Shareholder Activism at European AGMs: Voting Turnout and Behavior of (Small) Shareholders

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Foreword and acknowledgments

This thesis is written as completion to the master's program Business Law (*Ondernemingsrecht*) at Tilburg University. This program not only focuses on strong legal skills, but also on multidisciplinary knowledge. Because I am particularly interested in the field of Law and Economics, I have chosen to combine legal and economic theory in this thesis.

Analyzing shareholder activism at AGMs in Europe is both relevant and challenging. There is an ongoing debate on the importance of the AGM within the framework of corporate governance of listed companies and policy makers have been trying to increase (long-term) shareholder activism in the past years. Nowadays, shareholder engagement is still high on the agenda of the European Union. I decided to conduct an empirical research on the characteristics of the AGM in six different countries in the European Union, including Austria, Belgium, France, Germany, Ireland and the UK. I explicitly decided not to take the Netherlands into account for a few reasons. First of all, many Dutch listed companies make use of a *Stichting Administratiekantoor* and/or *prioriteitsaandelen* which makes the analysis of shareholder turnout and behavior more difficult. Another, more personal reason is that I studied Dutch (business) law during both my bachelor's and master's program and thought it would be (more) interesting to conduct a comparative study on foreign, for me unknown, company law systems.

Collecting data on ownership structure, voting turnout and voting results for 208 companies over four years is quite ambitious and definitely not always inspiring. Company websites are not always transparent or do not report the needed information. After spending three months on collecting data and contacting investor relations departments, I decided to delete 42 companies of the 250 in my initial sample due to incomplete or non-transparent information. After this period of collecting data, the most interesting part of my research started; analyzing the data, finding methods to determine ownership concentration and voting power, and searching for explanations in different national laws for the differences between AGMs.

I would like to thank my supervisor, Professor Van der Elst, for his innovative ideas and never-ending enthusiasm. I probably conducted one of the most unconventional researches – without mentioning any jurisprudence – for this (Dutch) master's program and I am very grateful for this opportunity. I also would like

to thank two of my best friends, Pleuni and Sander, who gave me advice on the multivariate analyses and helped me to find ways to simplify the cooperative voting game for shareholders by hand; after a brainstorming session, we all concluded that this is actually almost impossible without an appropriate computer program. And last, but definitely not least, I would like to thank my parents and brother for never losing their confidence in me to finish this thesis timely. However, I am certainly not going to miss the question "*Anne, how's your thesis going..?*".

Abstract

Shareholder participation is high on the agenda of European policy makers. This research studies the voting turnout of (small) shareholders at AGMs of 208 European companies over a period of four years, in the light of the recent proposal of the European Commission to revise Directive 2007/36/EC in order to improve long-term shareholder engagement. AGM characteristics, ownership structure and voting turnout differ substantially across Europe. The results of this research show that, when analyzing the relationship between ownership and voting turnout, the implications of different ownership measures may differ. The value of the Banzhaf index for small shareholders positively affects small shareholder attendance, which may confirm the hypothesis that small shareholers are rational, although one should note that if country dummies are included, this effect is not statistically significant anymore. This research shows that the voting turnout of (small) shareholders is largely determined by country-specific factors. Policy efforts that aim at increasing the role of certain financial investors may actually increase the differences in shareholder engagement across European countries. In order to increase the involvement of small shareholders at European AGMs, one may need to reposition the current role of the AGM such that the main part of shareholder monitoring actually takes place at the AGM.

Contents

1 Shareholder activism and voting turnouts in Europe

One of the main functions of corporate law is to mitigate conflicts of interests between corporate actors, in particular in the relationship between shareholders and managers or directors, where separation of ownership and control causes the infamous principal-agent problem. Shareholders are dependent on their managers and need to motivate them to act in their interest. As interests of managers are often not in alignment with the interests of shareholders – shareholders would like to maximize their residual claims, while managers may use corporate funds for their own benefit and thus behave opportunistically – shareholders need to provide appropriate incentives in order to align the interests of the managers. Because managers often have better information than shareholders about relevant facts, which provides them with the opportunity to behave opportunistically, shareholders cannot costlessly assure themselves that managers will act in their interest; shareholders need to engage in costly monitoring.[1]

But also in the relationship between minority shareholders and blockholders one can identify an agency problem, since blockholders may have incentives to use their control in order to maximize their private benefits instead of maximizing value for all shareholders. For example, large shareholders may have an incentive to forego profitable investment opportunities if for these investments additional external funds are required, because this would cause a dilution of their controlling stake. Therefore, minority shareholders need to be able to monitor blockholders. Corporate law can play an important role in mitigating these agency problems, protecting shareholders from being expropriated by managers and other insiders and thereby raising the willingness of investors to invest.[2]

1.1 The importance of the AGM in theory and practice

According to Van der Elst (2011) corporate law tends to presume that part of this monitoring usually takes place at the Annual General Meeting (hereinafter: AGM), because this yearly event provides *all* shareholders with the opportunity to have direct contact with directors.[3] Easterbrook and Fischel (1991) even state

[1] Hansmann, H., Kraakman, R. (2004) Agency Problems and Legal Strategies, *The Anatomy of Corporate Law: A Comparative and Functional Approach*, Oxford University Press, New York, p.21-22.

[2] La Porta, R., Lopez-de-Silanes, F., Shleiffer, A., Vishny, R. (1997) Legal Determinants of External Finance, *The Journal of Finance*, 52, pp. 1131-1150.

[3] Van der Elst, C.F. (2011) Revisiting Shareholder Activism at AGMs: Voting Determinants of Large and Small Shareholders, *European Corporate Governance Institute (ECGI)*, Finance Working Paper No. 311/2011, available at *SSRN* p.2.

that "if limited liability is the most distinctive feature of corporate law, voting is second"[4]. They explore the relationship between the residual claim and the right to vote and conclude that voting rights flow to the holders of the residual claim because they need to be able to influence decisions. According to Easterbrook and Fischel this explains the function of voting rights.[5]

Despite its important theoretical role in corporate law, the importance of the AGM – and thus the question whether voting indeed serves the functions it is assigned to by corporate law – has been discussed by scholars. According to Van der Schee (2011) low attendance rates and absenteeism of shareholders at the AGM is a major topic in the corporate governance debate. Higher attendance would result in more shareholder democracy and improves the checks & balances.[6] Tiemstra and Keijzer (2008) argue that the combination of shareholder absenteeism and the presumption of shareholder democracy can lead to the situation where shareholders with a relatively small stake can exercise excessive control.[7] In this situation, minority shareholders are subject to larger minority shareholders with *de facto* control who may optimize their own benefits instead of the benefits of all shareholders. In order words, decisions made at the AGM may not be in the interest of all shareholers.

Shareholder absenteeism may be explained by economic theory. In a widely-dispersed ownership structure, the outcome of voting will be the same regardless an (small) individual shareholder participates, i.e. the marginal effect of the vote of an individual shareholder on the outcome will be insignificant. As a result, no (small) individual shareholder would be willing to vote; their optimal investment in monitoring will be approximately zero.[8] Moreover, in case there is a controling shareholder, other shareholders will have no voting power at all.

Closely related to this is the free-rider problem; in a widely-dispersed ownership structure as described by Berle and Means, shareholder monitoring can be seen as a public good. The characteristics of a public good are non-rival and

[4]Easterbrook, F.H., Fischel, D.R. (1991) *The Economic Structure of Corporate Law*, Harvard University Press Cambridge, p. 63.

[5]Easterbrook, F.H., Fischel, D.R. (1991), pp. 67-70.

[6]Van der Schee, P.A. (2011) *Regulation of issuers and investor protection in the US and EU*, Boom Juridische Uitgevers: The Hague, pp.137-138.

[7]Tiemstra, J.S.T., De Keijzer, J. (2008) Algemene vergadering van aandeelhouders: hoeksteen van corporate governance of niet-representatieve formaliteit?'*Ondernemingsrecht*, 54, p.1.

[8]Easterbrook, F.H., Fischel, D.R. (1991), p. 67.

non-excludable, which means that a public good enhances the welfare of all. In other words, any shareholder is able to free-ride on the monitoring efforts of an individual shareholder and therefore, no individual shareholder would be willing to incur the costs of monitoring. The public good problem is also described in the seminal work of Grossman and Hart (1980) in a take-over setting; the authors show that an outsider would never take over a company in order to improve it, since anatomic shareholders anticipate on this improvement and will only trade their shares for the normal share price plus the increase in value as a result of the improvement. Grossman and Hart assume that there are takeover and monitoring costs involved, which implies a takeover would never be profitable to an outsider.[9] But also in the case of private information, an outsider's optimal bid may be zero.[10]

Besides the problem of low voting turnouts of small shareholders, one it might be the case that the AGM also has become of less importance to large shareholders. In practice, decision-making of large shareholders and communication between shareholders and directors often takes place outside AGMs, for example during conferences or *one-on-ones*.[11] These ways of shareholder monitoring may be less costly and more efficient to large shareholders compared to the static gathering at AGMs. According to Van der Elst (2013) one-on-ones and other activism behind closed doors are oriented towards the large and often institutional investors, whereas the AGM is aiming at *all* shareholders, including individual and small shareholders.[12] This implies that small shareholders largely depend on AGMs to exercise their shareholder rights, whereas large shareholders have other means to monitor the directors or corporate management. Moreover, in case of a *de facto* controlling blockholder, the outcome of a vote on a specific agenda item at the AGM may be determined in advance during these negotiations. However, there is little evidence provided in the literature on the negotiations between large shareholders and directors at one-on-ones.[13]

[9]Grossman, S. J., Hart, O. D. (1980) Takeover Bids, the Free-Rider Problem, and the Theory of the Corporation, *Bell Journal of Economics*, 11, p. 42-64.

[10]For example, consider the situation where an outsider is condering taking over a firm. The outsider does not know the exact value of the firm, but believes that the value is somewhere between zero and one hundred. He or she assigns equal probability to each value in this range; the firm will be worth 40 percent more under outsider's management. When the outsider bids an amount of x, the expected value of the firm is $1/2x$ (the probability distribution assigns equal probabilities to each possible value and the firm will accept the offer x if its actual value is smaller or equal to x). A bid x generates a payoff function of $(1.4)1/2x - x = -0.3x$. Only a bid of zero generates a non-negative expected payoff. Following the seminar *Game Theory and Industrial Organisation 2012-2013* taught by professor W. Müller and dr. Schütt of *Tilburg University.*

[11]See for example Tiemstra, J.S.T., De Keijzer, J. (2008), p.1.

[12]Van der Elst, C.F. (2013) Shareholders as Stewards: Evidence of Belgian General Meetings, *Financial Law Institute Ghent Working Paper Series*, p.21.

[13]Van der Elst, C.F. (2011), pp.4-5.

From another perspective, one can argue that attending the AGM is a relatively low-cost technique of shareholder activism. According to Van der Elst (2011) shareholders only have to approve or reject the agenda items that are often prepared by directors or managers, or withhold their vote.[14] *Directive 2007/36/EC*, that will be discussed in section 1.2 of this research, has lowered the costs of voting to shareholders substantially in the past few years. Moreover, the economic theory on shareholder voting mentioned above reasons from the assumption that individuals act rational. It is possible that shareholders choose to vote regardless whether they would be able to affect the voting outcome. This can be seen as acting irrationally, but economic theory also provides some explanations. For example, shareholders might derive utility from being an active and responsible shareholder.[15]

According to Easterbrook and Fischel, the question whether voting matters, and thus whether the AGM is important in corporate governance, is an empirical one. They mention several "suggestive considerations" that may explain that voting matters, such as the survival of voting through years, the facilitation of takeovers through voting and the feature that voting contests produce price increases, regardless they lead to changes in control. Among other considerations, Easterbrook and Fischel conclude from this that votes may be important despite the previously mentioned economic problems. However, one should note that this conclusion is based on - as the authors state - "suggestive considerations" rather than a conclusive answer.[16]

1.2 Policy efforts in the European Union

Although nowadays, the importance of the AGM in practice is questionable, legislators have been focusing on improvements of shareholder rights in the past few years.[17] For example, the idea of shareholder democracy plays an impor-

[14] Van der Elst, C.F. (2011), p.7.

[15] These arguments are often used in *Rational Choice Theory* in order to explain why in many elections people decide to vote regardless whether they can affect the voting outcome or not; in order words, the private costs of voting will in general exceed the private expected benefits for a rational individual voter. This *Paradox of Voting*, also called *The Downs Paradox*, is first described by Anthony Downs in his seminal work *An Economic Theory of Democracy* (1957). For more information on this economic approach to voting, one may refer to Feddersen, T.J. (2004) Rational Choice Theory and the Paradox of Not Voting, *Journal of Economic Perspectives*, 18(1), pp. 99-112.

[16] Easterbrook, F.H., Fischel, D.R. (1991), pp. 70-72.

[17] In this context it is interesting to refer to a recent study of Mc Cahery and Vermeulen. In this study, the authors conduct, *inter alia*, a case study to examine Apple's governance structure. According to the authors, corporate governance experts often believe that Apple's corporate governance structure is weak, but at the same

tant role in European Corporate Governance Codes. And according to Martin (2011) "Congress passed Dodd-Frank Financial Reform Bill of 2010 in effort to bolster shareholder ability to nominate (and change) board members"[18] in the US.

In the European Union, the impediments to shareholder participation were widely recognized during the Impact Assessment of the European Commission (hereinafter: the EC) in 2006. For example, the EC recognized that internet access to notice material relevant to the AGM lowers shareholders' information costs to vote, leading to higher shareholder participation. Also share blocking, i.e. the obligation to deposit shares for a few days before the GM in order to be able to vote, limited shareholder engagement. With respect to foreign shareholders, the EC argued that "the complexity of cross-border voting mechanisms across the EU not only discourages institutional shareholders from voting [...], but it also translates directly into higher voting costs (compared to domestic voting) charged by intermediaries to shareholders in case they vote"[19].

The Impact Assessment proposed policy options to substantially reduce the costs of shareholder voting, including 1) the introduction of minimum standards regarding proxy voting, thereby removing all existing restrictions in national laws; 2) the prohibition of share blocking and to replace it by a record date; 3) minimum standards regarding disclosure of information related to GMs. It formed the base of *Directive 2007/36/EC* (hereinafter: *the Directive*). The Directive states that "holders of shares carrying voting rights should be able to exercise those rights given that they are reflected in the price that has to be paid at the acquisition of the shares. Furthermore, effective shareholder control is a prerequisite to sound corporate governance and should, therefore, be facilitated and encouraged."[20] The key provisions of the Directive include 1) a minimum notice period of 21 days (this

time Apple is considered to be one of the world's most valuable companies. In Apple's corporate governance model – in contrast to the classical view on corporate governance – the board serves as an extension of management and provides outside expertise and experience, identifies opportunities, challenges management decision making and networks with stakeholders. The authors state that corporate governance experts and policy makers often ignore what really matters to the actors "in the corporate governance arena"; namely, creating value through sustainable growth and innovation. The authors propose a three-dimensional corporate governance model, focusing on value creation and growth. Mc Cahery, J.A., Vermeulen, E.P.M., (2014). Understanding the Board of Directors after the Financial Crisis: Some Lessons for Europe, *Journal of Law and Society*, 41(1).

[18]Martin, G.W. (2011) Trends in Financial Reporting: Shareholder Rights as a Poor Solution to Financial Reporting Abuses, *University of Colorado at Colorado Springs*, retrieved from *Kluwer Research Base* on 24 November 2013, p.2.

[19]European Commission (2006) Impact Assessment SEC(2006) 181, Commission Staff Working document annex to the proposal for a directive of the European Parliament and of the Council on the exercise of voting rights by shareholders of companies having their registered office in a member state and whose shares are admitted to trading on a regulated market and amending directive 2004/109/EC, p.13.

[20]Directive 2007/36/EC, 14 July 2007, 184/17, paragraph 3.

can be reduced to 14 days if electronic voting is permitted and shareholders agree in a public vote); 2) the publication of the convocation of the AGM (general meeting) and documents submitted to the AGM (general meeting) on the internet at least 21 days before an AGM (general meeting); 3) a ban to shareholder blocking and introduction of a record day of maximum 30 days before the general meeting; 4) enhancing the ease of proxy voting; 5) an ownership requirement for shareholder proposals that does not exceed 5 percent of the company's share capital; and 6) disclosure of the voting results on the company's website.

On April 9 this year, the EC announced a package to improve corporate governance for listed companies, aiming at encouraging long-term shareholder engagement and improving corporate governance reporting. This package includes a proposal to revise the Directive (hereinafter: *the Proposal*). According to the EC, these revisions would "tackle corporate governance shortcomings relating to listed companies and their boards, shareholders (institutional investors and asset managers), intermediaries and proxy advisors (i.e. firms providing services to shareholders, notably voting advice). [...] The Proposal would both make it easier for shareholders to use their existing [voting] rights over companies and enhance those [voting] rights where necessary."[21] One of the key elements of the Proposal is to increase the engagement of institutional investors and asset managers (new articles 3f to 3h of the revised Directive), requiring those investors to develop a policy on shareholder engagement. Furthermore, article 3i introduces transparency requirements for proxy advisors. Also a European *Say on Pay* would be introduced in order to increase the link between pay and performance; articles 9a and 9b of the revised Directive give shareholders the right to vote on the approval of the remuneration policy and on the remuneration report. The remuneration policy needs to contain, *inter alia*, a cap for executive pay.[22]

1.3 Purpose of my research and research questions

As we have seen, the importance of the AGM is at least questionable. However, policy efforts in the EU have lowered the cost of voting, in order to increase shareholder engagement at AGMs. Recent proposals of the EC with respect to shareholder engagement show that the AGM is still at the center of attention of

[21] Press release of the European Commission, "European Commission proposes to strengthen shareholder engagement and introduce a "say on pay" for Europe's largest companies", April 9, 2014.

[22] Proposal for a Directive of the European Parliament and of The Council amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement, *COM(2014) 213 final*, April 9, 2014, pp.7-8.

policy makers. The question rises whether the AGM is actually an important organ for (small) shareholders to represent their interests in practice. It would be interesting to evaluate the AGM in practice, more specifically;

Which factors may contribute to (small) shareholder participation at the AGM of listed companies in Europe?

Since agency problems do not only play a role between shareholders and managers, but also in the relationship between large and small shareholders, I will evaluate the participation behavior of small shareholders in particular. The first part of this research will be theoretical. I evaluate (a part of) the existing literature on AGMs of listed companies and dive into the existing research on ownership and control. The second part consists of an empirical analysis; I investigate 208 companies on characteristics of shareholder participation at AGMs over four years in 6 different European countries, including descriptive and multivariate analyses, taking the recent paper of Van der Elst (2011) *Revisiting Shareholder Activism at AGMs: Voting Determinants of Large and Small Shareholders* as a starting point.

In order to answer the main research question, I formulate a few sub questions. The first section of this research will evaluate the characteristics of AGMs in Europe. I discuss (part of) the existing studies on the AGMs;

i. What are the main findings of scholars that study the AGM?

Since the ownership structure may play a large role in the behavior of (small) shareholders, as it may determine the division of control within a company, I examine the existing literature and empirics on ownership structure in Europe and its relation to *de facto* control. I examine the following research question in the last part of the second chapter;

ii. What are the main characteristics of the ownership structure of European listed companies and what is the relationship between ownership and de facto control?

In the third chapter I formulate five hypotheses on shareholder participation at AGMs that are tested in the fourth and fifth chapter of this research. Questions that are examined in this part of the research are;

iii. What are the main characteristics of the AGMs and the ownership struc-

ture of the 208 companies in the sample over the period 2010-2013?

iv. Does the ownership structure of a listed company affect (small) shareholder participation at AGMs of listed companies?

v. Does the "importance of the meeting" affect (small) shareholder participation at AGMs of listed companies?

vi. Which other factors may contribute to shareholder participation?

2 Characteristics of European AGMs

2.1 Availability of information

One of the major implications of the Directive is the obligation to disclose information such as the number of voting rights prior to the AGM (article 5) and the voting results (article 14) and to publish this information on the company's website. Easterbrook and Fischel deservedly argue that the question whether voting matters may be an empirical one; therefore, the obligation to disclose this data provides an outstanding opportunity to evaluate shareholder behavior in practice. However, according to reports of ISS (Institutional Shareholder Services Inc.) in 2010 and 2011, not all firms in all European countries disclose (complete) information about voting results on their websites. ISS notes some big differences when analyzing the available information; whereas in 2010 in Austria only 17.6 percent of the ATX-20 companies disclose this information and in Denmark 23.5 per cent (OMXC-20), in for example Belgium (BEL-20), Norway (OBX-25) and Luxembourg (Lux-X) all companies disclose this information. In 2011, ISS reports a 62.5 percent disclosure rate for Luxembourg (Lux-X), 100 percent for (amongst others) Ireland (ISEQ General), UK (FTSE 350) and Greece (ASE-20) and 97.5 percent for the Netherlands (AEX-25 and AMX-25).[23] Although Member States were obliged to implement the Directive by August 2009, some Member States did not fulfill this obligation timely. For example, in the Netherlands, this Directive was implemented through the *Wet Ter Implementatie van de Richtlijn Aandeelhoudersrechten*, which came into effect on July 1, 2010. In contrast, the UK managed to transpose the Directive on time. Moreover, under the UK Companies Act 2006, firms were already required to publish the result of any voting poll on their websites, although not as detailed as described in the Directive.

But late implementation does not fully explain why not all firms publish the results of their voting polls. For example, according to Van der Elst (2013), Belgian companies had to disclose information related to the AGM as of April 2010 following the Belgian Corporate Governance Code, principle 8.7 and 8.10 (before this period on a voluntary basis) and as of January 1, 2012, according to article 533bis, §2 and 546 of the Belgian Companies Code. Van der Elst reports an increasing disclosure of Belgian firms in the period 2007-2012, but notices that approximately

[23] ISS 2011 Voting Results Report Europe and ISS 2010 Voting Results Report Europe, both available at http://www.issgovernance.com/knowledge/papers.

one out of five firms in Belgium still does not comply with the regulation for the year 2012.[24]

2.2 Related literature on shareholder engagement

The lack of (uniform) disclosure of information at firm and country level causes some difficulties in finding and interpreting data, but it does not mean that research based on this data would not be possible. Surprisingly, little scholars have made use of this data so far to evaluate shareholder activism at AGMs in practice with respect to the voting turnout. Shareholder dissent or opposition is more widely studied. For example by Conyon and Sadler (2010), who examine the relationship between shareholder voting behavior and executive remuneration and show that higher executive remuneration leads to more dissent.[25] As stated before, the EC proposes to implement a European Say on Pay. In the US, a Say on Pay was introduced by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* in the beginning of 2011.[26] The authors study the effect on how a Say on Pay may affect shareholder voting and corporate governance and find that this may have led shareholders to become more attentive to pay issues. Also, management may have become more responsive to shareholder concerns on director's pay.

Gillan and Starks (2000) evaluate shareholder voting on different shareholder proposals and find that proposals sponsored by active individual investors receive significantly fewer votes than proposals sponsored by institutional investors or coordinated groups of investors.[27] Renneboog and Szilagyi (2013) examine 42,170 management proposals and 329 shareholder proposals submitted to general meetings in seventeen European countries during the period between 2005 and June 2010, and conclude that shareholder engagement at general meetings is actually part of good governance. They state that there is evidence that shareholders use their voice to make up for inefficiencies that lead to agency problems and suboptimality and conclude that national regulators should go beyond the minimum standards introduced by the Directive.[28]

[24] Van der Elst, C.F. (2013).

[25] Conyon, M., Sadler, G. (2010) Shareholder Voting and Directors' Remuneration Report Legislation: Say on Pay in the UK,*Corporate Governance: An International Review*, 18-4, pp. 296-312.

[26] Cotter, J.F., Palmiter, A.R., Thomas, R.S. (2012), Dodd-Frank's Say on Pay: Will It Lead to a Greater Role for Shareholders in Corporate Governance? *Cornell Law Review*, 97, pp.1213-1266.

[27] S.L. Gillan, S.L., Starks, L.T. (2000) Corporate Governance Proposals and Shareholder Activism: The Role of Institutional Investors, *Journal of Financial Economics*, 57, pp. 275-305.

[28] Renneboog, L., Szilagyi, P. (2013), Shareholder engagement at European general meetings, chapter in *Boards and Shareholders in European Listed Companies*, pp. 315-363.

Thomas and Cotter (2007) use data from the 2002-2004 proxy seasons collected by the Investor Responsibility Research Center (IRRC) to analyze shareholder voting patterns on shareholder proposals, board reactions to these shareholder proposals, and market responses.[29] The authors find that in comparison to previous periods in other studies, relatively more shareholder proposals are receiving majority shareholder support, which has translated into directors implementing more shareholder proposals. Another research of Thomas et al. (2008) examines hedge fund activism using a sample of 236 hedge funds and 1,059 hedge funds-target pairs involving 882 target companies over the time period 2001 to 2006. The authors find a positive market reaction to hedge fund activism and conclude that their findings are consistent with the statement that informed shareholder monitoring can reduce agency costs at target companies.[30]

Van der Elst is one of the few scholars who studies the voting turnout of shareholders at AGMs. Whereas in most of his papers Van der Elst focuses his research on Belgian companies, in 2011 he studied the AGMs in five West-European countries, namely the UK (Footsie-100), Belgium (Bel-20), France (CAC-40), Germany (DAX-30) and The Netherlands (AEX-25) for the year 2010. He finds that "a closer look at the voting turnouts in the different countries illustrate that the attendance is higher in the UK with a median of approximately 67 percent, and lower in Germany, the Netherlands and Belgium with a median of 53 to 54 per cent"[31]. Also ISS studies the voting behavior and attendance of shareholders in Europe and finds that the UK had a *mean* or *average* voting turnout of 70.1 percent in 2011, which would be "its highest ever year-on-year increase [...] most likely following the implementation of the UK Stewardship Code"[32]. According to ISS, the overall average voting turnout in Europe for the year 2011 was 62.6 percent, with the lowest percentages reported for Denmark (37.2 percent) and Belgium (44.9 percent). This 2011 average is slightly higher compared to 2010 (61.5 percent), 2009 (62.2 percent) and 2008 (60.4 percent).[33] Abma (2012) reports an increase in voting turnout for Dutch AEX-AGMs for the eighth year in a row,

[29]Cotter, J.F., Thomas, R.S (2007), Shareholder Proposals in the New Millenium: Shareholder Support, Board Response, and Market Reaction, *Journal of Corporate Finance* 13, pp.368-391.
[30]Brav, A., Jiang, W., Partnoy, F., Thomas, R.S. (2008), *Journal of Corporate Finance* 63(4) pp.1729-1775.
[31]Van der Elst, C.F. (2011), p.18.
[32]ISS 2011 Voting Results Report Europe, p.6. This increase is 2.8 percent (a turnout of 68.1 percent in 2010).
[33]ISS 2011 Voting Results Report Europe.

from 33.3 percent in 2005 to almost 64 percent in 2012.[34]

As one probably already has noticed, these studies on the voting turnout are merely descriptive studies. The debate on the importance of the AGM raises questions on how (small) shareholders determine their decision to attend the AGM; in other words, which factors are relevant for shareholders to determine their decision to participate? As far as I am aware of, only Van der Elst studies multiple variables that could explain why shareholders take part in AGMs. Van der Elst (2011) regresses total relative voting turnout (of small shareholders) on a few independent variables and control variables using an OLS regression model, including i) the importance of the meeting; ii) the ownership structure of the company; iii) the financial performance; and iv) the board composition and activity. He finds that the number of voting items on the agenda does not determine voting turnout, except for the election of directors. His results show that ownership concentration increases voting turnout in general, but decreases voting turnout of small shareholders. Also the types of shareholders have a significant impact on voting turnout. Financial performance and board composition and activity have no significant effect on voting turnout at AGMs according to his results.

That the relative voting turnouts found by scholars may substantially depend on sample selection shows the report of Hewitt (2011)[35] when one compares it to findings of ISS. Hewitt collects data using a "minimum of thirty meetings over the last two financial years [2009 and 2010] per country [...], by selecting companies that were incorporated and in the main listing segment in the country in question"[36]. At first sight, the findings might look similar to the ISS reports, but taking a closer look at the percentages reported in specific years reveals discrepancies of around 6 per cent or more (for example for the Netherlands, Portugal and Finland). This indicates that a sound reporting of sample selection in this kind of studies is of large importance.[37]

[34] Abma, R. (2012), Kroniek van het seizoen van jaarlijkse algemene vergaderingen 2012, *Ondernemingsrecht*, 2012-103, pp.559-566.

[35] Hewitt, P. (2011), The Exercise of Shareholder Rights: Country Comparison of Turnout and Dissent, OECD Corporate Governance Working Papers, 3, available at http://dx.doi.org/10.1787/5kg54d0l1lvf-en.

[36] Hewitt, P. (2011), p.8.

[37] Also Van der Elst (2012) reports slightly different voting turnouts. For example, he reports 55.5 percent for Germany, which is lower than reported by both ISS and Hewitt. However, Van der Elst only takes into account DAX-30, whereas ISS also takes into account MDAX-50.

2.3 Ownership structure in Europe

From previous mentioned economic theory on shareholder voting one can derive that ownership structure may affect voting turnout at AGMs, which makes it interesting to study this relationship more closely. Namely, ownership structure may determine whether an individual shareholder can influence the voting outcome, which may have an effect on its decision to vote. Moreover, as stated above, Van der Elst (2011) identifies a significant relationship between ownership structure and voting turnout.[38]

There are large differences in ownership structures of firms throughout the world. According to Van der Elst (2008) the widely dispersed ownership pattern in the US and UK and the concentrated ownership pattern in continental Europe and in Asian countries can be viewed as a *stylized fact*.[39] Becht and Roëll (1999) also study blockholdings in Europe and state that "while in the U.S.A. the main agency problems seem to stem from conflicts of interest between managers and dispersed, insufficiently interventionist shareholders, in much of continental Europe there are generally large blockholders present who can and do exercise control over management. Instead, the main potential conflict of interest lies between controlling shareholders and powerless minority shareholders."[40] The model of dispersed ownership of American companies as described by Berle and Means is not a common model in every European country, which has important implications for corporate governance. Franks and Mayer (1995) describe two types of ownership structures, the *outsider system* that is similar to the model of dispersed ownership of Berle and Means, and the *insider system* in France and Germany where ownership concentration is substantially higher.[41] La Porta et al. (1997, 1999) also find that ownership is more concentrated around the world than the model of Berle and Means indicates when expanding the study of Franks and Mayer to more countries.[42] Both studies conclude that the insider system dominates in a large part

[38] Van der Elst, C.F. (2011), pp. 29-33.

[39] Van der Elst, C.F. (2008) Shareholder Mobility in Five European Countries, *ECGI - Law Working Paper* No. 104/2008 — TILEC Discussion Paper No. 2008-019 p.5.

[40] Becht, M., Roëll, A. (1999) Blockholdings in Europe: An international comparison, *European Economic Review*, 43, p. 1052.

[41] Franks, J., Mayer, C. (1995), Ownership and Control, in H. Siebert (ed.), *Trends in Business Organization: Do Participation and Cooperation Increase Competitiveness?* Tübingen: Mohr (Siebeck).

[42] La Porta, R., Lopez de Silanes, F., Shleifer, A. (1999) Corporate Ownership Around the World, *Journal of Finance*, 54(2), p.471-517; La Porta, R., Vishny, R.W. (1997) Legal Determinants of External Finance, *Journal of Financial Economics*, 58, pp. 3-27. La Porta et al. link the concentration of ownership to investor protection and state that larger stakes are necessary in markets with low investor protection to serve as an internal monitoring device; in markets with better investor protection these larger stakes are redundant, since these markets provide for external monitoring devices.

of the world. According to Barca and Becht (2001) both studies have "serious methodological problems" as their coverage is limited; where Franks and Mayer use a large number of firms in a very small number of countries, La Porta et al. have a small number of firms in a large number of countries. Barca and Becht also argue that an analysis of control in corporations is more complex since there are often coalitions, voting pacts and pyramid structures in place.[43] This implicates that ownership is not equal to control. Cash flow rights and voting rights are not in every country a ratio of one to one; for example, in France many companies offer double voting rights to long-term shareholders[44], usually after "two years, although sometimes as long as ten"[45]. And in the Netherlands, many firms use for example a so-called *Administratiekantoor*, which is - generally speaking - a foundation that owns a large stake of the voting rights and is controlled by the firm; shareholders receive depository receipts in return for their investment.[46] Barca and Becht explain that protection of minority shareholders also affects the relationship between control and ownership[47]. They mention the mandatory bid rule[48], the arm's-length requirement of the London Stock Exchange between blockholders and managers[49] and the *liability similar to directors* of large shareholders in the US.

Since ownership structure and control would not be the same in many situations, it is important to carefully select the control measures that will be used in this research.

[43]Barca, F., Becht, M. (2001) *The Control of Corporate Europe*, Oxford University Press: New York, p. 2-3.

[44]Van der Elst, C.F. (2008), p.11.

[45]*Schumpeter Columnist* (2010) A Different Class: Would giving long-term shareholders more clout improve corporate governance? *The Economist*, February 20, 2010, Print Edition.

[46]However, following article 118a of Book 2 of the *Dutch Civil Code*, holders of those depository receipts may request to become authorized to vote at the AGM. Also, the Transparency Directive (*Directive 2004/109/EC*) defines shareholders as "any natural person or legal entity governed by private or public law, who holds, directly or indirectly [...] depository receipts, in which case the holder of the depository receipt shall be considered as the shareholder of the underlying shares represented by the depository receipts", which means that holders of depository receipts also need to disclose information about their major holdings. In this regard, one may also refer to article 5:33(1) under b of the Dutch Act on Financial Supervision (*Wft*), which states that depository receipts are defined as shares under chapter 5.3 of this Act (this chapter contains disclosure requirements).

[47]Barca, F., Becht, M. (2001), p. 12.

[48]This rule is now applicable in all Member States as per article 5 of Directive 25/2004/EC and enhances the protection of minority shareholders by forcing the acquiring firm to offer the market premium to all shareholders.

[49]Barca and Becht mention that as a result of this requirement blockholders experience limitations in their ability to monitor the management. For example, the London Stock Exchange Listing Requirements states that the composition of the board must be such that significant decisions are taken independently of controlling blockholders.

2.4 Ownership concentration and control measures

There are different measures for ownership concentration and control that have been used by scholars in research on shareholder activism. There are simple measurements of ownership concentration, such as the stake of the largest shareholder or the largest voting block, more advanced indices such as the Herfindahl–Hirschman Index (HHI) or Concentration ratio (Cr_x)[50], but there are also scholars who use game theoretic power indices, for example based on the theoretical model of Leech (1988).[51] Van der Elst (2011) uses the voting block of the largest shareholders and the summed voting blocks of all large shareholders with more than five percent of the votes. And, for example, Poulsen, Strand and Thomsen (2010) use a combination of the Banzhaf voting power index and Dubey and Shapley (1979) index.

Overland, Mavruk and Sjögren (2012) recognize that many studies that evaluate the linkage between ownership concentration and firm performance yield conflicting results. In order to explain these conflicting results, Overland et al. study the different measures of ownership concentration and find that the implications of different ownership concentration measures may be completely different.[52] For example, where an increase in the second largest owner's voting share could be interpreted as an increase in ownership concentration when using for example HHI or Cr_x, the voting power of the largest shareholder could actually decrease. Overland et al. mention an ownership concentration measure that takes into account this trade-off between the largest and second largest shareholder, namely "the ratio of the holdings of the largest and the second largest owner (or a number of owners following the largest owner in size)"[53]. They show other examples of ownership measures that are used by scholars[54] and conclude that there is always

[50] HHI can be calculated as follows: $H = \sum_{i=1}^{n} s_i^2$ where s_i is the percentage of votes of shareholder i and N is the total number of shareholders. In a company where there are three shareholders with respectively 49 per cent, 47 per cent and 4 per cent of the votes, the HHI index is $0.49^2 + 0.47^2 + 0.04^2 = 0.4626$. Note that the maximum value of the HHI index is 1 (one shareholder holds all votes) and the minimum value is ϵ (negligible, wide dispersed ownership concentration). HHI is commonly used in competition law to measure concentration in a specific market. The Concentration ratio Cr_x simply measures the percentage of the votes held by the x largest shareholders in a company and can be calculated as follows: $r_x = \sum_{i=1}^{x} s_i$ where s_i is the percentage of votes of shareholder i. Thus, in the previous example, Cr_2 would be 0.49+0.47 = 0.96.

[51] Leech, D. (1988). The relationship between shareholding concentration and shareholder voting in British companies: a study of the application of power indices for simple games.*Management Science*, 34(4), pp.509-27.

[52] Overland, C., Mavruk, T., Sjogren, S. (2012) Keeping It Real Or Keeping It Simple? Ownership Concentration Measures Compared, University of Gothenburg.

[53] Overland, C., Mavruk, T., Sjögren, S. (2012), p.12.

[54] Overland, Mavruk and Sjögren mention Faccio et al (2001) who include a dummy which has a value of one if there are several blockholders, and Maury and Pajuste (2005), who construct a contestability dummy which has a value of one if the two largest shareholders cannot have a majority of the votes and a third shareholder is present with at least ten percent of the votes.

an element of discretion involved since, for example, one has to decide the number of shareholders to include in the denominator.[55]

[55]Overland, C., Mavruk, T., Sjögren, S. (2012), p.12.

3 Hypotheses and methodology

3.1 Hypotheses

I investigate which factors influence shareholder voting. Large shareholders have more incentives to vote than small shareholders, since they will receive a larger part of the benefits of better monitoring and will have a larger probability to be the pivotal voter. Also their voting costs will be relatively lower under the assumption that the costs of voting with one share are the same as the costs for voting with multiple shares. Van der Elst mentions that as per article 6 of the Directive, an individual shareholder has the right to add items to the agenda of the AGM if he or she holds 5 per cent of the *share capital*, which provides them with another incentive to participate at the AGM.[56]

Hypothesis 1: There is a positive relationship between ownership concentration and overall voting turnout of shareholders at the AGM.

I agree with Van der Elst that the importance of the meeting may positively affect the attendance of shareholders.[57] Although I use a different explanation of this notion, the rationale remains the same; both blockholders and small shareholders may have more incentives to actively participate if they care more about the voting items that are on the agenda;

Hypothesis 2: The importance of the meeting will positively affect overall voting turnout of shareholders at the AGM.

Hypothesis 3: The importance of the meeting will positively affect the voting turnout of small shareholders at the AGM.

If large shareholders are present, small shareholders may free-ride on the monitoring of these large shareholders. Moreover, the willingness for small (rational) shareholders to attend the AGM will decrease as they have a lower probability to be the pivotal voter, e.g. they have a higher probability that the marginal effect of their vote on the voting outcome would be zero.

[56] Van der Elst, C.F. (2011), p.11.
[57] Van der Elst, C.F. (2011), p.10.

Hypothesis 4: Small shareholders are less likely to vote at the AGM if the ownership concentration is higher.

As indicated in the previous chapter, ownership structure and control can be completely different. In order to test whether small shareholders act rational, i.e. whether they take into account the probability to be the pivotal voter, my fifth hypothesis holds;

Hypothesis 5: The decision of small shareholders to vote is positively related to their voting power.

The next sections of this chapter provide further insides on the variables used to test these hypotheses, including a detailed analysis of the control measures, and a description of the sample.

3.2 Ownership structure and "importance of the meeting"

In order to test the first hypothesis, I regress total voting turnout of the AGM on the ownership structure, using the same ownership measures as Van der Elst (2011), namely the voting block of the largest shareholder (Cr_1) and the summed voting blocks of all shareholders with more than five percent of the votes (voting block).[58] Also in this research, a blockholder is defined as a shareholder that holds at least five percent of the votes, which is in line with the lowest disclosure threshold of Directive 2004/109/EC.[59] Moreover, it is the lowest common disclosure threshold of all countries in the sample. Besides these two ownership measures, I use Cr_2 (the concentration ratio of the two largest shareholders), Cr_3 (the concentration ratio of three largest shareholders), HHI with lower bound, HHI with upper bound[60] and the ratio second largest shareholder to largest shareholder (*R12*).

Also the "importance of the meeting"[61] may contribute to the shareholder turnout at the AGM. Van der Elst measures the importance of the meeting with three different variables, namely i) the number of voting items; ii) the number of extraordinary voting items or special resolutions and; iii) the number of board elections.

[58] Van der Elst, C.F. (2011), pp. 20-33.
[59] ISS also uses this threshold in for example ISS 2010 Voting Results Report Europe.
[60] Calculated as $H = \sum_{i=1} Ns_i^2$, where the unknown stake of the small shareholders is w_i=w_d-ϵ. In this case, w_d is equal to 5 and ϵ is a negligible small amount. Also see table 2.1.
[61] Van der Elst, C.F. (2011), p.19.

Although the number of voting items does not influence shareholder turnout at AGMs according to the results of Van der Elst, director elections may actually have a signicant effect on voting turnout. According to Van der Schee, the appointment and dismissal of board members constitute the most important powers of the shareholders *in theory*; since "the board 'controls' the strategy and policies of the firm, 'control' over the board is crucial"[62]. I consider the number of directors (executive or supervisory board) elections as a variable that contributes to the importance of the meeting.

It might be the case that shareholders have stronger incentives to attend the AGM if they do not agree with a particular resolution. In case they want to prevent a resolution from being passed, they have to vote against the resolution and thus have to attend the AGM. For example, Conyon and Sadler (2010) state that shareholders are much more likely to vote against resolutions related to directors pay compared to other types of non-pay related resolutions. Moreover, they find that high executive pay packages obtain more votes against.[63] I therefore include a variable that measures shareholder opposition to voting items that are related to directors pay in terms of no-votes. For the UK, Ireland and Belgium also the resolution concerning the approval of the remuneration report is evaluated. As explained above, the appointment of a director is also considered to be an important resolution, and therefore I also include a variable that measures shareholder opposition regarding voting items related to (supervisory) board member (re-)elections.

Besides these two variables, one can explore voting items regarding the share capital, including i) the authorization to allot shares or to increase the share capital, ii) to restrict shareholders' pre-emption rights, iii) to acquire treasury shares and iv) to reduce the share capital.[64] The authorization to issue shares combined with a restriction on shareholders' pre-emptive rights can cause a dilution of the stake of existing shareholders. This may be a reason for incumbent shareholders to vote against these resolutions. On the other hand, the authorization to acquire treasury shares and to reduce the share capital might be advantageous for shareholders, as it lowers the outstanding share capital; however, this is not the case in every

[62] Van der Schee, P.A. (2011), p.139.
[63] Conyon, M., Sadler, G. (2010), pp. 296-312.
[64] In the UK, treasury shares may be cancelled at all times (only a notification is necessary), according to UK Companies Act 2006 article 726 and further. Also in Ireland companies may cancel their treasury shares according to article 209 of the Irish Company Act 1990.

situation.[65] Since these four resolutions may directly affect the stakes of shareholders, these items are considered to contribute to the importance of the meeting.

As stated before, as per article 6 of the Directive shareholders can add items to the agenda of the AGM if they hold at least 5 percent of the share capital.[66] In case there is an item that is put on the agenda by a shareholder, it might be the case that shareholders have a larger incentive to attend the AGM as the passing of such a resolution might be of greater importance to them. At the very least, these shareholder proposals indicate a form of shareholder activism.[67] In Germany, one can find another form of shareholder activism. Any shareholder has the right to file a motion counter to a proposal of the management board and supervisory board ex paragraph 126 of the *Aktiengesetz*. Also, according to paragraph 127 Aktiengesetz, the right to file a counter motion shall apply analogously to a nomination by a shareholder for the election of a member of the supervisory board or external auditors.

3.3 Small shareholder turnout

In order to be able to test hypotheses three to five, voting turnout data of small shareholders is needed. However, European companies are only obliged to disclose total voting turnout, which means that for most of the companies in the sample I do not have the means to identify which shareholders attended the AGM. Van der Elst (2011) recognizes this problem and states that it is valid to assume that blockholders always attend the AGM. According to Van der Elst one can find support for this premise when analyzing the data; voting turnouts would be much lower without attendance of these blockholders and also attendance lists of a number of Belgium and Italian companies confirm this assumption.[68] Also Van der Elst (2013)[69] and ISS use this assumption. In its analysis of European shareholder behavior in 2010, ISS shows a graph on the percentage of free-float at shareholder

[65] Economic theory suggests that in efficient financial markets, acquiring treasury shares will have no effect on the company's share price valuation, but it may improve P/E ratios and EPS ratios due to a reduced number of outstanding shares. However, in the real world, financial markets are not efficient and shares may be overpriced of underpriced. In case shares are overpriced, acquiring treasury shares can be detrimental to shareholders, whereas in the situation of underpriced shares, acquiring treasury shares can actually benefit shareholders.

[66] One may note that in the Netherlands, also holders of depository receipts may add items to the agenda if they hold at least three percent of the capital rights (article 2:114a of the Dutch Civil Code). One may also refer to Hoeben, S.J.M. (2006) Het agenderingsrecht van kapitaalverschaffers van naamloze vennootschappen, *Vennootschap & Onderneming*, 4, pp. 73-78.

[67] Van der Elst, C.F. (2011), pp. 4-5.

[68] Van der Elst, C.F. (2011), p.18.

[69] Van der Elst, C.F. (2013) Shareholders as Stewards: Evidence of Belgian General Meetings, *Financial Law Institute*, Ghent University, pp. 7-13.

meetings, thereby "assuming that all important shareholders exercise their voting rights"[70]. Although one could argue that it is possible that not all blockholders would vote with all their shares and that there remains some uncertainty about the actual stake of each blockholder, it would still be the best available estimation - to my knowledge - to evaluate the voting turnout of small shareholders.[71] Following the assumption that all blockholders attend the AGM, the turnout of small shareholders can be calculated as:[72]

$$\text{TURNOUTsmall} = \frac{\text{amount of small shareholders present}}{\text{total amount small shareholders}}$$

$$= \frac{\text{total relative voting turnout - summed voting block of all blockholders}}{\text{100\% - summed voting block of all blockholders}}$$

3.4 Measurements of voting power

The most difficult part of this research is to estimate voting power in a way it reflects reality as closely as possible. As mentioned in the previous sections, scholars have been using many different measures for ownership concentration and voting power, which may lead to completely different results and conclusions. As duly stated by Overland et al. (2012), these different results and conclusions mean that all measures cannot be good estimates for concentration at the same time.[73] A threshold of twenty percent to indicate control is used by many researchers.[74] However, according to Leech (2002) the power of one shareholder might be quite different than the absolute percentage of the votes he or she possesses.[75] This

[70]ISS 2010 Voting Results Report Europe, p.8. ISS defines free-float shareholders as those who hold less than 5.0 percent of company's capital.

[71]There will remain some unsolvable uncertainty about the actual stakes of blockholders, since blockholders are only obliged to notify their stakes to the issuer in case their stake "exceeds or falls below the thresholds of 5 %, 10 %, 15 %, 20 %, 25 %, 30 % [or one-third], 50 % and 75 % [or two-third]" as per article 9(1) of Directive 2007/36/EC. Even if Member States lower these thresholds, some uncertainty will still remain. This implicates that the actual stake of a blockholder can diverge from the stake that is disclosed when his or her stake increases or decreases without passing another threshold. With respect to the question whether blockholders vote with all their shares, apart from irrational behavior or personal incentives, there are no convincing arguments to assume blockholders do not vote with all their shares. In the past this might have been different. For example, in the Netherlands before the implementation of Directive 2007/36/EC, it was possible that shareholders were obliged to deposit their shares in order to exercise their voting right (share blocking). As a result, shareholders were not able to trade their shares until the date of the AGM; this might have been an incentive for certain shareholders not to vote with all their shares. However, since the implementation of Directive 36/2007/EC blocking of shares in order to vote at the AGM is prohibited in all member states. Moreover Directive 2007/36/EC also lowered the costs of voting to shareholders in general by removing for example restrictive registration dates and creating a more uniform voting system across Europe (following Raaijmakers, G.T.M.J., Abma, R. (2009) *Achter de schermen van beursaandeelhouders*, Deventer: Kluwer, pp. 124-128).

[72]The same formula is used by Van der Elst (2011).

[73]Overland, C., Mavruk, T., Sjögren, S. (2012), p. 35.

[74]Examples are the seminal works of Berle and Means and La Porta.

[75]Leech, D. (2002) An Empirical Comparison of the Performance of Classical Power Indices, *Political Studies*, 50, p. 1-2. For example, consider a company that has three shareholders, A, B, and C who hold 47 percent, 49 percent, and 4 percent of the stock respectively, and the quota to pass a resolution is 51 percent. Since any combination of two of the shareholders has enough votes to pass a measure, the voting power is equally

means that a threshold of twenty percent may be sufficient for control in some situations, whereas in other situations this may actually not be the case, depending on the ownership structure of a company.

Leech states that with the use of a power index one may be able to measure the power of a particular shareholder; "a power index [...] measures the power of individuals in an a priori sense within a particular voting system with given distribution of weights among members and majority requirement."[76] He calculates two classical indices (the *Banzhaf Index* and *Shapley-Shubik Index*) for shareholder voting in a cross-section analysis of 444 large British companies for the years 1985 or 1986 and compares these indices with some "reasonable criteria which the indices should satisfy". He concludes: "the results are unfavourable to the Shapley-Shubik index and suggest that the Banzhaf index much better reflects the variations in the power of shareholders between companies as the weights of shareholder blocs vary". Straffin Jr. (1988) provides an example of the difference between these two indices: "consider a corporation with one stockholder who holds 10 percent of the stock and a large 'ocean' of small stockholders who hold the remaining 90 percent. The Shapley-Shubik index gives 11 percent of the power to the large stockholder; the Banzhaf index gives close to 100 percent of the power to the large stockholder.[77] According to Overland et al. (2012) the Shapley-Shubik indices "cluster in the same component as [the estimate for] *Largest owner* which clearly does not take other shareholders into consideration, [...] [which] lends further support to the analysis made by Leech (2002), that Shapley-Shubik indices to a lesser degree than Banzhaf indices capture the power balance between shareholders"[78]. They conclude that caution is warranted when analyzing the effects of ownership, but that it could be argued that measures such as Banzhaf indices are to be considered more trustworthy than simple measures such as ratios of the largest and second largest shareholder.[79]

The rationale behind the Banzhaf index is that it determines the probability of changing the outcome of a vote. In other words, it considers all the situations

divided among the three shareholders. It should be clear that if a shareholder has less voting rights than another shareholder, this shareholder can never have more voting power. However, they can be equally powerful.

[76] Leech, D. (2002), p.2.

[77] Straffin, Jr. P.D. (1988) The Shapley-Shubik and Banzhaf power indices as probabilities, in: *The Shapley Value: Essays in honor of Lloyd S. Shapley*, edited by Roth, A.E., Cambridge University Press: Cambridge, p. 74.

[78] Overland, C., Mavruk, T., Sjögren, S. (2012), pp. 32-33.

[79] Overland, C., Mavruk, T., Sjögren, S. (2012), pp. 36-37.

in which a shareholder can be pivotal to a specific voting outcome. The Banzhaf value is calculated as follows;[80]

$B'_i(v) = \sum_{S \in 2^N; i \notin S} \frac{1}{2^{|N|-1}}(v(S \cup i) - v(S))$ and $i = 1, ..., n$

This formula takes the sum over all situations where a shareholder can be pivotal; $2^{|N|-1}$ determines all possible coalitions.[81] Since the Banzhaf value is not efficient, i.e. the sum of all the Banzhaf values of the shareholders is not equal to one, one has to divide the total number of swings for player i by the sum of all swings for all players to obtain the (normalized) Banzhaf index;

$\beta_i = \frac{\beta'_i}{\sum_i \beta'_i}$

Taking into account the statements above, the (normalized) Banzhaf index is used to determine the voting power of shareholders. I also calculate the Shapley-Shubik index to verify the previously mentioned statements. Descriptive statistics on these indices are reported in chapter 4 of this research.

Following article 9(1) of Directive 2004/109/EC only shareholders with a stake of five percent or higher are obliged to disclose information regarding their stake. However, in many Member States, there are additional thresholds. The national laws are discussed in chapter 4. Moreover, due to the very large number of small shareholders in most listed firms and the existence of bearer shares, information on stock ownership is necessarily incomplete. Leech recognizes this *Problem of Incomplete Information.*[82] In order to solve this problem, the Banzhaf index and Shapley-Shubik index in this research are calculated under the assumption of a theoretical small shareholder that holds one percent of the voting rights. All small

[80]The Shapley-Shubik index differs from the Banzhaf index in the way coalition formation is described. For more information, one can refer to Leech, D. (2002), pp.11-13.

[81]Borm, P. (2014) *Games, Cooperative Behavior and Economics*, Tilburg University, p.52. It would be out of the scope of this research to further elaborate on this formula for the Banzhaf index.

[82]Leech, D. (2002), p.11. In order to mitigate this problem, Leeds calculates two sets of indices on two different assumptions about the missing weights corresponding to the two extreme possibilities (concentrated and dispersed ownership); for a company with k holdings observed and no information available about $(n-k)$ other than holdings $(n-k)$ are all smaller than wk. In the dispersed ownership case, where $i > k$, $n \to \infty$ and $w_i \to 0$. In the concentrated case, n is taken to be as small as possible given the observed data. In this case, this would mean that $w_i = w_d - \varepsilon$, where w_d is the lowest mandatory disclosure threshold that is common in all countries in the sample and ε is almost equal to zero. Note that this solution of Leeds (2002) does not take into account the fact that changes in voting blocks must only be disclosed when a mandatory threshold is passed; it is therefore possible that the number of votes in practice differs from the disclosed information. This difference is necessarily smaller than the difference between two consecutive disclosure thresholds. Following Van der Elst, C.F. (2011), p.18 (footnote).

shareholders are considered to be symmetric, which implies that the maximum number of shareholders of a company would be 100 in this research. Although this method of calculation implies a simplification of the real situation where there is a very large number of small shareholders in most listed firms, this simplification is needed for practical reasons. On the one hand, if the stake of the small shareholders would be ε in the dispersed case, which is a number that is approximately zero, the Banzhaf index can be obtained as the Banzhaf index for a game that only consists of the large shareholders[83]; this implies that the voting power of small shareholders will automatically be zero, leaving us with no means to test hypothesis four. Moreover, the number of possible coalitions would be infinitely large. In other words, the stake of small shareholders needs to be larger than ε, which limits the maximal number of shareholders in a company by definition.[84] For the calculations of the Banzhaf index the program *ipmmle* is used.[85] Besides ipmmle, I use the program *ssmmle* to calculate the Shapley-Shubik index.

3.5 Other variables

Van der Elst (2011) tests the hypothesis that companies with weak financial performance will experience relative higher voting turnouts of both small and large shareholders, and finds that financial performance has a limited positive influence on the voting turnout of both large and small shareholders. I include this variable as a control variable in the regression analysis, using data from *Datastream*. Related to financial performance, but obviously not the same, is the size of the firm. Conyon and Sadler use the size of the firm as a control variable, calculated as the log of market value of the company at the fiscal year end.[86] Also Renneboog and Szilagyi find that voting outcomes on management proposals are strongly determined by the size of the firm.[87] I use the market capitalization, measured as the natural logarithm of the total value of the issued shares of the company at the end of the year, retrieved from disclosures of stock exchanges.

[83]Dubey, P., Shapley, L.S. (1979) Mathematical properties of the Banzhaf power index, *Mathematics of Operation Research*, 4(2), pp. 99-131. Retrieved from Leech, D. (2002), p.13.

[84]One can argue that the chosen stake of one percent is completely arbitrarily. However, the purpose of using a voting power measurement is to be able to take into account the relative difference in voting power for different ownership structures, which makes this statement less relevant.

[85]It is almost impossible to calculate the Banzhaf index for a game with many players by hand. The number of possible coalitions for 100 players is according to the previously mentioned formula $2^9 9$, which is approximately $6.34 * 10^2 9$. For this reason, the program ipmmle provided by Leech is used to calculate the index. According to Leech "it can be applied to large voting bodies of any size (either in terms of number of players or in terms of votes). The voting weights and quota are not restricted to being integers". The program can be found on http://homepages.warwick.ac.uk/ ecaae/ipmmle.html. One can find a small test of accuracy of this program in Appendix B. The program ssmmle, used to calculate the Shapley-Shubik index, is also provided by Leech.

[86]Conyon, M.J., Sadler, G.V. (2010), pp. 296-310.

[87]Renneboog, L., Szilagyi, P. (2013), p.348

Furthermore, Van der Elst finds that the type of blockholder affects voting turnout significantly. As the results show, the presence of family, institutional investors, hedge funds and private equity funds as blockholders positively influences voting turnout. For example, institutional investors are deemed to monitor the management of a company and to fulfill their responsibilities as an active shareholder. The Stewardship Code in the UK establishes a framework to determine the monitoring role for institutional investors. Since these institutional investors have to operate within such framework in most European countries, one could suggest that the presence of institutional investors may provide less incentives to (rational) small shareholders to monitor by themselves, i.e. to vote at the AGM, as they may free-ride on the monitoring practices of these shareholders.[88]

Besides the previously mentioned variables, one can consider to include a measure for corporate governance in the analysis. Scholars developed many different corporate governance measures over the past years, from simple measures to complex indices with many different elements. On the one hand, simple corporate governance measures may not account for the complex and multiple interactions that are present in corporate governance mechanisms.[89] On the other hand, Bebchuk et al.(2009) state that "shareholder advisory firms, including industry leader ISS, have put forward indexes of good corporate governance based on a massive number of provisions. [...] As this article highlights, in any large set of governance provisions, many are likely not to matter or to be an endogenous product of others."[90] Moreover, important aspects of corporate governance may be already covered by the variables mentioned above. For example, board governance is related to board elections. And shareholder monitoring is part of checks & balances within a company, for example in the form of shareholder proposals; moreover, as stated in the introduction of this research, shareholder monitoring also takes place at the AGM itself, which is in turn is related to voting turnouts. In other words, corporate governance is endogenously related to many variables in this research. For this reason, no separate measure of corporate governance is included. With respect to governance measures at the country level, one may refer to Ren-

[88] Van der Elst, C.F. (2011), pp. 11-12.

[89] Schnyder, G. (2012) Measuring Corporate Governance: Lessons from the 'Bundles Approach', *Center for Business Research*, University of Cambridge, Working paper 438, p. 24.

[90] Bebchuk, L., Cohen, A., Ferrell, A. (2008) What Matters in Corporate Governance? *Oxford University Press*, p. 824. Bebchuk et al. investigate the relationship between 24 governance provisions and financial performance and find that only six provisions drive firm valuation - staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments.

neboog and Szilagyi, who include two indices to capture governance quality, the anti-self-dealing index of Djankov et al. and a constructed "dynamic annual governance index" based on six governance indicators of the World Bank.[91] Since the countries in the sample are all developed European countries, often subject to (minimum) harmonisation at the European level, and, moreover, I control for country-related differences with the use of a dummy for each country, there is no need to add extra governance indicators.

3.6 Overview of the variables

For an overview of all variables and their description used in this research, one may refer to the table on the next page.[92]

[91] Renneboog, L., Szilagyi, P. (2013), pp. 315-364.

[92] With respect to the Banzhaf index, the quorum to pass a resolution is set at 51 percent, which is the smallest possible majority; all reported stakes that are larger than or equal to 1 percent of the voting rights are included in the calculations and are rounded to the nearest integer. The calculation of the shareholder opposition variables is in line with the calculation method used in the UK and Ireland and reflects the percentage of votes against of the total number of votes where the intention of shareholders is clear; in case one votes yes, he or she is clearly in favor of the resolution and in case one votes yes, he or she is clearly against the resolution. An abstention occurs when a shareholder chooses not to vote on a proposal; his or her intentions are then unclear. In order to reflect the actual shareholder opposition, I choose not to take into account abstentions or votes withheld. For the financial performance variables, data is retrieved from Datastream for the fourth quarter of the year before the AGM took place.

Variable	Abbreviation	Description
Dependent variables		
Total voting turnout	TURNOUTtot	Calculated as the total voting turnout divided by the total number of votes (treasury shares not taken into account)
Total voting turnout small shareholders smaller than 5 percent	TURNOUTsmall	Calculated as: $\left(\frac{\text{Total relative voting turnout} - \text{Summed voting block of all blockholders}}{100\% - \text{Summed voting block of all blockholders}}\right)$ The summed voting block of all blockholders consists of all reported stakes that are higher than 5 percent.
Concentration and power measures		
HHI lower bound	HHIlow	Calculated as $H = \sum_{i=1}^{N} s_i^2$, taking into account the stakes of blockholders and where the unknown stake of the small shareholders is ε, which is approximately zero.
HHI upper bound 5 percent	HHIup5	Calculated as $H = \sum_{i=1}^{N} s_i^2$, taking into account the stakes of blockholders and where the unknown stake of the small shareholders is $w_i = w_d - \varepsilon$. In this case, w_d is equal to 5 and ε is a negligible small amount.
Cr_1, Cr_2, Cr_3, voting block	C1, C2, C3, block	These are the concentration ratios for respectively the largest, two largest, three largest and all largest shareholders with a stake of 5 per cent or more (all blockholders), calculated as: $Cr_x = \sum_{i=1}^{x} s_i$
Ratio second largest shareholder to largest shareholder	R12	This is the ratio: $\frac{\text{stake second largest shareholder}}{\text{stake largest shareholder}}$
Banzhaf index small shareholder	BANZHAFsmall	The Banzhaf index for a small shareholder, calculated with the program *ipmmle* of Leech (University of Warwick). The small shareholders have a stake of 1 percent.
Banzhaf index largest shareholder	BANZHAFlarge	The Banzhaf index for the largest shareholder, calculated with the program *ipmmle* of Leech (University of Warwick).
Importance of the Meeting		
Board elections	ELECT	The number of (supervisory) board members that are elected by the AGM.
Largest opposition	OPPOS1, OPPOS2	Highest percentage of no-votes at the AGM. Two variations; shareholder proposals excluded (1) and included (2).
Opposition director election	OpposDIR	Highest percentage of no-votes against the election of a director, calculated as; $\frac{\text{Votes against}}{(\text{Votes against} + \text{votes for})} * 100 \text{ percent}$
Opposition remuneration	OpposREM	Highest percentage of no-votes on a resolution related to director remuneration, including the approval of the remuneration report, calculated as; $\frac{\text{Votes against}}{(\text{Votes against} + \text{votes for})} * 100 \text{ percent}$
Opposition allotment of shares or increasing share capital	OpposALLOT	Percentage of no-votes against the authority to allot ordinary shares or the increase in the share capital, calculated as; $\frac{\text{Votes against}}{(\text{Votes against} + \text{votes for})} * 100 \text{ percent}$
Opposition restriction on pre-emptive rights	OpposPREEMPT	Percentage of no-votes against the authority to restrict pre-emptive rights, calculated as; $\frac{\text{Votes against}}{(\text{Votes against} + \text{votes for})} * 100 \text{ percent}$

Opposition acquire treasury shares	OpposTREASURY	Percentage of no-votes against the authority to acquire treasury shares, calculated as; $\frac{\text{Votes against}}{(\text{Votes against} + \text{votes for})} * 100 \text{ percent}$
Opposition cancel treasury shares	OppCANCEL	Percentage of no-votes against the authority to cancel treasury shares, calculated as; $\frac{\text{Votes against}}{(\text{Votes against} + \text{votes for})} * 100 \text{ percent}$
Dummies for voting items	dALLOT, dPREEMPT, dACQUIRE, dREDEEM	These dummy variables have a value of one if shareholders could vote on one of these voting items, and zero otherwise.
Shareholder agenda item	Shareholder, Shareholdertotal	The number of shareholder proposals that are on the agenda; the variable Shareholdertotal includes countermotions.
Other (control) variables		
Dummy for financial company	dFinancial	This dummy variable has a value of one if all known shareholders are financial companies or institutions, and zero otherwise.
Dummies for types of shareholders	dFamily, dState, dInsider, DNon-financial.	These dummy variable have a value of one if the largest shareholders is i) family; ii) government; iii) a corporate insider (for example a director, *administratiekantoor* or a group holding) and ; iv) non-financial company and zero otherwise.
Summed stake of types of shareholders	Family, State, Insider, Non-financial	This is the summed stake of each type of shareholder (family, government, a corporate insider of a non-financial company) in a specific company.
Market capitalization	SIZE	Measured as the total value of the issued shares of the company in millions of euro at the end of the year before the AGM. The data is retrieved from disclosures of stock exchanges.
Financial performance	EPS	Earnings per share: euro value of earnings per each outstanding share.
	P/E	Price Earnings ratio: this is a valuation ratio of a company's current share price compared to its per-share earnings, calculated as the market value per share divided by the EPS.
	RI	Total Return Index: this shows a theoretical growth in value in millions of euro of a share holding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date.

3.7 Sample and model

This research makes (besides other data sources) use of hand-collected panel data from websites of companies that are listed at the national stock exchanges of different countries in the European Union, including UK, France, Germany, Austria, Belgium and Ireland for a period of four years (2010, 2011, 2012 and 2013). The main indices of these countries are used; the FTSE-100 for the UK, the CAC-40 for France, the DAX-30 for Germany, the ATX-20 for Austria, the BEL-20 for Belgium and the ISEQ-20 for Ireland. The companies that were part of these indices in (one or more of) the years 2010, 2011, 2012 and 2013 are included in the sample.

The choice for these countries is based on practical and theoretical considerations. Whereas the UK and Ireland have a *common law system* according to the *Legal Origin Theory*, the legal system of many countries in Continental Europe is often described as a *civil law system*. Moreover, some scholars make a distinction between the German civil law system (for example in Germany and Austria) and the French civil law system (for example France and Belgium).[93] Although the question whether the *Legal Origins Theory* adequately describes practice is still widely debated, the sample used in this research is nevertheless balanced according to this theory.[94] The practical reasons include language barriers and the availability of information on the company's websites. The Netherlands is not included in this sample due to the fact that a part of the Dutch companies makes use of a *Stichting Administratiekantoor*, that seperates the voting rights from the capital rights; however, following article 118a of Book 2 of the *Dutch Civil Code*, holders of depository receipts may file a request in order to become authorized to vote at the AGM. Also, as stated before, the Transparency Directive (Directive 2004/109/EC) defines holders of depository receipts as shareholders. Although holders of depository receipts are able to vote in practice, it was not possible to check (with the limited means I have) whether a holder of a depository receipt was present at the AGM or not. Moreover, the presence of depository receipts

[93] The Legal Origin Theory is for example described in the seminal work of La Porta, Lopez-de-Silanes, Shleifer and Vishny (LLSV) in Law and Finance (1998), *Journal of Political Economy*, 106(6).

[94] Although there is no central corporate law in the European Union, the corporate laws of the Member States are partly harmonized by European law. Moreover, scholars have predicted that corporate governance models would converge to one dominant model. See for example Hansmann, H., Kraakman, R. (2000), The End of History for Corporate Law, available at *SSRN*. However, there are still some major differences in corporate law across Europe. For example, in Germany corporate law follows the practice of co-determination or *mitbestimmung*, which enables employees to elect part of the supervisory board members. In this regard, one can also refer to the research of Bebchuk, L.A., Roe, M.J (1999), A Theory of Path Dependence in Corporate Ownership and Governance, *Stanford Law Review*, 52, pp.127-170. These authors developed a theory of the path dependence of corporate structure.

makes the analysis of *de facto* ownership structures more difficult. The existence of *prioriteitsaandelen* represents another difficulty concerning the measurement of voting power.[95]

Due to the fact that not all companies disclose all the needed information on their website, the final sample is smaller than the total number of companies that were part of the FTSE-100, CAC-40, DAX-30, ATX-20, BEL-20 and ISEQ-20 for one or more years in the period 2010 to 2013. I contacted investor relations departments of the companies that did not disclose (sufficient) information on turnout or voting outcomes of the AGMs. Some of these departments provided the requested information, including Paddy Power Plc, Danone SA and Smurfit Kappa Group Plc. The Legal Department of Umicore NV informed me about a share split in 2008, resulting in old and new shares with respectively one and two votes per share, as stated in article 24 *Overgangsmaatregelen* of its Bylaws.

The total sample consists of 208 companies for four years, which makes the number of repeated observations 832;

Table 1: The sample

Country	Number of companies
Austria	21
Belgium	17
France	35
Germany	32
Ireland	18
UK	85
Total	208

In Appendix B one can find the list of the 208 companies. In chapter 4, I conduct a descriptive analysis of this sample of 208 companies and discuss the main findings. Of the 832 observations, *Datastream* holds P/E ratio data for 719 observations and earnings-per-share data for 721 observations. The total return index is available for 786 companies. The *mean* or *average* market capitalization is 16552 million euro; the mean P/E ratio is 21.0, the mean earnings per share is 3.2 and the mean of the total return index is 52786 million euro.

[95] Although I was not able to include the Netherlands in this research, I would recommend to do this in future research.

4 Descriptive analysis

In this chapter, I take a closer look at the 208 companies that are considered in this research. Descriptive statistics on the characteristics of the companies in the sample are reported with the use of the statistical software *SPSS*. Besides this analysis, also the main (legal) differences between the AGMs in the six European countries are described.

4.1 The AGM in the six European countries

AGMs differ enormously across European countries. For some issues, the European company law directives require shareholder voting. For example, the *Second Company Law Directive (2012/30/EU)* requires a decision of the AGM when the company's capital is subject to change. For example, when the company decides to undertake a reduction in the subscribed capital or to acquire its own shares, approval of the AGM is required. Moreover, shareholders have the right to vote on the decision to issue new shares and to waive pre-emptive rights. According to article 33(4) of this directive, "the right of pre-emption may not be restricted or withdrawn by the statutes or instrument of incorporation. This may, however, be done by decision of the general meeting." However, according to article 29(2) the articles of association may authorize an increase in the subscribed capital up to a maximum amount for a maximum of five years; the authorization may be renewed by the AGM.

These shareholder rights are considered to be important to incumbent shareholders since their position can be influenced significantly. Article 44 of this Directive requires a majority of not less than two-thirds of the votes on the decision to i) waive pre-emptive rights; ii) reduction in the subscribed capital and; iii) partial or total redemption of the subscribed capital. However, following article 44 second paragraph "the laws of the Member States may [...] lay down that a simple majority of the votes specified in the first paragraph is sufficient when at least half the subscribed capital is represented". Besides the voting items related to a change in the company's capital, also the election of the auditor is a common agenda item of the AGM in Europe.[96] This is laid down in for example section

[96]Following article 37 of Directive 2006/43/EC, amended by Directive 2008/30/EC of the European Parliament and of the Council of 11 March 2008. Van der Elst in "Shareholder Rights and Shareholder Activism: The Role of the General Meeting of Shareholders", SSRN 2012, recognizes that this Directive allows Member States "to provide in alternative systems if this system does not impair the auditor's independence from the executive members of the board or management board." Moreover, he notes that the board governs or monitors the selection procedure

498(4) and 491(1) of the *UK CA 2006* and in section 160 of the *Irish CA 1963* jo section 182 and further of the *Irish CA 1990*. Regulatory requirements related to mergers and divisions of companies can be found in several European directives.[97]

For issues that are not regulated by the European directives, the Member States have to decide whether they assign the AGM the right to decide on a certain issue. As a result, there are many differences in the requirements for AGMs regarding voting items. Van der Elst (2012)[98] provides the example of the voting item concerning the financial statements; whereas in Belgium and France the AGM must approve the financial statements, in the UK the accounts and reports are "laid before"[99] the AGM. In Germany, the supervisory board adopts the accounts or leaves this decision to the AGM.[100] In France, the AGM votes separately on the accounts and the consolidated accounts.[101] Another example is the resolution on discharging directors; in Germany, Austria and Belgium the discharge of directors is a common voting item, however, in the UK, Ireland and France this is not the case.[102] In the UK and Ireland many shareholders may vote on the resolution that "a general meeting, other than an AGM, may be called on not less than 14 clear days' notice".[103] In general, French AGMs, or combined AGMs and EGMs, have more voting items on the agenda then AGMs in other countries.

The draft Fifth Directive tried to harmonize the complete internal affairs of all public corporations, including mandatory division of powers between the management, non-executive directors or supervisors and the AGM, but was withdrawn due to disagreement on labor participation. According to Van der Schee, the EC decided to draw back the proposal on 9 January 2004; the proposal to adopt the mandatory creation of a two-tier board system including mandatory provisions for employees' representation on the supervisory board for companies with more than 500 employees was highly controversial.[104]

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of the auditor (p.6).

[97] More specifically, in the Third Company Directive, the Sixth Company Directive and Directive 2005/56/EC.

[98] Van der Elst, C.F. (2012), Shareholder Rights and Shareholder Activism: The Role of the General Meeting of Shareholders, SSRN, p.9.

[99] Section 414 and 437 UK CA 2006.

[100] Section 171-173 German CA.

[101] Article L225-100 French Code du Commerce.

[102] For example, according to paragraph 232 of the UK CA 2006, discharging directors would be void in the UK.

[103] This is a special resolution that requires 75 percent of the votes. According to article 307(A2.4) of the UK CA 2006 "a general meeting may be called by shorter notice than that otherwise required if shorter notice is agreed by the members".

[104] Van der Schee, P.A. (2011), p.141. Note that in the German two-tier board system, the supervisory board appoints the management board.

Finally, several topics play a role when determining the quorum or qualified majorities for a certain AGM; i) are abstentions taken into account when determining whether or not a resolution received enough yes-votes to pass the majority criterion?; ii) is there a requirement for a minimum proportion of all shareholders with voting rights in order for a resolution to be valid? and; iii) is there a supermajority required for particular resolutions?[105] For example, in the UK and Ireland *votes withheld* are not considered to be *votes in law* and will not be counted in the calculation of the proportion of the votes for and against the resolution.[106]

There are also different voting items in different countries that require specific quorums and qualified or special majorities. In Belgium and France an Extraordinary General Meeting (EGM) is required for certain resolutions, for example amendments to the articles of association. In practice, the AGM and EGM are often combined into one meeting. In France, this requirement is laid down in article L225-96 of the *Code du Commerce*, requiring a quorum of 25 percent on the first call of the EGM and a two-thirds majority of the votes. In Belgium, articles 558-560 of the *Wetboek van Vennootschappen* require different qualified majorities for different extra-ordinary voting items. For example, for an amendment of the articles of association not related to a change in the company's objectives and purposes, article 558 requires a quorum of 50 percent on the first call and a majority of 75 percent. In the UK, Germany and Ireland, some resolutions are considered to be special resolutions, for which a majority of 75 percent is required. In Austria, for example paragraph 146(1) of the *Aktiengesetz* requires a 75 percent majority of the nominal capital present or represented for the amendment of the articles of association.

4.2 Voting turnout of all shareholders

The total voting turnout is retrieved from documents on the websites of the companies, including documents about the voting results, the share capital and total voting rights announcements and information from the annual reports and registration documents. Since it is the purpose of the research to determine the actual voting power of shareholders, the reported voting turnout and stakes in

[105] Van der Schee, P.A. (2011), p.137, footnote 412.

[106] For example, see the *UK Corporate Governance Code 2012*, provision E.2.1. *The Listing Rules of the Irish Stock Exchange* (ISE) require that Irish incorporated listed companies on the Main Securities Market apply to the UK Corporate Governance Code 2012 on a comply or explain basis. The *Irish Corporate Governance Annex* states that the ISE recognizes that this Code has "set the standard for corporate governance internationally" (p.1 of Appendix 4).

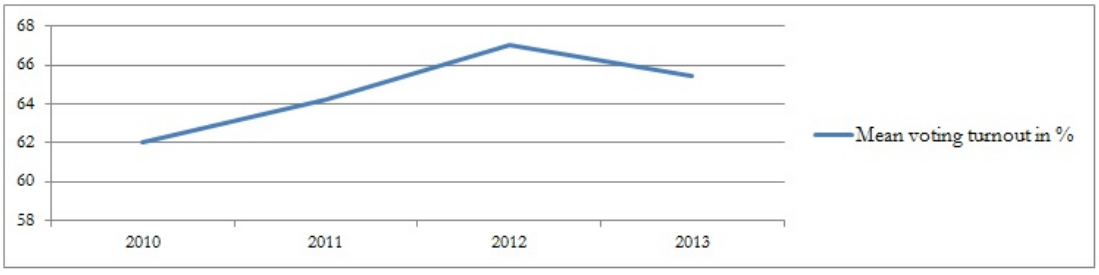
this research are corrected for treasury shares if possible, in line with the reporting requirements in the UK and Ireland. Treasury shares are shares hold by the company itself; these shares have no voting rights in practice. In France, companies often report the number of voting rights excluding treasury shares on their website. For other companies, information retrieved from annual reports, notification document of the meeting and other disclosure documents are used.[107] Due to this manner of reporting, the percentages might slightly differ from other researches.

$$\text{TURNOUT}(\%) = \frac{\text{actual votes submitted}}{\text{total voting rights corrected for treasury shares}} * 100\%$$

The total voting turnout differs widely across the 208 companies in the sample. The lowest turnout in the period 2010-2013 is measured for the AGM in 2010 for the Austrian company CA Immobilien Anlagen AG and amounts 15.2 percent, whereas the highest voting turnout is 99.8 percent, measured for Allied Irish Banks in 2013 en 2012. The National Pensions Reserve Fund Commission holds 99.8 percent of the shares in Allied Irish Banks plc; at the end of 2010 Allied Irish Banks plc was effectively nationalized by the Irish Government. The mean or average voting turnout for the 208 companies over the period of four years is 64.7 percent, with a standard deviation of 14.8 percent.

When one takes a closer look at the data available per year, one can see that the mean of the voting turnout shows a somewhat increasing trend;

Figure 1: Mean voting turnout



[107] In case treasury shares were included in the total number of voting rights reported by the company, the number of treasury shares was deducted from total voting rights. Since it is important to take into account that some voting results disclosures include treasury shares when reporting the number of voting rights present at a meeting, the actual submitted votes (votes in favour, votes against, votes withheld etc.) are summed where possible, to take into account only the shareholders that can actual vote. Unfortunately, this was not possible for all companies in the sample. For example, some companies reported, instead of the actual number of votes, the percentages of votes for, against and withhold. For these companies it was not possible to account for treasury shares. However, the mass of companies reports the actual numbers or has an insignificant amount of treasury shares.

The mean voting turnout per country over these four years also differs. In Belgium, the mean voting turnout over four years is the lowest with 51.3 percent, whereas in the UK and Ireland, the mean voting turnout is 69.6 and 68.1 percent respectively. France has the highest voting turnout of Continental Europe on average with a percentage of 65.9. Austria has a mean voting turnout of 59.6 percent and the average voting turnout of Germany is 58.7 percent.

The red bar in the graph below shows the *median* voting turnout per country over the period 2010 to 2013. The median can be explained as 'the middle number', separating the higher half of the data from the lower half. As one can see, only for Germany, the median voting turnout is lower than the average voting turnout. This means that the distribution is skewed to the left; there are more values smaller than the average value, but the values that are larger than the average value are (much) higher. For Belgium, the median voting turnout is approximately 5.5 percent higher than the mean; this implicates that most of the turnout values are larger than the mean, but there are some values that are (much) smaller.

Figure 2: Average total turnout (blue) and median total turnout (red)

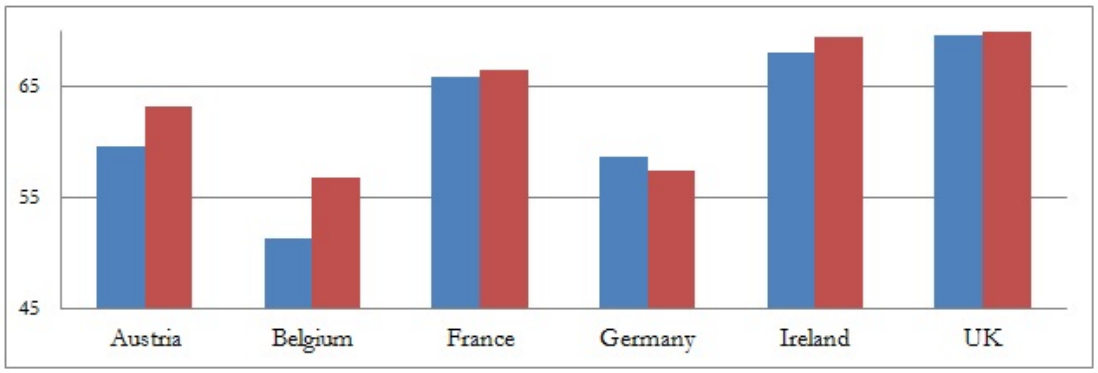


Table 2 shows the trend of the voting turnouts per country over 2010-2013. As one can see, Belgium reports the lowest voting turnout for all years, whereas either the UK or Ireland reports the highest total turnout.

Table 2: Total voting turnout (%)

Country	2010	2011	2012	2013
Austria	56.8	57.2	60.7	63.6
Belgium	48.0	46.6	54.8	55.9
France	62.9	67.5	68.3	64.9
Germany	59.8	59.4	62.2	53.6
Ireland	60.0	66.5	72.9	73.2
UK	67.1	69.4	71.1	70.7

It is noteworthy that in the UK, France and Germany the total voting turnout decreased in 2013. Whereas in the UK and France this difference is only 0.4 percent and 3.4 percent respectively, in Germany this decrease is substantial with 8.6 percent.

We can compare these results to findings from other studies. Hewitt (2011) mentions a turnout rate of 68 percent on average for the UK[108] and Renneboog and Szilagyi (2013) mention the turnout rates reported by the EC in the Impact Assessment 2006, which are less than 60 percent on average in Continental Europe and below 50 percent on average for Belgium. Van der Elst (2011) reports a *median* voting turnout of 67 percent in the UK, of 59 percent in the France and between 53 and 54 percent in Germany and Belgium.

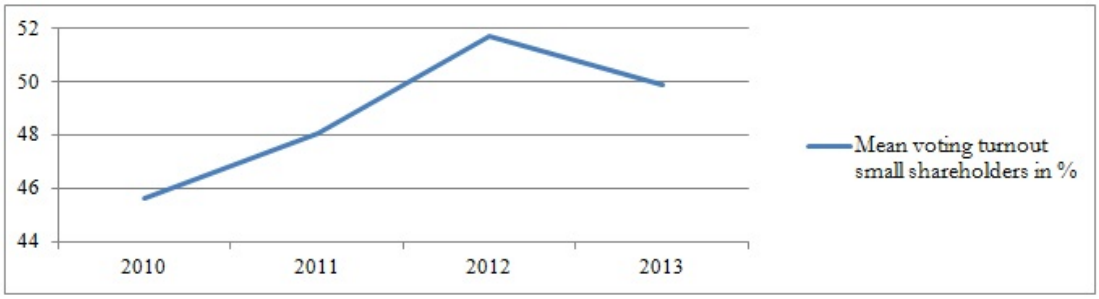
4.3 Voting turnout of small shareholders

The voting turnout of small shareholders (turnout of free float) is calculated as follows, where the smallest voting block is five percent; [109]

$$\text{TURNOUTsmall } (\%) = \frac{\text{TURNOUT } (\%) \text{ - summed voting block of all blockholders}}{100\% - \text{summed voting block of all blockholders}} * 100\%$$

The mean voting turnout of small shareholders for the whole sample is 48.8 percent and the standard deviation is 18.6 percent. The maximum voting turnout of small shareholders is 80.6 percent for the AGM of Meggitt Plc in 2012. Graph 3 shows the trend of the voting turnout of small shareholders over the past four years;

Figure 3: Mean voting turnout of small shareholders



[108] Hewitt (2011).

[109] For a few observations (18 of the 832 observations), the sum of the voting blocks was higher than the total voting turnout measured at the AGM. In this case, the voting turnout of small shareholders (turnout of free float) was set equal to zero.

The mean voting turnout of small shareholders per country over these four years differs. In Belgium, this percentage is the lowest with 20.5, whereas in the UK the mean voting turnout is 61.3 percent. France has the second highest small shareholder voting turnout on average with a percentage of 50.2; Ireland's mean small shareholder turnout is 46.1 percent, Austria reports a mean voting turnout of small shareholders of 28.8 percent and the average voting turnout of Germany is 43.8 percent.

In the graph below, the red bar shows the median voting turnout in percentage per country. As one can see, only for Austria and Belgium, the median voting turnout is lower than the average voting turnout, which means that the distribution is skewed to the left.

Figure 4: Average turnout (blue) and median turnout (red) of small shareholders

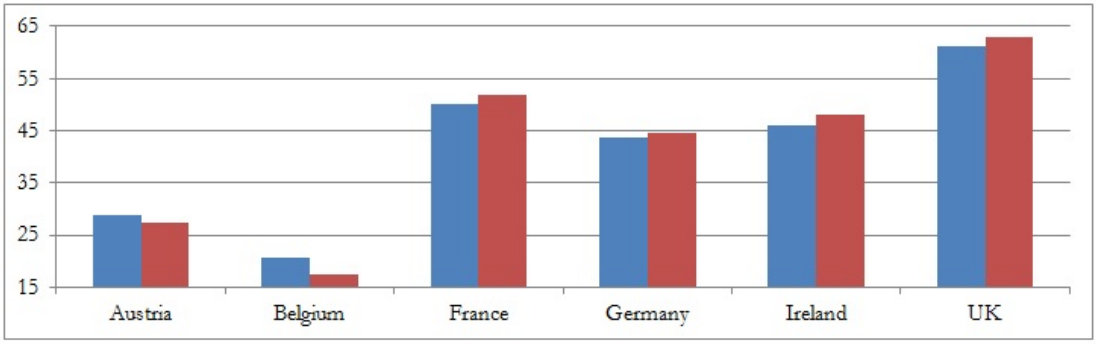


Table 3 shows the trend of the average voting turnouts of small shareholders per country over the period 2010-2013. As one can see, Belgium reports the lowest voting turnout of small shareholders for all years, with the lowest overall voting turnout of small shareholders of only 11.9 percent in 2010 and 2011. In contrast, the UK reports percentages of around 60 percent for each year. Remarkable is the substantial decrease of 12.4 percent in voting turnout of small shareholders for Germany in 2013.

Table 3: Total voting turnout of small shareholders (%)

Country	2010	2011	2012	2013
Austria	27.1	24.2	30.0	33.9
Belgium	11.9	11.9	25.8	32.3
France	44.8	51.9	53.7	50.3
Germany	45.3	45.7	48.3	35.9
Ireland	41.3	46.0	47.8	49.4
UK	58.1	61.0	63.4	62.8

4.4 Ownership structure

The way of disclosure of major shareholdings is regulated in more detail by the national authorities.[110] In France, the *General Regulation* of the AMF requires that "the total number of voting rights is calculated on the basis of all the equities to which voting rights are attached, including equities whose voting rights have been suspended"(article 223-11). However, most companies report besides the theoretical number of voting rights as required by the AMF also the voting rights that could be exercised at the AGM.[111] The lowest mandatory disclosure threshold in France is five percent (article L.233-7 of the Code de Commerce) [112], but the articles of association can stipulate an additional disclosure threshold, which may not be less than 0.5 percent of the capital or voting rights. In Belgium the *Wet op de openbaarmaking van belangrijke deelnemingen in emittenten waarvan aandelen zijn toegelaten tot de verhandeling op een gereglementeerde markt en houdende diverse bepalingen*, also called the *Transparantiewet*, stipulates that the disclosure thresholds are 5%, 10%, 15%, 20% and each 5% threshold thereafter up to 100% are obligatory for shareholders (article 6 of the Transparantiewet). Besides these legal thresholds, companies can require additional thresholds in their articles of association of 1%, 2%, 3%, 4% and 7.5% (article 18 of the Transparantiewet). According to article 9 of the Transparantiewet, shareholders may use total voting rights including treasury shares as the denominator for the calculation of their voting stake.[113]

In Austria there is an additional disclosure requirement in the Austrian Stock Exchange Act (*BörseG*) for shareholders reaching, exceeding or falling below the 4 percent ownership threshold in a publicly traded company as of January 2013. This additional threshold of 4 percent is implemented next to the threshold of 5 percent and all multiples of 5 percent. Companies can lower this threshold in their articles of association to 3 percent. Paragraph 91 of the BörseG stipulates that "the percentage of voting rights [...] shall be calculated based on the total

[110] At the European level, disclosure of major shareholdings in regulated by the the Transparency Directive (Directive 2004/109/EC).

[111] For example, see the annual reports of Vallourec (section breakdown of share capital and voting rights).

[112] Article L.233-7 states: *"[...]qui vient à posséder un nombre d'actions représentant plus du vingtième, du dixième, des trois vingtièmes, du cinquième, du quart, des trois dixièmes, du tiers, de la moitié, des deux tiers, des dix-huit vingtièmes ou des dix-neuf vingtièmes du capital ou des droits de vote informe la société dans un délai fixé par décret en Conseil d'Etat, à compter du franchissement du seuil de participation, du nombre total d'actions ou de droits de vote qu'elle possède."*

[113] Article 9. § 1: *"Voor de berekening van de stemrechtenquota bedoeld in artikel 6:* 1○ *worden de stemrechtverlenende effecten in aanmerking genomen a rato van het aantal bestaande stemrechten waarop zij recht geven; en;* 2○ *worden de stemrechten verbonden aan stemrechtverlenende effecten in aanmerking genomen niettegenstaande de gebeurlijke opschorting van de uitoefening ervan."*

number of shares with voting rights, even if the exercise of such voting rights has been suspended". In Germany, a shareholder has to disclose his or her shareholding when he or she acquires, exceeds or falls below 3%, 5%, 10% , 15%, 20% , 25% , 30% , 50% or 75% of the voting rights according to paragraph 21 of section 5 of the *Wertpapierhandelsgeset* (WpHG). In accordance with paragraph 26a of section 5 of the WpHG, companies have to publish the total number of voting rights at the end of each calendar month.

Disclosure and Transparency Rule (DTR) 5.2.1 of the FCA in the UK states a lowest mandatory disclosure threshold of 3 percent; it requires notification for a shareholder that "reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to 100%"[114]. DTR 5.6 states that the company needs to disclose its total number of voting rights and the total number of votes that are attached to treasury shares. Under the FCA's DTR, the number of total voting rights excluding the voting rights attached to treasury shares may be used by shareholders as the denominator for the calculations of their shareholdings. In Ireland, in accordance with *S.I. No. 277/2007 - Transparency (Directive 2004/109/Ec) Regulations 2007* Part 5, paragraph 14(4), shareholders are obliged to disclose their shareholding if it reaches, exceeds or falls below the threshold of 5%, 10%, 15%, 20%, 30%, 50% and 75%. Article 20 of these Transparency Regulations 2007 is similar to UK's DTR 5.6 and requires companies to disclose the total number of voting rights and voting rights attached to treasury shares. Also in Ireland, the number of total voting rights excluding the voting rights attached to treasury shares may be used by shareholders as the denominator for the calculations of their shareholdings.

As it is the purpose of the research to determine the *actual* voting power of shareholders, the reported stakes in this research are corrected for treasury shares where possible, in line with the reporting requirements in the UK and Ireland. In France, many companies report the number of voting rights excluding treasury shares on their website. For other companies, information retrieved from annual reports, the notification document of the meeting and other disclosure documents are used.

Table 4 shows that in Belgium and Austria the stake of the largest shareholder is on average the largest. The UK reports an average largest stake of 14.6 per-

[114]In the case of a non-UK issuer the thresholds 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% apply.

cent, which is substantially lower than other average largest stakes. Allied Irish Banks plc reports in 2012 and 2013 the highest stake (99.8 percent) of the whole sample; as stated before, the shareholder is the National Pensions Reserve Fund Commission, controlled by the Austrian Government. In France, the largest stake reported is 84.6 percent by EDF S.A. in 2010; the shareholder is the French State. Raiffeisen Bank S.A. reports a stake of 78.5 percent for RBZ in Austria and in the UK Fresnillo plc reports a stake of 77.1 percent for its shareholder Penoles. In Germany, the largest stake is reported by MAN SE; Volkswagen is its largest shareholder. In Belgium, D'Ieteren SA reports the largest stake of 65.2 percent, which is the sum of the stakes of the SPDG Group, the Nayarit Group and Cobepa S.A. as these parties are acting in concert.[115]

As stated before, in this research, a voting block is defined as the sum of all shareholdings that are equal to or larger than 5 percent of the voting rights excluding treasury shares. The maximum voting block of the whole sample is 99.8 percent (again, Allied Irish Banks plc). The mean voting block of the whole sample is 28.7 percent with a standard deviation of 21.2 percent. In table 4 the voting blocks of the six countries are compared. Also the two Herfindahl Hirschman indices (lower bound and upper bound) are reported in this table. The theoretical maximum value of the HHI is 10,000; this is the case when there is one shareholder that owns all voting rights (extremely concentrated situation). A relatively low HHI indicates a low concentration of ownership.

4.5 Power indices

In this section I evaluate the outcomes for the different power indices that are used in this research. As stated before, the R12 ratio[116] shows the stake of the second largest shareholder compared to the stake of the largest shareholder. If R12 is close to zero, the stake of the largest shareholder is significantly larger than the stake of the second largest shareholder and he or she will have a large voting power; if R12 is close to one, the stakes of the two largest shareholders do not differ substantially and their voting power will be more similar. The mean R12 ratio for all companies in the sample is 0.48, with a standard deviation of 0.32. This indicates that the values for R12 in this sample are widespread. If one takes a closer look at the R12 ratio at the country level, one can conclude that the voting

[115] For example, one can refer to the Annual Report 2012 of D'Ieteren, *Note 29: Equity* on page 58.

[116] In case there is only one stake reported, the second largest shareholder is assumed to be a small shareholder holding 1 percent of the votes. I chose to report this ratio rounded to two decimals.

power of the largest shareholder on average is different per country. Whereas in Belgium the average R12 ratio is the lowest, namely 0.25, in the UK this ratio is the largest with 0.61. In France and Ireland the ratio is 0.47 and 0.50 respectively. In Germany, the mean R12 ratio is 0.39 and in Austria this is 0.28. The standard deviations range from 0.26 to 0.34.

From these results one can conclude that the stakes of the largest and second largest shareholder in the UK are more symmetric than in the other countries. In Belgium, the stake of the largest shareholder is on average four times higher than the stake of the second largest shareholder. If one compares these outcomes to the average largest stakes per country, one would recognize that the average largest stake in France is 24.6 percent, which is larger than the mean stake of 22.3 percent reported in Germany; however, the R12 ratio in France is 0.47 compared to 0.39 in Germany, which indicates that the absolute stake of the largest shareholder in Germany is on average smaller, but its relative stake compared to the second largest shareholder is on average larger. The same holds for Ireland with an average largest reported stake of 26 percent and an average R12 of 0.50. Alo note that the second largest stake in France and Ireland are larger than in Germany.

The (normalized) Banzhaf index shows the voting power of an individual shareholder, thereby taking into account the shareholdings of all shareholders. As stated before, I calculate the Banzhaf index for a simplified game with the assumption that a theoretically small shareholder holds 1 percent of the voting rights. All reported stakes above 1 percent were taken into account and rounded to nearest integers. The average findings percountry are reported in table 4. As one can see, the voting power of a small shareholder holding 1 percent of the votes is the smallest in Belgium, with 0.29 percent of the total voting power. In contrast, a small shareholder has an average voting power of 0.85 percent in the UK. In Ireland and France, small shareholders have on average a voting power of 0.74 percent and 0.68 percent respectively for the companies considered in this sample. In Austria en Germany, this is respectively 0.41 percent and 0.56 percent. The average voting power of the largest shareholders in the sample is relatively high in Belgium and Austria with respectively 67.57 and 66.39 percent. The largest shareholders have the lowest average voting power in the UK.

In 117 of the 832 cases that are analysed, the largest shareholder has all voting power, i.e. a normalized Banzhaf index of 100 percent. At almost 29 percent of the Austrian AGMs in the sample, a shareholder with a voting power of 100

percent is present; this is even almost 34 percent for Belgium.[117] The smallest stake of the largest shareholder that has 100 percent of the voting power amounts 44.8 percent (Schroders plc). However, for example at Deutsche Post AG, the largest shareholder has a voting power of around 91 percent, while it only has a stake of 25.5 percent.

For a few of the 832 observations, the Banzhaf index assigns a voting power that is larger than 1 percent to the small shareholders that hold a stake of 1 percent of the voting rights. The largest voting power of a small shareholder in this sample is 1.70 percent. In this simplified game for the shareholders of Bouygues S.A., the largest shareholder (SCDM) has a stake of 29 percent of the exercisable voting rights on 31 December 2012 and the second largest shareholder (shares owned by Bouygues employees under a company saving scheme) also has a stake of 29 percent.[118] There are 42 small shareholders who all hold 1 percent of the votes. The Banzhaf index assigns a voting power of 14.36 percent to the largest (and thus also the second largest) shareholder. Another example is the voting power for a small shareholder in Telekom Austria AG; on 31 December 2012, the Republic of Austria held 28 percent of the votes through ÖIAG and América Móvil held 23 percent.[119] I could not find any information about a shareholder agreement or other arrangement between these two shareholders, and I therefore assume that these shareholders are not acting in concert. In the simplified game for Telekom Austria AG, there are 49 small shareholders all holding 1 percent of the voting rights. The Banzhaf index assigns 1.39 percent of the voting power to these small shareholders; the Republic of Austria has a voting power of 24.10 percent.

Besides the Banzhaf index, I also calculated the Shapley-Shubik values for the smallest and largest shareholders in the sample. I notice that these two indices yield different results; on average, the Shapley-Shubik index assigns more voting power to small shareholders (on average 0.79 percent for the whole sample, compared to 0.68 percent reported by the Banzhaf index) and assigns less voting power

[117] More specifically, of the 84 AGMs in Austria, at 24 AGMs a shareholder with 100 percent voting power was present. In Belgium this is the case for 23 AGMs out of 68. In contrast, in the UK, at 21 AGMs the largest shareholder has all the voting power, which is only 6 percent of the total 340 observations for the UK.

[118] SCDM is a simplified limited company controlled by Martin Bouygues and Olivier Bouygues. The stake of SCDM includes shares owned directly by Martin Bouygues and Olivier Bouygues according to the 2012 Registration Document of Bouygues, p. 207. Shares owned by employees under a company saving scheme are reported as one stake. In this research stakes are reported as integers. The 2012 Registration Document reports a stake of 29.2 for SCDM and 28.7 for the employees. The Banzhaf index is 15.29 percent for SCDM and 13.60 percent for employees, in case stakes are rounded to nearest integers.

[119] Annual Report 2012 of Telekom Austria AG.

to the largest shareholders (on average 31.99 percent compared to 38.02 percent). For example, in a game where there is one large shareholder holding 38 percent of the voting rights and 62 small shareholders holding each 1 percent of the voting rights [120], the Banzhaf Index reports a voting power of 99.99 percent for this large shareholder when using a quorum of 51 percent, and assigns approximately zero voting power to the small shareholders. In contrast, the Shapley-Shubik value assigns only 60.35 percent of the voting power to the large shareholder and 0.64 percent to each small shareholder. And for a game with one large shareholder that holds 31 percent of the voting rights and 69 small shareholders[121], the Banzhaf index assigns a voting power of 99.18 percent to the large shareholder, whereas the Shapley-Shubik index assigns only 44.30 percent of voting rights to this large shareholder.[122]

[120]This is the simplified game of N.V. Bekaert S.A. where Stichting Administratiekantoor Bekaert holds approximately 38 percent of the total voting rights.

[121]This is the simplified game of Schoeller-Bleckmann Oilfield Equipment AG where BIH AG holds 31 percent of the votes.

[122]These findings are in line with the statements of Straffin Jr. (1988).

Table 4: Total voting turnout of small shareholders (%)

Country	stake1	stake2	stake3	largest
Austria	33.8	11.0	6.7	78.5
Belgium	35.6	6.0	3.9	65.2
France	24.6	7.4	4.4	84.6
Germany	22.3	6.0	4.5	75.0
Ireland	26.0	8.9	5.3	99.8
UK	14.6	6.1	4.7	77.1
Country	block mean	block high	block low	
Austria	43.7	85.2	5.5	
Belgium	38.7	67.7	0.0	
France	30.5	84.6	0.0	
Germany	26.8	88.9	0.0	
Ireland	34.3	99.8	0.0	
UK	21.9	87.8	0.0	
Country	Cr_2	Cr_3	HHIlow	HHIup
Austria	40.7	42.8	1639	1918
Belgium	39.4	40.8	1702	1994
France	30.7	32.9	1123	1443
Germany	26.6	29.1	898	1245
Ireland	33.8	37.7	1390	1676
UK	20.4	24.0	531	884
Country	R12	Banzhafsmall%	Banzhaflarge%	
Austria	0.28	0.41	66.39	
Belgium	0.25	0.29	67.57	
France	0.47	0.68	32.90	
Germany	0.39	0.57	49.54	
Ireland	0.50	0.74	34.83	
UK	0.61	0.85	23.31	

4.6 Voting items

The variable *ELECT* is calculated as the total number of board members that are elected or re-elected by the AGM, including supervisory board members (Germany, Austria and France) and independent board members (Belgium). The corporate governance systems in Austria and Germany follow a two-tier board system, including a *Vorstand* (management board) and an *Aufsichtsrat* (supervisory board). The Aufsichsrat has the legal duty to appoint, to supervise and to remove members of the management board. The AGM has the right to partly elect the members of the Aufsichsrat. The other part of the members of the Aufsichsrat is elected by employees. In large companies (more than 2,000 employees) this ratio is fifty-fifty and in companies with 500 to 2,000 employees, one-third of the members is elected from employee representatives. The chairman of the Aufsichsrat is elected from the shareholders representatives. According to section 113 of the Aktiengesetz the AGM sets the remuneration of the Aufsichsrat, whereas the Aufsichsrat sets the remuneration of the Vorstand. French law allows for a one-tier board (*Conseil*

d'administration) or a two-tier board system. The French supervisory board is required to have at least one member elected from employee representatives in case employees hold more than three percent of the share capital.[123] Ireland and the UK follow a unitary or one-tier board system. In Belgium, that has a one-tier board system, shareholders may also elect one or more independent director (onafhankelijke bestuurder).[124]

In table 5 below, one can see that the average number of directors the AGM elects is relatively high in Ireland and the UK compared to the other countries; this is due to the fact that it is common in the UK and Ireland that board members are re-elected every year, whereas this is not common practice in the other countries in the sample.[125]

Table 5: Average number of board members elected

Country	ELECT
Austria	2.1
Belgium	3.3
France	4.6
Germany	2.6
Ireland	8.6
UK	9.0

The highest shareholder opposition at the AGM is on average 16.5 percent. However, if one excludes (employee) shareholder resolutions and countermotions, the average highest shareholder opposition is 13.6 percent. When looking at the averages per country – excluding these aforementioned shareholder resolutions and motions – one can conclude that shareholder opposition is relatively large in France and Ireland, and relatively low in Austria. For Germany, one can notice high shareholder opposition against countermotions; the average highest shareholder opposition is 21.5 percent when taking into account all resolutions, but only 11.2 percent when these countermotions are excluded. For all other shareholder opposition percentages that are reported in this section, all shareholder resolutions, resolutions submitted by employee shareholders, countermotions and similar share-

[123] Article L 225-71 of the French Code du Commerce.

[124] Ex article 526bis of the Wetboek van vennootschappen, there needs to be at least one independent director in the Audit committee. In article 526ter one can find the independency requirements for these directors.

[125] It would be interesting to evaluate the nomination of directors in dept in future research; in this research, only the voting items on director (re-)elections *ansich* are considered.

holder motions are excluded.

With respect to director elections, the average largest opposition is 7.0 percent for the whole sample.[126] In France and Ireland, the opposition is relatively large with a percentage of 11.5 and 10.1 respectively. In the UK, Belgium and Austria, shareholder opposition to board elections is approximately 5 percent on average. It is striking that at only two AGMs (out of the 832 AGMs considered in this research) resolutions on the (re-)election of directors did not pass. During the AGM of Independent News and Media plc in 2011, the proposal to re-elect Leslie Buckley as a director did not pass as it received 58.6 percent of the votes against. And during the AGM of Glencore Xstrata in 2013, the proposal to elect Sir John Bond as a director did not pass with 80.9 percent of the votes.[127] As stated before, the right to elect board members is considered to be one of the most important powers of shareholders in theory. However, these findings question the importance of director elections in practice.

The approval of the remuneration report receives on average 7.4 percent of the votes 'against' and the opposition to other voting items related to board remuneration is on average 7.3 percent. In the UK, slightly more than 7.4 percent of the votes is against the approval of the remuneration report; this is 5.2 percent in Ireland and 9.9 percent in Belgium. [128] In Austria, only the shareholders of Bwin.party Digital Entertainment plc (formerly Bwin Interactive Entertainment AG) can also vote on the approval of the remuneration report; the average percentage of votes against is 11.4. Other voting items related to board remuneration receive the highest resistance in France with an average percentage of 14.5.

The percentage of votes against for the authority to allot shares or to increase the share capital is 6.2 percent on average for the whole sample; this voting item was on the agenda at 527 AGMs. For the authority to restrict pre-emptive rights this is 4.4 percent on average for 498 AGMs. Shareholders could vote on the resolution to acquire treasury shares at 223 AGMs; the average opposition was 3.8 percent. And the resolution to cancel shares received 1.9 percent of the votes against on average during (only) 78 AGMs. An overview of these voting items is

[126] For each AGM I reported the resolution on the (re-)election of a director with the largest opposition.
[127] During the AGM of Glencore Xstrata in 2013, also the proposal to elect Ian Strachan, Peter Hooley and Con Fauconnier was dismissed.
[128] At 38 of the 68 AGMs in Belgium that are considered in this sample, shareholders could vote on the approval the remuneration report.

presented in table 6 below;[129]

Table 6: Voting items and opposition

Voting item	#AGMs	Mean %	sd %
Director election	713	7.0	9.9
Director remuneration	256	7.3	11.3
Approval remuneration report	444	7.4	10.1
GM called on not less than 14 days	346	7.4	5.0
Allotment or increase capital	527	6.2	8.2
Restrict pre-emptive rights	498	4.4	7.9
Acquire treasury shares	223	3.8	5.9
Cancellation shares	78	1.9	4.5

4.7 Rejected resolutions

Relatively few voting items, other than shareholder proposals and countermotions, did not pass. As stated before, resolutions on the (re-)election of a director did not pass at two AGMs in this sample. But also other resolutions were not often dismissed. For example, of the 444 times shareholders could vote on the approval of the remuneration report, only 5 times this voting item did not pass. At the AGM of Aviva plc in 2012, 54.4 percent voted against the approval of the remuneration report. The shareholders of WPP plc also voted against the remuneration report at the AGM in 2012 with 59.5 percent of the votes. And the shareholders of William Hill plc voted with only a slight majority of 50.11 percent for the approval of the remuneration report. Over the period 2010-2013 the resolution on the authorization to call general meetings other than AGMs on not less than 14 clear days' notice that requires a 75 percent majority did not pass three times of the 346 times it was put on the agenda in the UK and Ireland; during the AGM of Easyjet plc in 2012 and 2013 and during the AGM of Hammerson plc in 2011. The voting item on the disapplication of pre-emptive rights is a special resolution in the UK and thus requires a 75 percent majority; however, this resolution did not pass only twice in the UK. In Ireland, there is also a 75 percent majority needed for this voting item. Only for Aer Lingus Group plc, this voting item did not pass for four years in a row. During the AGM of K+S AG in 2010, two resolutions regarding the share capital that require 75 percent of the votes did not pass with 43.75 percent and 60.66 percent of the votes against respectively.

Although relatively few resolutions did not pass during the observed AGMs, this

[129] *sd* is the abbreviation for *standard deviation*.

does not hold for shareholder proposals. In total, there were 46 shareholder proposals, including proposals of employee shareholders and 22 countermotions, i.e. there were 60 resolutions that were put on the agenda by shareholders. None of these 22 countermotions passed. Of the 46 shareholder proposals, 40 proposals did not pass. At the AGM of Allied Irish Banks Plc, Mr. Niall Murphy was nominated by a shareholder to be elected as a board member in 2010 and 2011, but the voting item did not pass in both years. The six shareholder proposals that were passed are all part of French AGMs and are proposals of the employee shareholders to elect a director to the Board of Directors. For example, during the AGM of AXA S.A. in 2012, shareholder employees nominate 8 potential directors to the Board of Directors and only one director was elected. And at the AGM in 2013 and in 2012 of Schneider Electric A.S. one of the four voting items regarding the election of a director representing employee shareholders was passed.

5 Multivariate analysis

Since I use both cross-sectional (listed companies) and a time series dimension (t=4), I conduct a panel data analysis in this chapter, using the statistical software *STATA*. A panel data set contains repeated observations over the same units, collected over a number of periods.[130] Two commonly used panel data models are the fixed effects model and the random effects model. Whereas the fixed effects estimator focuses on differences within companies, as there may be unobserved company characteristics that play a role when analyzing the AGMs, the random effects estimator assumes that the unobserved company characteristics are uncorrelated with each explanatory variable.[131] Since the random effects estimator also makes use of the differences between companies, this estimator uses more information and may therefore be a more efficient estimator in case this aforementioned condition holds. As companies may be very different in many respects, it is expected that fixed effects is the appropriate model in this research.

However, in order to decide whether to use a fixed effects model or random effects model, I conduct the *Hausman Test*, developed by Hausman (1978). This test tests the null hypothesis that the unobserved individual characteristics (α_i) and the explanatory variables ($x_i t$) are uncorrelated, i.e. whether random effects is the preferred model.[132] The Hausman test indicates that the null hypothesis is rejected; in other words, it is recommended to use the fixed effects model in this research. However, since the random effects model uses both in between and within variation, I decide to report the random effects estimators in Appendix C. Besides the Hausman test, I also conduct a test for *heteroskedasticity*. Simply stated, heteroskedasticity arises if different error terms do not have identical variances and causes statistical problems. The test indicates that there is indeed heteroskedasticity in this sample; in order to control for this statistical problem, I use the option *robust* in STATA.[133]

[130] Verbeek, M. (2012) *A Guide to Modern Econometrics*, Fourth Edition, John Wiley & Sons Ltd.: West Sussex, p.372

[131] Wooldridge, J.M. (2009) *Introductory Econometrics, A Modern Approach*, Fourth Edition, South-Western Cengage Learning, pp. 481-491.

[132] Verbeek, M. (2012) pp. 384-386.

[133] This test is the user-written program *xttest3* decribed as the *Modified Wald test for groupwise heteroskedasticity in fixed effect regression model*. The null hypothesis that states that there is a constant variance (homoskedasticity) is rejected.

5.1 Voting turnout of all shareholders

The results in tabel 7 show that the variable *HHIlow*, indicating the share ownership concentration of a company, has a slightly negative impact on shareholder turnout. However, in fixed effects models three and six, HHIlow has a slightly positive (but insignificant) impact on total voting turnout. The table in Appendix C indicates the significant effect of HHIlow is slightly positive in the random effects models three and six. The other ownership concentration measures are not significant. The variables voting block, Cr_1 and Cr_2 positively affect total voting turnout, but Cr_3 shows a negative relationship. As a result, I can neither confirm nor reject hypothesis one.

Hypothesis two, that states that the importance of the meeting will positively affect overall voting turnout of shareholders at the AGM, also cannot be confirmed. The variable *ELECT* is - surprisingly - negatively related to voting turnout in all models, which is not in line with hypothesis two. However, the effect is only slightly negative; for every director that has to be (re-)elected, total voting turnout decreases with approximately 0.18 percent. Shareholder opposition to director (re-)elections and remuneration is positively related to voting turnout in all models, but not significant. This also holds for example for the dummy that indicates whether shareholders may vote on the allotment of shares or an increase of the share capital; however, this variable is also not statistically significant at the five percent level.

The size of the firm is negatively related to voting turnout according to these eight models, just like the total return index. However, both variables are statistically insignificant in all models. The types of shareholders present in a company significantly affect the total voting turnout. The dummy for the presence of financial companies or institutions has a positive effect on the voting turnout and is significant at the one percent level in model seven. However, in model eight, where the stakes of families, governments and corporate insiders are included, this variable is not significant anymore (but note that this variable is still significant in the random effect model in Appendix C). The presence of family, the government or a corporate insider also positively affects total voting turnout. Note that the dummy for the presence of a non-financial company as the largest shareholder, not being a corporate insider, is omitted due to the small amount of observations for which this dummy takes a value of one (only 32 out of 832). Model eight shows that the higher the stake of a family or government is, the higher the voting

turnout will be. The same holds for the stake of a non-financial company, but again one should note that the number of observations for which this variable is non-zero is only 32.

Finally, one should note that the adjusted R^2 is very low in the fixed effects models, which means that the *Goodness-Of-Fit* is low, i.e. the data is not close to the fitted regression line.

Table 7: Panel data analysis fixed effects robust estimator

	(1) Turnout	(2) Turnout	(3) Turnout	(4) Turnout	(5) Turnout	(6) Turnout	(7) Turnout	(8) Turnout
Ownership concentration								
HHIlow	-0.00184***		0.000750	-0.000935	-0.00411**	0.000154	-0.00348	-0.00262
	(-3.36)		(0.49)	(-0.34)	(-2.78)	(0.08)	(-1.89)	(-1.54)
Voting block		0.0180		0.113	0.0663	0.0188	0.0996	0.0785
		(0.36)		(1.08)	(0.77)	(0.31)	(0.92)	(0.72)
CR1				0.232	0.262		0.210	0.240
				(0.95)	(1.72)		(1.24)	(1.60)
CR2				0.143	0.0727		0.0619	0.0975
				(0.34)	(0.35)		(0.21)	(0.34)
CR3				-0.371	-0.207		-0.262	-0.261
				(-1.15)	(-1.10)		(-0.92)	(-0.93)
Importance of the meeting								
ELECT	-0.0908	-0.181*	-0.178*	-0.186*	-0.0915	-0.135	-0.114	-0.0681
	(-1.17)	(-2.10)	(-2.07)	(-2.08)	(-1.24)	(-1.49)	(-1.54)	(-0.94)
Shareholdertotal		1.099	1.094	1.160				
		(0.81)	(0.81)	(0.78)				
OpposDIR		0.0502	0.0504	0.0475		0.0505		
		(1.34)	(1.35)	(1.25)		(1.33)		
OppREM		0.0611	0.0613	0.0616		0.0646		
		(1.86)	(1.87)	(1.84)		(1.94)		
OPPOS2					-0.0179		-0.0139	-0.0256
					(-1.20)		(-0.72)	(-1.37)
dALLOT						2.604		
						(1.66)		
dPREEMPT						-0.339		
						(-0.27)		
dAcquire						0.924		
						(0.54)		
dRedeem						-2.993		
						(-1.25)		
Control variables								
logSIZE	-0.822	-0.398	-0.392	-0.416	-0.888	-0.294	-0.814	-0.498
	(-1.60)	(-1.06)	(-1.07)	(-1.18)	(-1.74)	(-0.77)	(-1.57)	(-1.24)
logRI	-0.152	-0.582	-0.589	-0.562	-0.206	-0.556	-0.163	-0.289
	(-0.49)	(-0.88)	(-0.90)	(-0.89)	(-0.53)	(-0.91)	(-0.54)	(-0.96)
Dfinancial							10.62**	-0.849
							(3.14)	(-0.33)
Dfamily							10.16*	
							(2.56)	
DState							15.00*	
							(2.60)	

DInsider							18.99***	
							(4.46)	
							.	
Family								0.191*
								(2.13)
State								0.296**
								(3.09)
Insider								-0.284
								(-1.20)
Non-financial								0.294*
								(2.57)
_cons	75.57***	74.31***	74.15***	74.95***	75.74***	70.95***	64.50***	71.75***
	(15.05)	(12.85)	(12.50)	(12.68)	(14.04)	(11.02)	(10.63)	(13.09)
N	783	532	532	532	783	532	783	783
adj. R^2	0.024	0.026	0.026	0.034	-0.322	0.027	0.050	0.073

The tabel reports panel data regressions (fixed effects). The dependent variable is total shareholder voting turnout (%). logSIZE and logRI is the natural logarithm of respectively the market capitalization and the total return index. *t* statistics are in parentheses and use *heteroskedasticity*-consistent standard errors or White (1980) standard errors.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

5.2 Voting turnout of small shareholders

In order to be able to test hypotheses three to five, the dependent variable in the models in this paragraph is the voting turnout of small shareholders (%). Hypothesis four, stating that small shareholders are less likely to vote at the AGM if the ownership concentration is higher, is not confirmed. Table 8 showes that the summed voting block of all blockholders positively affects small shareholder voting turnout; in case the summed voting block of all blockholders increases with 1 percent, small shareholder turnout is expected to increase with approximately 0.5 percent. This may lead to the conclusion that hypothesis four needs to be rejected. However, one should note that the variable *HHIlow* may provide better insights in the ownership *concentration* of a company, and this variable does not provide conclusive insights. From table 8, one can conclude that, in line with the findings of Overland et al. (2012), the implications of different ownership concentration measures on small shareholder voting turnout can be completely different.[134]

Hypothesis three cannot be confirmed as well. The variable *ELECT* negatively affects voting turnout in all eight models that are reported in table 8, but is only statistically significant at the five percent level in model two. All the other variables that determine the importance of the meeting in this research are also not statistically significant. One may note that the dummy that indicates whether shareholders may vote on the allotment of shares positively affects small shareholder turnout and is statistically significant at the 0.1 percent level in the random effects model reported in Appendix D.

In contrast, hypothesis five may be confirmed in these models; the value of the Banzhaf index for small shareholders positively affects the voting turnout of small shareholders; if the voting power of a hypothetical small shareholder holding one percent of the votes increases with one percent, small shareholder turnout would increase with 24 percent according to model three in table 8. In the other models, the effects are smaller and statistically insignificant, but also positive. This may imply that take into account the probability to be the pivotal voter and thus act rational. Note that the random effects models reported in Appendix D show a large positive effect of small shareholder voting power on small shareholder attendance that is significant at the five percent level in three models.

[134]The same holds for the analysis of total voting turnout.

From table 8 one can also conclude that the presence of financial institutions and companies positively affects the voting turnout of small shareholders. The larger the stake of a government or a corporate insider in a company, the lower the voting turnout of small shareholders. In contrast, the larger the stake of a family, the larger the voting turnout of small shareholders according to the models, although this effect is not statistically significant.

Table 8: Panel data analysis fixed effects robust estimator (small)

	(1) Turnout small	(2) Turnout small	(3) Turnout small	(4) Turnout small	(5) Turnout small	(6) Turnout small	(7) Turnout small	(8) Turnout small
Ownership concentration								
HHIlow	0.00408**		0.0123	0.00457	-0.00752**	0.00650	-0.00536	-0.00831***
	(3.23)		(1.82)	(0.55)	(-2.72)	(1.09)	(-1.85)	(-3.78)
Voting block		0.488***		0.523***	0.407*	0.476***	0.435**	0.413*
		(4.79)		(3.60)	(2.53)	(4.16)	(2.68)	(2.55)
CR1				0.303	0.698*		0.470	0.636*
				(0.54)	(1.98)		(1.55)	(2.33)
CR2				0.173	0.00606		0.0774	0.0553
				(0.26)	(0.01)		(0.20)	(0.14)
CR3				-0.442	-0.0646		-0.128	-0.0650
				(-0.91)	(-0.15)		(-0.33)	(-0.17)
Banhafsmall	1.879	9.259	24.02*	11.64	1.205			
	(0.32)	(1.64)	(2.01)	(1.14)	(0.24)			
Banzhaflarge	0.0896	0.215*	0.379*	0.166	-0.0259			
	(1.14)	(2.53)	(2.42)	(1.08)	(-0.41)			
Importance of the meeting								
ELECT	-0.168	-0.304*	-0.250	-0.294	-0.116	-0.228	-0.134	-0.123
	(-1.13)	(-1.99)	(-1.60)	(-1.94)	(-0.94)	(-1.36)	(-1.08)	(-1.01)
Shareholdertotal		1.267	1.109	1.394				
		(0.52)	(0.42)	(0.54)				
OpposDIR		0.00306	-0.0208	-0.00950		0.00899		
		(0.05)	(-0.30)	(-0.14)		(0.13)		
OppREM		0.0947	0.0948	0.0983		0.104		
		(1.67)	(1.62)	(1.72)		(1.78)		
OPPOS2					-0.0600		-0.0561	-0.0557
					(-1.77)		(-1.67)	(-1.72)
dALLOT						1.969		
						(0.68)		
dPREEMPT						-0.220		
						(-0.11)		
dAcquire						2.497		
						(0.71)		
dRedeem						-3.168		
						(-0.97)		
Control variables								
logSIZE	0.996	0.200	0.267	0.403	1.051	0.680	1.111	0.882
	(1.11)	(0.32)	(0.52)	(0.71)	(1.15)	(1.02)	(1.18)	(1.03)
logRI	-0.758	-1.103	-1.304	-1.059	-0.741	-0.974	-0.704	-0.821
	(-1.54)	(-1.34)	(-1.58)	(-1.27)	(-1.49)	(-1.21)	(-1.43)	(-1.76)
Dfinancial							9.250**	3.911
							(3.14)	(1.70)
Dfamily							2.839	
							(0.58)	
DState							3.730	
							(0.46)	

DInsider							12.84*	
							(2.53)	
Family								0.114
								(0.94)
State								-0.210***
								(-3.44)
Insider								-0.795*
								(-2.33)
Non-financial								-0.239
								(-1.21)
_cons	38.70***	33.87**	21.30	29.18*	29.49**	35.45***	22.84*	35.11***
	(3.61)	(3.08)	(1.39)	(2.05)	(2.79)	(3.51)	(2.58)	(4.00)
N	783	532	532	532	783	532	783	783
adj. R^2	0.060	0.214	0.183	0.223	0.122	0.217	0.129	0.139

The tabel reports panel data regressions (fixed effects). The dependent variable is small shareholder voting turnout (%). logSIZE and logRI is the natural logarithm of respectively the market capitalization and the total return index. *t* statistics are in parentheses and use *heteroskedasticity*-consistent standard errors or White (1980) standard errors.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

5.3 Analyses at the country-level

It might be the case that the statistically significant effects mentioned in the previous sections are the result of country-specific factors. The descriptive analyses in chapter four show that the Banzhaf value for small shareholders is on average almost three times higher in the UK than in Belgium. Also the ownership concentration measures are on average lower in the UK. If one takes a closer look at the correlations between the variables and the countries, one can conclude that the Banzhaf index for small shareholders and the dummy for the UK show a correlation of 0.32; for the dummy of Belgium, this correlation is -0.26. The correlation between *Dfinancial* and *dUK* is 0.41, whereas for the other countries in the sample, this correlation is negative. In contrast, the correlation between *Family*, *State* and *Insider* and *dUK* is negative, whereas for most other countries in the sample these correlations are positive. The table on the next page reports an overview of the correlations between these explanatory variables and country dummies. It is also interesting to note that the correlation between *Dfinancial* and the Banzhaf value of small shareholers is 0.64, which indicates a relatively strong positive relationship.

Table 9 and table 10 on the next pages show that the voting turnout of (small) shareholders is largely determined by country specific factors. The dummy for the UK shows a large positive influence on shareholder turnout and the dummy for Belgium indicates a large negative effect. Table 10 describes the influence of the country dummies on small shareholder turnout and shows that these country-specific effects are even larger. One can note that the variable *State* remains significant at 0.1 percent in model five of table 10, indicating that small shareholder voting turnout is negatively affected by government share ownership. The same holds for the variables *Insider* and *non-financial* at a significance level of respectively one and five percent. However, the variable *Banzhafsmall* is not statistically significant anymore.

Correlations between the explanatory variables

	dUK	dBelgium	dFrance	dIreland	dGermany	dAustria	Dfinancial	Banzhaf small	Family	State	Insider	Non-financial
dUK	1											
dBelgium	-	1										
dFrance	-	-	1									
dIreland	-	-	-	1								
dGermany	-	-	-	-	1							
dAustria	-	-	-	-	-	1						
Dfinancial	0.41***	-0.12***	-0.14***	-0.03	-0.13***	-0.21***	1					
Banzhafsmall	0.32***	-0.26***	-0.01	0.04	-0.10***	-0.20***	0.64***	1				
Family	-0.10***	0.10***	0.08**	-0.09***	0.02	0.03	-0.33***	-0.32***	1			
State	-0.17***	0.02	-0.05	0.16***	-0.01	0.19***	-0.33***	-0.29***	-0.10***	1		
Insider	-0.24***	0.10***	0.11***	0.05	0.03	0.07**	-0.42***	-0.36***	-0.10***	-0.11***	1	
Non-financial	-0.08**	0.12***	-0.25	-0.01	0.06	-0.00	-0.22***	-0.23***	-0.06*	0.00	-0.08**	1

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 9: Panel data analysis random effects with country dummies

	(1) Turnout	(2) Turnout	(3) Turnout	(4) Turnout	(5) Turnout
HHIlow	0.00247*	0.00197	0.00206	0.00261*	0.00154*
	(2.16)	(1.71)	(1.91)	(2.15)	(2.09)
ELECT	-0.0354	-0.0631	-0.0429	-0.0690	-0.0687
	(-0.46)	(-0.82)	(-0.56)	(-0.91)	(-0.93)
dUK	7.203***	10.48***	12.11***	11.25***	14.44***
	(3.95)	(5.37)	(4.35)	(4.28)	(6.94)
dBelgium	-15.54***			-11.91**	-14.71***
	(-4.13)			(-2.80)	(-4.94)
dIreland		10.60***		10.20**	9.667***
		(3.81)		(3.14)	(3.32)
dFrance			7.867**	6.593*	6.694**
			(2.75)	(2.36)	(2.85)
dGermany			1.061	.	.
			(0.31)	.	.
dAustria				-0.747	-2.443
				(-0.17)	(-0.67)
logSIZE	-0.955	-0.473	-1.134*	-0.902	-0.525
	(-1.74)	(-0.85)	(-2.12)	(-1.68)	(-1.65)
logRI	0.499	0.384	0.287	0.424	0.322
	(1.50)	(1.22)	(0.90)	(1.34)	(1.35)
Dfinancial					1.414
					(0.75)
Family					0.343***
					(5.16)
State					0.334***
					(7.36)
Insider					0.283***
					(4.88)
Non-financial					0.392***
					(6.14)
_cons	65.81***	59.64***	64.68***	62.16***	53.56***
	(12.66)	(10.81)	(12.40)	(11.87)	(14.49)
N	783	783	783	783	783

The tabel reports panel data regressions (random effects). The dependent variable is total shareholder voting turnout (%). *t* statistics are in parentheses. The option *cluster* is used.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 10: Panel data analysis random effects with country dummies (small)

	(1) Turnout small	(2) Turnout small	(3) Turnout small	(4) Turnout small	(5) Turnout small
HHIlow	0.00109	0.00148*	0.00187*	0.00120	0.00181*
	(1.76)	(1.97)	(2.20)	(1.75)	(2.47)
Banzhafsmall		2.919	3.241	0.189	-2.704
		(0.92)	(1.04)	(0.07)	(-0.90)
ELECT	-0.100	-0.154	-0.0885	-0.170	-0.150
	(-0.73)	(-1.12)	(-0.64)	(-1.23)	(-1.07)
dUK	17.34***	22.32***	31.01***	18.64***	17.26***
	(9.88)	(11.89)	(11.11)	(7.62)	(7.41)
dBelgium	-25.79***			-25.93***	-25.37***
	(-11.46)			(-8.51)	(-8.58)
dIreland		12.66***		5.885	7.776*
		(3.40)		(1.42)	(2.24)
dFrance			18.94***	6.192*	6.378*
			(5.85)	(2.37)	(2.47)
dGermany			13.15***	.	.
			(3.72)	.	.
dAustria				-14.15***	-12.79**
				(-3.71)	(-3.15)
logSIZE	1.014	1.871**	-0.150	0.156	0.0562
	(1.58)	(2.85)	(-0.20)	(0.23)	(0.10)
logRI	0.498	0.186	0.0352	0.289	0.266
	(1.52)	(0.54)	(0.11)	(0.93)	(0.94)
Dfinancial					0.878
					(0.44)
Family					-0.0932
					(-1.14)
State					-0.233***
					(-5.10)
Insider					-0.167**
					(-2.69)
Non-financial					-0.136*
					(-2.12)
_cons	30.77***	18.44**	28.53***	39.55***	44.36***
	(5.27)	(2.99)	(4.32)	(5.81)	(6.95)
N	783	783	783	783	783

The tabel reports panel data regressions (random effects). The dependent variable is small shareholder voting turnout (%). *t* statistics are in parentheses. The option *cluster* is used.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

6 Conclusions, discussion and policy implications

6.1 Conclusions

Descriptive statistics on the 832 AGMs of 208 different companies in six European countries indicate that AGMs differ a lot at the country-level and at the company-level. The mean voting turnout for the 208 companies over the period of four years is 64.7 percent. In Belgium, the mean voting turnout over four years is the lowest with 51.3 percent, whereas in the UK and Ireland, the mean voting turnout is 69.6 and 68.1 percent respectively. The mean turnout of small shareholders for these 832 AGMs is 48.8 percent. In Belgium, the mean voting turnout of small shareholders over four years is the lowest with 20.5 percent, whereas in the UK the mean voting turnout is again the highest with 61.3 percent. The average number of directors (re-)elected at the AGM is relatively high in Ireland and the UK compared to the other countries. Relatively few voting items did not pass at the 832 AGMs; for example, of the 444 times shareholders could vote on the approval of the remuneration report, a voting item that is considered to contribute to the importance of the meeting, only 5 times this voting item did not pass. Moreover, the average dissent to the voting items that are considered to be of large importance to shareholders only receive an average opposition between 1.9 and 7.4 percent according to table 6; other voting items such as the approval of the accounts of the appointment of an auditor receive even much lower shareholder opposition. These results question the importance of the AGM as a decision-making body for *all* shareholders.

The stake of the largest shareholder is on average the largest in Belgium and Austria. The UK reports an average largest stake that is substantially lower compared to the other countries in the sample; the same holds for the average voting block. Also the average R12 ratio and the normalized Banzhaf power index for a small shareholder differ the most between Belgium and the UK. In Belgium, the value for the R12 ratio is the lowest of all countries, indicating a higher voting power for the largest shareholder. The normalized Banzhaf power index for a small shareholder in Belgium is the lowest with 0.29 percent; in the UK, this is 0.85 percent, which is almost three times higher.

The results of the multivariate analyses in chapter 5 are striking. Hypothesis one, which states that there is a positive relationship between ownership concentration and overall voting turnout, cannot be confirmed. Also hypothesis four, stating that small shareholders are less likely to vote if ownership concentration is

higher, is not confirmed in this research. However, it is interesting to note that the results show that the effect of different ownership measures on (small) shareholder voting turnout can be completely different. The hypotheses on the relationship between the importance of the meeting and the voting turnout of (small) shareholders cannot be confirmed as well. The value of the Banzhaf index for small shareholders positively affects small shareholder attendance, which may confirm hypothesis five, although one should note that this variable becomes statistically insignificant when adding country dummies. The presence of financial institutions and other financial investors increase small shareholder voting turnout, whereas the magnitude of the stake of a corporate insider or a government has a negative effect on small shareholder attendance.

The results show that country-specific characteristics largely determine (small) shareholder voting turnout. At first sight, the magnitude of the stake of governments or corporate insiders negatively affects small shareholder attendance; the presence of financial institutions and companies leads to a higher small shareholder voting turnout. However, the correlations show that for example the country dummy for the UK and the presence of financial institutions and companies are positively correlated, which indicates that the positive effect of the presence of financial institutions and companies on small shareholder voting turnout may be (largely) caused by country-specific effects.

6.2 Discussion and policy implications

Shareholder participation at AGMs is high on the agenda of European policy makers. On April 19 of this year, the EC launced a proposal to revise the Directive in order to increase engagement of institutional investors, asset managers and proxy advisors. However, as shown in this research, the factors that determine small shareholder engagement at AGMs are (partly) related to country characteristics. For the two extreme cases, the UK and Belgium, one can see this very clearly; whereas all the factors that contribute to small shareholder attendance show a positive correlation with the country dummy for the UK, all factors show a negative correlation with the country dummy for Belgium. As a result, the proposals of the EC to strengthen the role of institutional investors, asset managers and proxy advisors would only further increase the differences in shareholder engagement between European countries. However, the dummy variable *Dfinancial* in this research makes no distinction between financial investors. It would be recommended to evaluate in further research whether a distinction between institutional investors, asset managers, hedge funds and other financial investors will strengthen

the conclusions in this research.

In line with earlier conclusions of Van der Elst, I argue that it would be recommended for European policy makers to re-evaluate and reposition the current role of the AGM. Nowadays, large shareholders often engage in negotiations with directors or management during for example one-on-ones. As a result, the AGM may be of less importance to large shareholders. In some situations, the outcome of a vote on a specific agenda item at the AGM may be already determined in advance, which decreases the importance of the AGM, and therewith the influence of small shareholders, substantially. This research indicates that small shareholders may be rational, i.e. their decision to vote might be positively related to their voting power. In order to increase the involvement of small shareholders at European AGMs, one needs to reposition the current role of the AGM and provide the right incentives such that shareholder monitoring of *all* shareholders actually takes place at the AGM. The proposal of the EC to introduce a Say on Pay might be a step in the right direction. However, further research on this European Say on Pay would be required.

Lastly, I would like to stress that this research does not advocate a one-size-fits-all approach to the AGM, and, more generally, corporate governance systems. Contrary, this research provides a general overview of the differences between AGMs and ownership structures across Europe, indicating that a one-size-fits-all framework would lead to undesirable outcomes.

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Appendix A

An example to test the program ipmmle: computation of the absolute Banzhaf value for a small shareholder

Consider the situation that there are three types of shareholders, one big shareholder that has 20 percent of the voting rights, two medium shareholders that both have 5 percent of the voting rights and 70 small shareholders that have each 1 percent of the voting rights. A small shareholder is only pivotal to a coalition in case the coalition has exactly 50 percent of the voting rights; it then contributes 1 voting unit. For coalitions smaller than 50 percent or larger than 50 percent it cannot be pivotal. For this game, there are 8 combinations possible where a small shareholder can be pivotal:

Table 7: The combinations

1 large, 2 medium & 20 small	2 medium & 40 small
1 large, 1 medium & 25 small (two times)	1 medium & 45 small (two times)
1 large and 30 small	50 small

One can calculate an approximation of the Banzhaf index for a small shareholder as follows:

$$\frac{\binom{69}{20}+2*\binom{69}{25}+\binom{69}{30}+\binom{69}{40}+2*\binom{69}{45}+\binom{69}{50}}{2^{72}} = \text{the absolute Banzhaf value } \beta_i' = 0.0145$$

This value is approximately similar to the value obtained by the program ipmmle, which is 0.0149.

Appendix B

AB InBev	BNP Paribas Act A	E.ON
Aberdeen Asset Management	Bouygues	Easyjet
Accor	BP	EDF
Ackermans & van Ha	British American Tobacco	Elia
Adidas	British Land Co	Erste Group Bank
Admiral Group	British Sky Broadcasting Group	Essilor Intl
Aer Lingus Group	BT Group	Experian
Ageas - Fortis	Bunzl	FBD Holdings
Aggreko	Burberry Group	Flughafen Wien AG
Air Liquide	BWIN Interactive Entertainment	Fresenius Medical Care AG & CO KGaA
Airbus Group	C&C Group	Fresenius SE & CO KGaA
Alcatel-lucent	CA Immobilien Anlagen	Fresnillo
Allianz	Capita	G4S
Allied Irish Banks	Capital Shop. Centr. Gr./ INTU	Gemalto
Alstom	Centrica	GKN
Amec	Cofinimmo	Glanbia
Andritz	Colruyt	GlaxoSmithKline
Anglo American	Commerzbank	Hammerson
Antofagasta	Compass	Hargreaves Lansdown
Aryzta	Continental	HeidelbergCement
Ashtead Group	Conwert Immobilien Invest	Henkel
Associated British Foods	Credit Agricole	HSBC Hldgs
AstraZeneca	CRH	IMI
Aviva	Croda International	Immofinanz
AXA	Daimler	Imperial Tobacco Group
BAE Systems	Danone	Independent News & Media
Bank of Ireland	DCC	Infineon Technologies
Barclays	Delhaize Groep	Intercell AG (now Valvena)
BASF	Delta Lloyd Groep	Intercontinental Hotels Group
Bayer	Deutsche Bank	Intertek Group
Befimmo	Deutsche Boerse	ITV
Beiersdorf	Deutsche Lufthansa	Johnson Matthey
Bekaert	Deutsche Post	K+S
Belgacom	Deutsche Telekom	KBC Groep
BG Group	Diageo	Kenmare Resources
BHP Billiton plc	D'Ieteren	Kering (PPR)
BMW	Dragon Oil	Kerry Group

Kingfisher	Renault	Strabag
Kingspan Group	Rexam	Tate & Lyle
Lafarge	RHI	Technip
Lagardere	Rio Tinto plc	Telekom Austria
Land Securities Group	Rolls-Royce Holdings	Telenet Group Hold
Lanxess	Royal Bank of Scotland Group	Tesco
Legal & General Group	Royal Dutch Shell A & B	ThyssenKrupp
legrand	RSA Insurance Group	Total
Linde	RWE	Travis Perkins
Lloyds Banking Group	Ryanair	Tullow Oil
London Stock Exchange Group	SABMiller	UCB
L'Oreal	Safran	Umicore
LVMH	Sainsbury (J)	Unibail-Rodamco
MAN	Salzgitter AG	Unilever
Marks & Spencer Group	Sanofi Aventis	United Utilities Group
Meggitt	SAP	Vallourec
Metro ST	Schneider Electric	Veolia Environ
Morrison (Wm) Supermarkets	Schoeller-Bleckmann	Verbund AG Kat. A
Muenchener Rueckversicherungs	Schroders	Vienna Insurance Group
National Grid	Semperit AG Holding	Vinci
Next	Severn Trent	Vivendi
Oesterr. Post	Shire	Vodafone Group
OMV	Siemens	Voestalpine
Paddy Power	Smith & Nephew	Volkswagen
Pearson	Smiths Group	Weir Group
Permanent TSB Group	Smurfit Kappa Group	Whitbread
Pernod Ricard	Societe Generale	Wienerberger
Persimmon	Solvay	William Hill
Petrofac	SSE	Wolseley
Peugeot	St Microelectronics	WPP
Prudential	Standard Chartered	Xstrata
Publicis Groupe SA	Standard Life	Zumtobel
Raiffeisen Bank Int.		

Appendix C

Panel data analysis random effects robust estimator

	(1) Turnout	(2) Turnout	(3) Turnout	(4) Turnout	(5) Turnout	(6) Turnout	(7) Turnout	(8) Turnout
Ownership concentration								
HHIlow	0.00149		0.00375***	0.00422	-0.00238	0.00280**	-0.00181	-0.000936
	(1.57)		(5.39)	(1.74)	(-1.95)	(2.62)	(-0.83)	(-0.60)
Voting block		0.173***		0.0751	0.0654	0.0962	0.0868	0.0934
		(3.74)		(0.70)	(0.74)	(1.37)	(0.84)	(0.90)
CR1				-0.142	0.224		0.196	0.0707
				(-0.65)	(1.70)		(1.19)	(0.49)
CR2				0.0423	-0.0429		-0.0639	-0.0264
				(0.13)	(-0.21)		(-0.26)	(-0.11)
CR3				-0.00459	0.0899		0.0540	0.0425
				(-0.02)	(0.47)		(0.22)	(0.18)
Importance of the meeting								
ELECT	0.0373	-0.0708	-0.0580	-0.0523	0.0812	-0.0571	0.0783	0.112
	(0.47)	(-0.86)	(-0.72)	(-0.64)	(1.07)	(-0.68)	(1.04)	(1.55)
Shareholdertotal		0.535	0.532	0.529				
		(0.42)	(0.41)	(0.41)				
OpposDIR		0.0307	0.0334	0.0320		0.0370		
		(0.92)	(1.02)	(0.93)		(1.09)		
OppREM		0.0474	0.0505	0.0501		0.0568		
		(1.53)	(1.61)	(1.57)		(1.74)		
OPPOS2					-0.0214		-0.0212	-0.0339
					(-1.37)		(-0.98)	(-1.84)
dALLOT						5.363***		
						(3.38)		
dPREEMPT						0.621		
						(0.50)		
dAcquire						-0.741		
						(-0.49)		
dRedeem						-1.146		
						(-0.45)		
Control variables								
logSIZE	-0.672	-0.399	-0.533	-0.465	-0.490	-0.346	-0.474	-0.0744
	(-1.22)	(-1.05)	(-1.42)	(-1.22)	(-1.20)	(-0.85)	(-0.91)	(-0.20)
logRI	0.682*	0.612*	0.590	0.637*	0.801**	0.563*	0.813*	0.724*
	(1.97)	(1.97)	(1.96)	(2.07)	(2.99)	(2.13)	(2.31)	(2.42)
Dfinancial							12.47***	4.650*
							(7.17)	(2.20)
Dfamily							12.59***	
							(3.41)	
DState							14.05***	
							(4.34)	

DInsider							14.05***	
							(4.34)	
DNon-financial							18.21***	
							(3.56)	
Family								0.281***
								(4.06)
State								0.309***
								(5.46)
Insider								0.177**
								(2.77)
Non-financial								0.308***
								(3.77)
_cons	64.19***	59.55***	62.25***	60.74***	57.06***	55.10***	45.01***	49.34***
	(12.18)	(12.64)	(15.73)	(12.12)	(13.59)	(10.21)	(8.45)	(9.70)
N	783	532	532	532	783	532	783	783

The tabel reports panel data regressions (random effects). The dependent variable is total shareholder voting turnout (%). logSIZE and logRI is the natural logarithm of respectively the market capitalization and the total return index. *t* statistics are in parentheses and use *heteroskedasticity*-consistent standard errors or White (1980) standard errors.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix D

Panel data analysis random effects robust estimator (small)

	(1) Turnout small	(2) Turnout small	(3) Turnout small	(4) Turnout small	(5) Turnout small	(6) Turnout small	(7) Turnout small	(8) Turnout small
Ownership concentration								
HHIlow	0.00164		0.000886	-0.00473	-0.00182	-0.00646***	0.00000437	-0.00225
	(1.74)		(0.50)	(-1.24)	(-0.59)	(-4.37)	(0.00)	(-0.99)
Voting block		0.258**		0.478**	0.287	0.398***	0.328*	0.284
		(2.84)		(3.09)	(1.76)	(3.88)	(2.04)	(1.83)
CR1				0.512	0.427		-0.0962	0.124
				(1.11)	(1.10)		(-0.36)	(0.49)
CR2				-0.758	-0.876*		-0.307	-0.275
				(-1.45)	(-2.07)		(-0.86)	(-0.78)
CR3				0.252	0.494		0.235	0.253
				(0.56)	(1.31)		(0.66)	(0.72)
Banhafsmall	5.289	13.61*	16.81*	14.11*	9.263			
	(1.19)	(2.27)	(2.24)	(2.00)	(1.71)			
Banzhaflarge	-0.0187	0.0140	0.122	0.0286	-0.0235			
	(-0.39)	(0.19)	(1.40)	(0.46)	(-0.42)			
Importance of the meeting								
ELECT	0.146	-0.0983	-0.0773	-0.106	0.178	-0.132	0.164	0.150
	(1.05)	(-0.73)	(-0.55)	(-0.80)	(1.48)	(-0.80)	(1.38)	(1.26)
Shareholdertotal		-0.281	-0.534	-0.437				
		(-0.12)	(-0.22)	(-0.21)				
OpposDIR		-0.0895	-0.0954	-0.0778		-0.0587		
		(-1.44)	(-1.44)	(-1.29)		(-1.02)		
OppREM		0.0898	0.0872	0.0851		0.104		
		(1.61)	(1.53)	(1.54)		(1.86)		
OPPOS2					-0.0813*		-0.0748*	-0.0625*
					(-2.43)		(-2.25)	(-2.00)
dALLOT						11.71***		
						(4.78)		
dPREEMPT						0.207		
						(0.11)		
dAcquire						-0.142		
						(-0.06)		
dRedeem						-2.207		
						(-0.65)		
Control variables								
logSIZE	1.666*	1.256	1.033	1.403*	1.931**	1.347	1.864**	1.614**
	(2.21)	(1.89)	(1.58)	(2.10)	(2.86)	(1.93)	(2.86)	(2.87)
logRI	0.945*	1.238*	1.267**	1.248*	0.968*	1.165**	0.855*	0.783*
	(2.11)	(2.55)	(2.64)	(2.57)	(2.24)	(2.89)	(2.07)	(1.96)
Dfinancial							13.50***	6.974**
							(6.44)	(2.69)
Dfamily							-0.659	
							(-0.12)	
DState							2.076	
							(0.44)	

DInsider							5.696	
							(1.12)	
DNon-financial							-4.635	
							(-0.60)	
Family								-0.156
								(-1.48)
State								-0.284***
								(-4.83)
Insider								-0.329***
								(-3.56)
Non-financial								-0.281
								(-1.70)
_cons	21.91**	13.20	15.10	10.97	12.84	16.72**	12.04	20.74***
	(2.70)	(1.35)	(1.47)	(1.10)	(1.43)	(2.61)	(1.95)	(3.33)
N	783	532	532	532	783	532	783	783

The tabel reports panel data regressions (random effects). The dependent variable is small shareholder voting turnout (%). logSIZE and logRI is the natural logarithm of respectively the market capitalization and the total return index. *t* statistics are in parentheses and use *heteroskedasticity*-consistent standard errors or White (1980) standard errors.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$