in the analysis. The variables are described in the Appendix.

	Sponsor block size	Notice period	Record date	Share blocking	Bearer shares	Pre-rights	Proxy voting	Electronic voting	Show of hands	Anti-self- dealing	Governance index					
											2005	2006	2007	2008	2009	2010
Austria	5	14	0	1	1	0	0	0	0	0.21	9.6	9.8	10.3	10.0	9.3	9.4
Belgium	20	24	5	1	1	0	1	1	0	0.54	7.8	7.8	7.8	7.4	8.0	8.0
Denmark	0	8	0	0	1	1	0	1	0	0.47	10.9	11.2	11.3	11.2	11.1	10.9
Finland	0	7	10	0	0	0	1	1	0	0.46	11.5	11.5	10.9	11.0	11.2	11.1
France	4	35	4	0	1	1	1	1	0	0.38	7.6	7.6	7.4	7.5	7.4	7.6
Germany	5	30	21	0	1	1	0	0	0	0.28	8.9	9.2	9.1	8.8	8.7	8.6
Greece	5	30	5	1	1	1	0	0	1	0.23	4.4	4.3	4.0	3.6	2.8	2.5
Ireland	0	21	0	0	1	1	0	0	1	0.79	9.3	9.5	9.6	9.7	8.9	8.7
Italy	2.5	30	3	1	1	1	1	0	1	0.39	3.7	3.6	3.3	3.4	3.1	3.1
Luxembourg	5	16	5	0	1	1	0	0	1	0.25	9.8	9.9	10.1	10.2	10.2	10.3
Netherlands	1	15	7	0	1	0	0	0	0	0.21	9.9	9.8	9.9	9.8	9.9	9.9
Norway	0	14	0	0	0	0	0	0	0	0.44	10.1	10.1	10.0	10.0	9.9	10.2
Portugal	5	30	5	1	1	0	1	1	1	0.49	6.9	5.9	5.9	6.3	6.3	5.7
Spain	5	30	10	1	1	1	1	1	1	0.17	6.6	5.3	5.2	5.3	5.2	5.3
Sweden	0	30	1	0	0	0	0	0	1	0.36	10.1	10.2	10.5	10.4	10.7	10.6
Switzerland	5	20	5	1	1	0	0	1	1	0.27	10.1	10.3	10.5	10.4	10.2	10.2
UK	5	21	3	0	1	0	1	1	1	0.93	8.4	9.1	8.8	8.5	7.9	8.3

Table 8. Regressions explaining the votes FOR management proposals

The table reports pooled panel regressions. The dependent variable is defined as $\ln(\text{votes for})/(\text{100}-\text{votes for})$, where the percentage votes for are calculated from the three-way voting outcome. The variables are described in the Appendix. Log of assets is the natural logarithm of the book value of assets. T-statistics use robust standard errors with *White (1980)* correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coeff	t-test	Coeff	t-test	Coeff	t-test	Coeff	t-test	Coeff	t-test
<i>Meeting and proposal characteristics</i>										
Extraordinary meeting	0.286	1.97**	0.162	1.11	0.191	1.32			0.007	0.05
Shareholder proposal	-0.566	-2.70***	-0.239	-1.07	-0.310	-1.51			-0.432	-2.36**
Management defeated before	-0.851	-5.43***	-0.709	-4.57***	-0.687	-4.80***			-0.377	-2.78***
Recommendation - none	-1.566	-2.82***	-1.750	-3.15***	-1.746	-3.34***			-2.452	-4.96***
Recommendation - against	-8.159	-16.56***	-8.162	-16.01***	-7.937	-13.00***			-6.988	-9.73***
<i>Proposal objectives</i>										
Operational issues	1.621	8.03***	1.453	7.19***	1.455	7.39***			1.303	6.81***
Elect directors	0.271	1.32	0.126	0.62	0.177	0.89			0.067	0.35
Discharge directors	0.926	3.14***	0.959	3.43***	0.942	3.54***			0.495	1.91*
Board governance	1.385	6.55***	1.252	5.88***	1.139	5.47***			0.692	3.44***
Adopt antitakeover device	-2.898	-10.01***	-2.943	-9.52***	-3.060	-10.46***			-2.675	-10.23***
Repeal antitakeover device	0.158	0.20	0.064	0.08	-0.071	-0.10			0.211	0.32
Voting and disclosure	0.231	1.03	-0.031	-0.14	0.120	0.55			0.004	0.02
Compensation	-1.134	-5.42***	-1.329	-6.34***	-1.279	-6.26***			-1.386	-7.07***
Capital	0.491	2.40**	0.319	1.57	0.360	1.80*			0.322	1.66*
Restructuring	0.619	2.38**	0.615	2.28**	0.603	2.32**			0.740	2.99***
Social	-0.703	-2.93***	-0.833	-3.55***	-0.641	-2.80***			-0.829	-3.79***
<i>Financial characteristics</i>										
Log of assets			-0.243	-11.01***	-0.244	-11.18***	-0.237	-11.73***	-0.213	-10.65***
Market leverage			0.004	1.24	0.003	1.18	0.000	0.00	0.000	0.10
Book-to-market			0.043	0.62	0.015	0.22	0.017	0.31	0.040	0.75
Abnormal performance			0.001	1.06	0.001	1.59	0.001	1.15	0.001	1.42
<i>Ownership characteristics</i>										
Insiders					0.013	4.33***	0.014	5.26***	0.014	5.28***
Companies					0.014	5.84***	0.014	6.11***	0.014	6.23***
State					0.023	4.97***	0.020	5.28***	0.020	5.18***
Families					-0.174	-0.67	-0.247	-1.39	-0.256	-1.55
Pressure-sensitive institutions					0.027	4.10***	0.015	2.41**	0.014	2.38**
Pressure-insensitive institutions					-0.004	-1.99**	-0.005	-2.59***	-0.005	-2.47**
<i>Shareholder rights and corporate governance</i>										
Notice period							0.003	0.13	0.015	0.64
Record date							0.040	4.69***	0.031	3.86***
Share blocking							1.034	4.42***	0.874	4.05***
Bearer shares							-1.498	-6.22***	-1.403	-6.11***
Pre-rights							-0.375	-1.43	-0.522	-2.09**
Proxy voting							1.034	2.50**	1.016	2.49**
Electronic voting							-1.407	-3.72***	-1.412	-3.86***
Show of hands							0.409	1.61	0.423	1.76*
Anti-self-dealing							-0.026	-0.05	0.096	0.21
Governance index							0.159	1.58	0.166	1.67*
2006	-0.158	-1.72*	-0.113	-1.34	-0.141	-1.68*	-0.163	-1.86*	-0.121	-1.35
2007	-0.078	-0.74	-0.043	-0.44	-0.108	-1.07	-0.079	-0.81	-0.041	-0.43
2008	0.018	0.19	-0.013	-0.15	-0.147	-1.67*	-0.112	-1.26	-0.044	-0.51
2009	-0.281	-2.94***	-0.317	-3.30***	-0.513	-5.20***	-0.485	-4.89***	-0.351	-3.70***
2010	-0.134	-1.36	-0.191	-2.01**	-0.392	-4.08***	-0.506	-5.38***	-0.355	-3.88***
Industry dummies		Yes		Yes		Yes		Yes		Yes
Constant	4.219	7.55***	9.227	12.78***	9.252	13.37***	9.649	7.32***	8.315	6.38***
No. of obs	38,313		38,313		38,313		38,313		38,313	
No. of firms	845		845		845		845		845	
F-test	101.23***		97.87***		86.71***		25.95***		82.35***	
R ²	0.132		0.164		0.189		0.131		0.232	

Table 9. Determinants of shareholder proposal submissions

The table reports pooled probit models, where the dependent variable is a dummy equal to one if a shareholder proposal is submitted and zero otherwise. The variables are described in the Appendix. Log of assets is the natural logarithm of the book value of assets. Z-statistics use robust standard errors with *White (1980)* correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4	
	Coeff	Z-test	Coeff	Z-test	Coeff	Z-test	Coeff	Z-test
<i>Meeting characteristics</i>								
Previously targeted	1.257	6.92***	1.251	6.80***	1.227	6.67***	0.956	5.05***
Management defeated before	0.351	2.35**	0.310	2.04**	0.540	3.42***	0.477	2.89***
<i>Financial characteristics</i>								
Log of assets	0.165	5.98***	0.158	5.42***			0.220	5.49***
Market leverage	0.003	1.07	0.005	1.48			0.005	1.41
Book-to-market	0.135	2.20**	0.136	2.20**			0.146	2.30**
Abnormal performance	0.001	0.43	0.001	0.53			0.001	0.65
<i>Ownership characteristics</i>								
Insiders			-0.003	-0.44			-0.001	-0.12
Companies			0.000	0.07			0.003	0.96
State			0.012	3.03***			0.006	1.53
Families			-0.018	-0.12			0.114	0.62
Pressure-sensitive institutions			0.012	1.56			-0.001	-0.09
Pressure-insensitive institutions			0.003	0.81			0.002	0.56
<i>Shareholder rights and corporate governance</i>								
Notice period					0.039	2.64***	0.034	2.05**
Record date					0.010	0.79	0.009	0.58
Share blocking					1.116	2.65***	1.381	2.87***
Bearer shares					-0.911	-4.25***	-0.857	-3.53***
Pre-rights					0.384	1.88*	0.529	2.19**
Proxy voting					0.094	0.27	0.301	0.79
Electronic voting					0.039	0.15	-0.118	-0.41
Show of hands					-0.624	-2.41**	-0.625	-2.17**
Sponsor block size					-0.085	-2.39**	-0.099	-2.28**
Anti-self-dealing					1.571	2.18**	2.218	2.65***
Governance index					0.262	2.96***	0.353	3.53***
2006	0.621	1.60	0.612	1.55	0.554	1.44	0.538	1.34
2007	0.880	2.41**	0.851	2.28**	0.833	2.30**	0.843	2.21**
2008	0.950	2.72***	0.903	2.52**	0.660	1.88*	0.738	1.98**
2009	0.634	1.79*	0.580	1.61	0.516	1.43	0.482	1.26
2010	0.677	1.91*	0.636	1.74*	0.464	1.29	0.495	1.29
<i>Industry dummies</i>								
Constant	-10.384	.	-10.323	.	-10.000	.	-16.327	.
No. of obs	3,450		3,450		3,450		3,450	
No. of firms	866		866		866		866	
Wald χ^2	233.11		247.20		277.40		330.54	
Pseudo R ²	0.228		0.242		0.272		0.324	
Log pseudolikelihood	-394.36		-387.32		-372.22		-345.65	

Table 10. Regressions explaining the votes FOR shareholder proposals

The table reports pooled panel regressions. The dependent variable is defined as $\ln(\text{votes for})/(\text{100}-\text{votes for})$, where the percentage votes for are calculated from the three-way voting outcome. The variables are described in the Appendix. Log of assets is the natural logarithm of the book value of assets. T-statistics use robust standard errors with *White (1980)* correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coeff	t-test	Coeff	t-test	Coeff	t-test	Coeff	t-test	Coeff	t-test
<i>Meeting and proposal characteristics</i>										
Extraordinary meeting	0.457	0.97	0.157	0.34	0.103	0.30			-0.119	-0.30
Proposal passed before	2.519	5.16***	2.120	3.64***	1.405	2.23**			0.808	0.89
<i>Proposal objectives</i>										
Elect directors	0.714	1.47	0.517	0.97	0.721	1.45			0.611	1.12
Remove directors	1.362	1.47	1.276	1.25	1.530	1.42			0.616	1.11
Board governance	0.024	0.05	0.013	0.02	0.126	0.25			-0.188	-0.30
Repeal antitakeover device	1.968	2.55**	1.986	2.93***	2.058	3.51***			1.827	3.04***
Voting and disclosure	0.050	0.12	0.144	0.37	0.132	0.36			-0.067	-0.17
Compensation	0.370	0.68	0.333	0.64	0.386	0.74			-0.003	0.00
Capital	-0.318	-0.35	-1.394	-1.25	-1.171	-1.06			-2.761	-1.58
Restructuring	0.313	0.81	0.402	0.89	0.406	0.98			-0.049	-0.12
Dividends	-0.640	-1.38	-0.732	-1.60	0.243	0.45			-0.414	-0.54
<i>Proposal sponsors</i>										
Pension funds	1.917	2.26**	2.075	2.43**	2.717	2.80***			0.722	0.42
Investment funds	2.774	5.30***	2.233	2.82***	2.247	2.98***			1.510	3.03***
Banks	3.978	2.48**	3.116	1.41	-1.525	-0.48			-7.571	-1.75*
Companies	0.869	0.84	0.448	0.34	1.224	0.83			1.470	1.42
Employees	1.646	2.38**	1.800	2.55**	1.968	3.26***			1.753	3.43***
Dissidents	2.102	1.75*	1.138	0.68	3.424	3.34***			2.825	1.63
Shareholder associations	1.634	1.40	1.160	0.90	1.549	2.13**			-0.098	-0.09
State	2.998	3.05***	2.779	2.57**	2.433	2.39**			2.811	3.56***
<i>Financial characteristics</i>										
Log of assets			-0.306	-1.70*	-0.386	-2.41**	-0.601	-3.81***	-0.385	-2.49**
Market leverage			-0.001	-0.07	-0.009	-0.48	0.032	1.94*	0.001	0.03
Book-to-market			-0.169	-0.49	-0.704	-1.61	-0.697	-2.03**	-0.637	-1.82*
Abnormal performance			0.001	0.16	-0.002	-0.61	-0.002	-0.56	-0.001	-0.15
<i>Ownership characteristics</i>										
Insiders					-0.045	-1.96**	-0.079	-3.49***	-0.060	-2.79***
Companies					-0.041	-4.53***	-0.022	-2.08**	-0.026	-2.54**
State					-0.019	-1.87*	-0.010	-1.09	-0.012	-1.30
Families					-9.413	-2.51**	-6.573	-1.24	-5.441	-1.00
Pressure-sensitive institutions					0.104	1.83*	0.012	0.17	0.103	1.69*
Pressure-insensitive institutions					-0.014	-2.83***	0.001	0.13	0.000	-0.05
<i>Shareholder rights and corporate governance</i>										
Notice period							-0.168	-1.28	-0.227	-1.77*
Record date							0.016	0.54	-0.021	-0.41
Share blocking							-5.619	-2.89***	-4.990	-2.10**
Bearer shares							0.270	0.20	0.128	0.10
Pre-rights							-1.308	-1.13	-0.259	-0.21
Proxy voting							3.184	1.67*	3.663	1.92*
Electronic voting							-0.783	-0.46	-2.624	-1.51
Show of hands							4.160	1.98**	4.666	2.04**
Sponsor block size							0.396	2.17**	0.483	1.88*
Anti-self-dealing							-11.002	-2.48**	-11.844	-2.36**
Governance index							-0.751	-1.17	-0.968	-1.67*
2006	0.177	0.16	0.427	0.46	1.237	1.21	-0.960	-0.75	0.636	0.50
2007	0.572	0.76	1.177	1.65*	1.740	2.17**	0.796	1.21	1.496	1.90*
2008	1.100	1.50	1.420	2.20**	2.133	3.13***	0.699	0.98	1.481	2.02**
2009	1.148	1.47	1.661	2.27**	3.068	3.69***	1.837	2.03**	2.352	2.44**
2010	1.564	2.28**	1.982	2.80***	3.347	4.26***	2.077	2.77*	2.383	2.63**
Industry dummies		Yes		Yes		Yes		Yes		Yes

Constant	-5.584	-5.11***	3.898	0.76	4.060	1.09	23.761	2.56**	21.576	2.00**
No. of obs	217		217		217		217		217	
No. of firms	58		58		58		58		58	
F-test	9.26***		8.26***		8.95***		12.10***		11.48***	
R ²	0.593		0.607		0.670		0.678		0.780	

Appendix. Variable descriptions

Variable name	Description and source
<i>Panel A: Meeting and proposal characteristics</i>	
Extraordinary meeting	A dummy variable equal to one if the proposal is presented at an extraordinary meeting, and zero if it is presented at an annual meeting.
Shareholder proposal	A dummy variable equal to one if a shareholder proposal is presented at the meeting, and zero otherwise.
Management defeated before	A dummy variable equal to one if a management proposal has previously failed or a management-contested shareholder proposal has previously passed, and zero otherwise.
Recommendation – none	A dummy variable equal to one if management has made no voting recommendation on the proposal, and zero otherwise.
Recommendation - against	A dummy variable equal to one if management has recommended a vote against the proposal, and zero otherwise.
Previously targeted	A dummy variable equal to one if the firm has previously been targeted by a shareholder proposal, and zero otherwise.
Proposal passed before	A dummy variable equal to one if a shareholder proposal submitted to the firm has previously passed the shareholder vote.
<i>Panel A: Financial and ownership characteristics</i>	
Assets (€ millions)	The book value of total assets. Source: <i>Thomson ONE Banker</i> .
Market leverage	Total debt divided by the book of liabilities plus the market value of equity. Source: <i>Thomson ONE Banker</i> .
Book-to-market ratio	The book value of equity divided by the market value of equity. Source: <i>Thomson ONE Banker</i> .
Abnormal performance (%)	The dividend-adjusted stock price return minus the return on the home market index, in the year up to two months before the meeting date. Source: <i>Datastream</i> .
Ownership (% , by type of owner)	The number of shares held by each type of owner divided by the total number of shares outstanding. Pressure-sensitive institutional investors are banks and insurance companies. Pressure-insensitive institutional investors are pension and labor union funds, investment funds and their managers, and independent investment advisors. Source: <i>CapitalIQ</i> .
<i>Panel B: Shareholder rights and corporate governance (country level)</i>	
Notice period (days)	The number of days that must pass between the day of the (last) publication of a convocation to a general meeting and the day of the meeting. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Record date (days)	The minimum number of days between the day the register of shareholders is closed before a general meeting and the day of the meeting. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Share blocking	A dummy variable equal to one if shareholders must deposit their shares for a general meeting. <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Bearer shares	A dummy variable equal to one if companies are permitted to issue bearer shares. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Pre-rights	A dummy variable equal to one if shareholders have the right to ask questions before a general meeting. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Proxy voting	A dummy variable equal to one if shareholders may be fully permitted to vote by proxy. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Electronic voting	A dummy variable equal to one if shareholders may be permitted to vote electronically. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Show of hands	A dummy variable equal to one if shareholders have to right to vote on show of hands. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .

Sponsor block size (%)	The percent shareholding required to place items on the agenda and table shareholder proposals. Source: <i>European Commission (2006)</i> and <i>Georgeson (2008)</i> .
Anti-self-dealing index	A measure of legal protection of minority shareholders against expropriation by corporate insiders. Ranges from 0 to 1. Source: <i>Djankov et al.(2008)</i> .
Governance index	The sum of the World Bank's six Worldwide Governance Indicators (voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Each indicator ranges between -2.5 and 2.5. The methodology is presented in <i>Kaufmann et al. (2010)</i> . Source: http://info.worldbank.org/governance/wgi/index.asp .

ⁱ The SEC originally introduced a new Rule 14a-11 in 2009, which automatically allowed qualifying shareholders to nominate directors. However, the rule was vacated by the District of Columbia Court of Appeals by 2011.

ⁱⁱ See www.ecgi.org/codes/all_codes.php.

ⁱⁱⁱ Goergen and Renneboog (2001) point out that in the UK, blank proxies are controlled and can be voted by the board of directors..

^{iv} Roe (2004) adds that major creditors and employees are often given board representation in Continental Europe, implying a conflict of interest between the board and outside minority shareholders.

^v Crespi and Renneboog (2010) point out that minority shareholders may even be reluctant to build long-term coalitions, because they are subject to “acting in concert” rules, and regulators may end up regarding them as a single blockholder that has to comply with regulations on disclosure, mandatory bids etc.

^{vi} The two databases overlap for 2007 and do not in fact provide the same coverage. To ensure consistent coverage, our combined dataset contains the set of companies that appear in both databases for the overlapping year, and then tracks additions to/removals from this set. The complete Manifest database actually contains 171,730 proposals submitted between 1996 and 2008 at 19,055 general meetings of 2,885 firms. It also covers a significantly higher number of UK firms than ISS. However, the proposal outcomes are unavailable for 40 percent of these proposals, and the database covers the UK and Ireland only for the period before 2005.

^{vii} In some countries, dissemination of the voting results is not compulsory. Manifest (2008) reports that the dissemination of the voting results has historically been best practice in the UK, with the disclosure rate at 96 per cent among the FTSE 250 firms. In Continental Europe, it has only recently become common practice even for the largest firms, with the disclosure rate increasing between 2005 and 2007 from 51 to 100 per cent for the CAC 100 firms in France, and from 68 to 88 per cent for the AEX 25 firms in the Netherlands.

^{viii} The final sample excludes 234 proposals, because their three-way voting outcomes cannot be interpreted like those of other proposals. Of these, 177 submissions were director or auditor nominations submitted under Italy’s multiple-winner voting system (see Belcredi *et al.*, 2012). Another 49 of these proposals were submitted in France, mostly to elect a representative of employee shareholders to the board.

^{ix} The three proposals which management did not support were submitted in France; management had to table these proposals due to regulatory requirements.

^x Shareholders prefer that their firm is not entrenched against a possible takeover even in Europe, as an acquisition may generate high returns, typically in the range of 25-35 per cent (Martynova and Renneboog 2008, 2011a, 2011b).

^{xi} Investment funds sought board seats mostly in the UK (20 proposals) and France (16). Buchanan *et al.* (2012) discuss how UK shareholders can replace the board with their own nominees by a simple majority vote.

^{xiii} See http://ec.europa.eu/internal_market/company/docs/official/1001041trans-play_en.pdf.