SHAREHOLDER ACTIVISM IN GOOD AND BAD ECONOMIC TIMES

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Abstract

Over the last few years the economy shifted from fast growth to a deep financial and economic crisis. Slowly companies are returning to growth rates in 2009-2010 after a sharp fall of profits in 2007-2009. This provides an excellent backdrop to assess trends in shareholder activism, how shareholders responded to the fall in profits and how they have exercised influence in these turbulent times. This paper focuses on the activism exerted by shareholders at annual general meetings of shareholders between 2007 and 2010 via their attendance and voting at AGMs in four European countries. The main research questions answered are the way large and minority shareholders expressed their voice at general meetings of shareholders and what drives this type of shareholder activism. The drivers of shareholder activism at general meetings are empirically tested. Four factors that can influence the willingness and probability of shareholder attendance and voting turnouts that are tested are shareholder structure, corporate performance, institutional framework and size of the companies. Overall shareholder activism measured as the attendance at general meetings between 2007 and 2010 did not significantly change. It is found that the ownership structure and institutional frameworks are important drivers of shareholder attendance. Corporate performance and size have no significant impact on attendance. We conclude that shareholder activism depends on the identity of large individual shareholders shedding doubts on the effectiveness of one size fits all (mandatory) corporate governance measures.

Keywords: General meeting, attendance, voting behavior, shareholder activism, corporate governance

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1. Shareholder Activism

Shareholder activism has been subject to intense academic debate in recent years at both sides of the Atlantic. Yet information on the methods of activism and results of shareholder activism is hardly available outside the Anglo-Saxon world. In general, the important role of shareholders in shaping the organization and future of the company as it is discussed in corporate law, seem to be largely unimportant in daily corporate life of many companies in the US and the UK.

Bebchuk (2005) is a strong advocate of shareholder participation in corporate governance, and argues that shareholder-initiated proxy proposals are a useful and relevant means of countering managerial agency problems. Some of his ideas have been translated in the new American Dodd Frank Bill of July 2010 which gives the SEC the power to provide the shareholders the right to nominate directors. In Europe many initiatives have been taken since the start of the millennium of which the Shareholder Rights Directive 2007/36/EC is of particular importance. Recently, to address the financial crisis the European Commission launched a green paper and an accompanying Commission Staff Working Paper *Corporate governance in financial institutions: the lessons to be learnt from the current financial crisis and possible steps forward.* The Commission identified a number of ways to improve the commitments of shareholders vis-à-vis the company.

The vast majority of the literature on shareholder activism is focusing on the financial impact of activist initiatives in the United States and to a lesser extent in the United Kingdom. This literature can be classified in studies that address the overall activism by specific kinds of investors like hedge funds or institutional investors including investors like CalPERS or Hermes. Other studies address specific activities like proxy fights, building shareholder coalitions, issuing shareholder resolutions and shareholder suits and class actions. Another strand of literature captures the activism that is conducted behind the scenes via coalition formations and publicity seeking.

In continental Europe empirical research on shareholder activism is very scarce. Recently, Cziraki and others (2009) showed that adding shareholder items on the agenda rarely happens, the support for the proposals is moderate to low and the proposals are most of the time addressing corporate governance issues. Poulsen and others (2010) addresses the voting power at the general meetings of shareholders of Swedish companies. Based on the theoretical model of Leech they found that the power of a shareholder is not strictly proportional to the voting weight but depending on the distribution of voting rights. Manifest and Georgeson, Rematch, Eumedion and RiskMetrics all describe the voting turnouts at meetings and a number of them address the approval rates. Research that empirically assesses the recent evolution of the attendance of both small and large shareholders and studies the drivers of attendance is not known to us.

In this paper we contribute to the literature of shareholder activism via an analysis of the recent developments of shareholder behavior of both large and small shareholders at general meetings in different European countries. Over the last number of years the economy shifted from fast growth to a deep financial and economic crisis. Slowly companies are returning to growth rates in 2009-2010 after a sharp fall of profits in 2007-2009. This provides an excellent backdrop to assess trends in shareholder activism, how shareholders responded to the fall of profits and how they have influenced the behavior of companies in this turbulent time. This paper focuses on the activism exerted by shareholders at annual general meetings of shareholders between 2007 and 2010 via their attendance and their voting behavior in four European countries. The two main research questions that will be answered are the way large and minority shareholders responded to the different economic environment in which companies have to operate. Next the drivers of shareholder activism at general meetings will be empirically tested. Four factors that can influence the willingness and probability of shareholder attendance and voting turnouts that are tested are shareholder structure, corporate performance, the institutional framework and size of the company. The general meetings of companies in Belgium, Germany, France, and the UK will be taken into account. These countries have been selected for a number of reasons. First, the United Kingdom is selected as a typical common law country with a deep capital market and where corporate governance and shareholder activism are well developed. France and Belgium are selected as countries with typical civil law regime. Finally, Germany is selected as a representative country of the German legal countries.

2. Legal framework

A company is an association of members and at the same time a person separate from its members. This dual nature is aligned via the ownership of shares in the company. These shares are issued in return for contributed capital. If it is successful, the company will pay dividends to the shareholders and share the surplus of the generated assets if the company is wound up while solvent. The popularity of the company is certainly due to the fact that it enables to bring together in an effective and often efficient way labor and capital. The member shareholders contribute capital and earn returns while others manage the company. The constitution of the company will assign the management powers to the directors and officers of the company. In older editions of companies' acts it was generally stated that 'the business of the company shall be managed by the directors who may exercise all the powers of the company'.[22] According to the Dutch, Belgian and French Code it was and still is the duty of the board of directors to govern the company[23], while in Germany the management board had to and must direct the company and the supervisory board must supervise the management of the company.[24] In the UK Companies Act the directors are required to promote the success of the company for the benefit of its members as a whole.[25]

Handing over so much power comes at a risk. The shareholders might be confronted with misbehavior by self-interested directors and managers. To mitigate this risk company law provides mandatory and supplementary rules like the requirement of the directors to act in good faith and as already has been mentioned require them to promote the success of the company (and its shareholders). In addition, company law reserves many important decisions regarding company affairs to the shareholder members. The shareholders can change the company via the election, dismissal and replacement of directors, alter the capital structure of the company, and change the objects of the company, the articles of association and so on. These mechanisms must guarantee that equilibrium is found between members whose investment is at risk and directors and managers who act in their own interest.

The important decisions on company affairs reserved to the shareholders can be classified in four different classes.

The first class of decisions is those that follow logically from the right of the members to incorporate and register a company and to subscribe

[22] Regulation 70 of the U.K. Table A edition 1985. The Companies Act 1985 is imprecise and only imposes that the duty of the directors is owed to the company (section 309 (2) CA 1985).
[23] Book 2:129 Dutch Civil Code, Article 53 Belgian Companies Act 1935 and Article 89 French Companies Code 1966.
[24] Article 76 (1) and article 111 (1) German Stock Corporation Act 1965.
[25] Section 172 Companies Act.

to a memorandum of association and draft the articles of association. When the articles of association are amended the members should be involved. Similarly it belongs to the members to decide to wind up the company voluntarily. Also decisions like transforming the company into another entity, change name of the company and so on, require a member's decision.

Second, there are the decisions that are related to the on-going operational management and activities of the company. In most countries company law provides for the mandatory requirement to call for a general meeting of shareholders on a yearly basis. During this meeting the board of directors provides insights in its management activities which can be considered as a bonding cost in agency theory. In large companies, individual shareholders will no longer be capable to verify whether the financial information related to the company affairs that the board of directors provides is reliable and many companies acts entrust this verification to an auditor who is elected by the general meeting of shareholders. If the shareholders are not satisfied with the results of the company or of the board members, the general meeting of shareholders can dismiss the directors or take the decision not to reelect the incumbent board members. In many countries the decision is accompanied with the decision to discharge the board members of their duties during the previous year. As principals, the shareholders will determine the remuneration of the directors. Further the (general meeting of) shareholders decide(s) which part of the profit the company will distribute as dividends. The decision influences the financial position of the company.

Another class of decisions is related to the absolute and relative position of the shareholders in the capital and voting rights structure. Increasing and decreasing the share capital, authorize directors to allot shares, dis-apply members' pre-emption rights when shares are issued, the market purchase by the company of its own shares are all decisions that need to be taken by the (general meeting of) shareholders in European countries.

Finally, the last class of decisions relates to the other issues that the legislator or the company's subscribers to the extent allowed by the legislator appropriately consider as powers that belongs to the shareholders. As an example we can refer to the right for the general meeting to vote on the remuneration policy. In this decade the UK, Germany and Belgium provided this right to the general meeting of shareholders, France is considering this right. France provided the right to vote on related party transactions with the executive directors and senior executive managers.

Next the procedures to make use of these rights are different too. In most countries the large majority of the decisions of the members must also be identified and qualified as decisions of the company. It accords to the requirement that not the individual members take the decision but the members gathered together in a general meeting of members. Differences between countries exist as to the type of decisions that the general meeting must take and the individual member can make. In some countries individual shareholders can start a legal action for maladministration of the company, whereas other company's acts deny this right to individual shareholders.

The threshold to validly organize the (extra-ordinary) general meeting of shareholders can also be different. In some countries, like in France ordinary general meetings have a quorum. Next, some countries apply supermajority requirements. In Belgium the board of directors can be authorized to buy back the shares of the company but the authorization requires a majority vote of 80 per cent of the attending votes.

All these differences result in many differences in the organization of the general meeting and the items the shareholders vote. Table 1 illustrates these differences. In Europe, the number of items the general meeting has to approve is a multiple of the items the shareholders of an American company have to approve. The European general meeting of shareholders is accompanied by a notice of numerous pages whereas the general meeting of American companies is convened with a press release.

Table 1. Agenda general meeting 2010

	UK **Vodafone**	**G** **Siemens**	**FR** **Air liquide**	**US** **General Electric**
report of the (supervisory) board		p		
Company's accounts (and reports of the directors and the auditor)	x	x	x	
Consolidated accounts			x	
dividend (potentially approving the profits of the company)	x	x	x	
discharging board members		x		
discharging supervisory board members		x		
directors (re)election	x		x	x
remuneration report	x			
remuneration policy		x		
related party transaction (board and senior management)			x	
auditor (re)election	x	x	x	x
deputy auditor (re)election			x	
auditor remuneration (potentially AC authorisation)	x			
shares to be allotted by board	x			
disapply pre-emption rights	x*			
authorisation to trade in own shares			x	
purchase own shares	x*	x		
purchase own shares via equity derivatives		x		
annulment of own shares			x*	
authorisation to issue convertible bonds		x		
new articles of association	x*	x		
settlement agreement former board		x		
settlement agreement D&O		x		
term to call the meeting	x*			
approve share incentive plan	x		x*	
authorisation for capital increase via retained benefits			x*	
authorisation for capital increase via beneficiaries of savings plan			x*	
authorisation for capital increase for specific group of benef.			x*	
autorisation share option plan			x*	
authorisation to issue equity instruments in case of takeover bid			x*	
authorisation of power to execute AGM decisions			x	
Total items (election considered as 1 item)	**12**	**13**	**16**	**2**
shareholder proposals		2 (rejected)		6 (rejected)
notice of the meeting (pages) provided to shareholders	16	100	28	press release

x: item voted; p: informative item; * extra-ordinary part of combined meeting (FR) or special resolutions (UK)

Source: Mendoza, Jose Miguel, Van der Elst, Christoph and Vermeulen, Erik P. M., Entrepreneurship and Innovation: The Hidden Costs of Corporate Governance in Europe (October 26, 2010). Lex Research Topics in Corporate Law & Economics Working Paper No. 2/2010. Available at SSRN: http://ssrn.com/abstract=1698352

3. Data description, hypotheses and methodology

We investigate the attendance at and voting turnouts of annual general meetings between 2007 and 2010 in four European countries. All companies of the referential index of Belgium - the BEL-20 -, Germany – DAX-30-, France – CAC-40- and 70 companies of the UK FTSE-100 index have been investigated. Only those companies for which the website contained the attendance and voting results of all annual general meetings of 2007 to 2010 was provided are in the final sample. For Belgium 75% of the companies provided this information, for Germany 97%, for France 57% and for the UK 57%. We also collect stock price and market capitalization data from the (statistic and historic parts of the) websites of the London Stock Exchange, the Deutsche Börse and Euronext. The stock price was collected for the last trading day of the previous accounting period and the last trading day of the accounting period. Finally the voting blocks of the large shareholders of the companies in the database were collected via the annual reports and the websites of the companies and compared with the data collected from the websites of the supervisory authorities.

To gain insights in the shareholder behavior at general meetings several techniques have been applied. First a descriptive analysis of the evolution of the attendance at general meetings will be discussed. Next, the differences between the attendance of shareholders in the four different countries and for the four different years will be empirically assessed via a repeated measures anova to take into account the violation of the sphericity assumption due to the sample composition (sample of 108 companies over four years). We expect that attendance will be higher in 2009 and to a lesser extent 2008 when the financial crisis was peaking. Shareholders will want to know from the board of directors how the company will survive the crisis. We also assume that opposition for reelection of directors and remuneration packages will be higher in difficult economic times. Further, we expect that the attendance in all four countries will develop in a similar way as all four countries further developed shareholder rights and each experienced a serious relapse of the economy.

Third, the assumption that large and controlling shareholders will attend the general meeting of shareholders will be used to estimate the attendance of smaller and small shareholders. We expect that companies that are controlled by large or controlling shareholders will have general meetings that are avoided by small(er) shareholders. These shareholders can free ride as their voice will have no influence in the voting turnouts.

Fourth, an OLS-regression analysis provides insights in the determinants of attendance of shareholders at the 2010 general meeting. We expect that larger companies will have lower attendance rates at general meeting of shareholders. Often larger companies have more shareholders that will free ride and expect other shareholder to monitor management and board of directors. Next, companies that perform better will have lower attendance of shareholders. Shareholders of prosperous companies will rely on the board of directors and management to continue the profitable strategy and also free ride. Companies with many large and/or controlling shareholders will have higher attendance of shareholders at general meetings. Controlling shareholders will attend the meeting to control the outcome of all the items on the agenda. Large non-controlling shareholders will attend the meetings to influence the voting process or control the behavior of the controlling shareholder. Finally the institutional environment is considered via a proxy of the country of incorporation. French and Belgian companies are located in countries where the protection of shareholders is less developed compared to the United Kingdom. We can expect that shareholders of Belgian and French companies will participate to guarantee their (limited) shareholder rights.

4. Results

4.1. Descriptive Statistics

Figure 1 provides the mean, median, maximum and minimum attendance rates of the 108 yearly general meetings of European companies between 2007 and 2010. Over this period the average and median remained stable at around 60 per cent of all the votes. In all years the median was approximately 1 per cent higher than the mean. The number of companies where almost all shareholders attend are on their way down. In 2007 the highest attendance was above 90 per cent but by 2010 the maximum attendance rate was only 82 per cent. At the lowest end, the reverse pattern is visible: less than 15 per cent of all the votes were represented at the meeting of a large Belgian company in 2007 but by 2010 the lowest attendance rate was almost 18 per cent. Overall the differences between the years are limited.

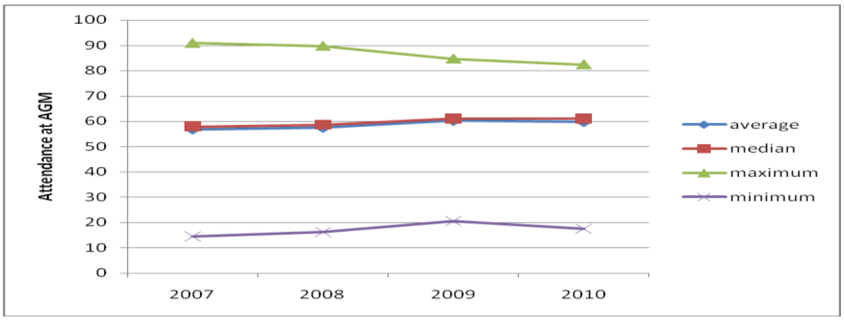

Figure 1. Evolution of the attendance rate at general meetings of shareholders

Figure 2 provides the average attendance rates at general meetings of companies located in the different countries in the analysis. The results show some different patterns. In France and the UK the relative number of represented voting shares increased over the years. In France the average soared from 53 per cent in 2007 to 61 per cent in 2010, the UK companies experienced an increase from 60 per cent to 66 per cent. In German companies the attendance at AGMs decreased from around 60 per cent to 55 per cent in 2010. Of all countries studied Belgian AGMs were visited by the fewest shareholders, but the rate stayed mostly stable over the years: around 50 per cent of the voting rights were represented both at the meeting in 2007 and in 2010.

Overall the results illustrate that the financial crisis can have an impact on the shareholder behavior, but a straightforward relationship is not visible.

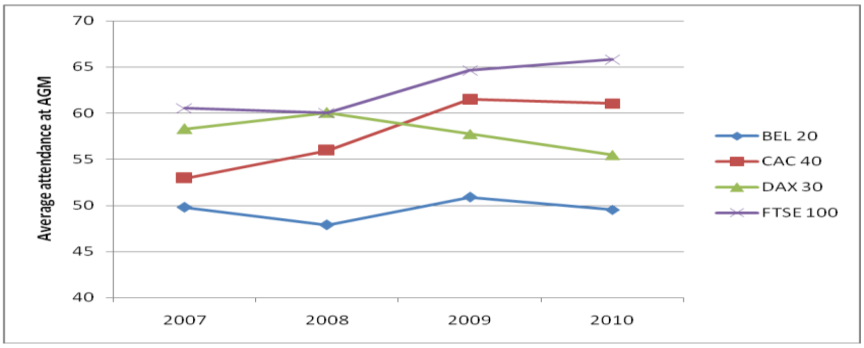

Figure 2. Evolution of the attendance rate at general meetings of shareholders in different countries

Figure 3 visualises the frequencies of the attendance levels. At the lower end, the number of meetings with an attendance of under 20 per cent is hardly found. Second, the histogram indicates that meetings with attendance levels of 20 per cent to 40 per cent fell back to less than 5 per cent of all companies. A continuous decrease of the relative number of AGMs with attendance rates between 40 per cent to 60 per cent goes hand in hand with a continuous increase of meetings with attendance rates of 60 per cent to 80 per cent. Higher attendance rates are hardly found. Considering that AGMs of large American companies are often visited by more than 80 per cent of the shareholders, these findings come as a surprise.

The annex provides the results for the four countries. Attendance below 40 per cent and even 60 per cent became uncommon in UK companies. The majority of German AGMs are visited by 40 per cent to 60 per cent of the shareholders. For French companies both the levels of 40 per cent to 60 per cent and 60 per cent to 80 per cent are often found. Attendance rates at Belgian companies seem to be highly unpredictable.

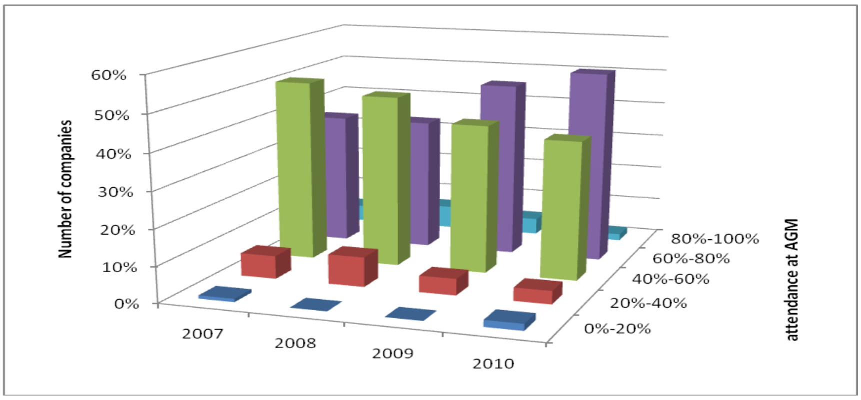

Figure 3. Histogram of attendance at AGMs between 2007 and 2010

4.2. Repeated anova

To assess the differences between the AGMs for different years and in different countries, a repeated measures anova was applied. As the composition of the sample is identical over the four years, the sphericity assumption for applying a straightforward anova is violated.

The results of the analysis are presented in table 1 and table 2. Table 2 provides the differences between the different years. The attendance increased significantly between 2008 and 2009. Both the attendance in 2007 and 2008 is significantly lower than the attendance in 2009. From figure 2 it is clear that in three of the four countries the average attendance rate in 2009 was higher than the attendance in 2007 and 2008. The increase did not continue in France and Belgium in 2010. The small decrease was sufficient to reduce the results for 2010 to insignificant increases.

Table 2. Repeated Measures Anova for years

(I) allyears	(J) allyears	Mean Diff. (I-J)	Std. Error	Sig.a	95% Conf. Interval for Diff. a Lower Bound	Upper Bound
2010	2009	-0,712	0,719	1,000	-2,645	1,221
	2008	1,985	0,805	0,092	-0,182	4,151
	2007	2,581	0,983	0,060	-0,063	5,225
2009	2010	0,712	0,719	1,000	-1,221	2,645
	2008	2,697*	0,691	0,001	0,837	4,556
	2007	3,293*	0,853	0,001	0,998	5,588
2008	2010	-1,985	0,805	0,092	-4,151	0,182
	2009	-2,697*	0,691	0,001	-4,556	-0,837
	2007	0,596	0,728	1,000	-1,362	2,554
2007	2010	-2,581	0,983	0,060	-5,225	0,063
	2009	-3,293*	0,853	0,001	-5,588	-0,998
	2008	-0,596	0,728	1,000	-2,554	1,362

Based on estimated marginal means

a. Adjustment for multiple comparisons: Bonferroni.

*. The mean difference is significant at the ,05 level.

Table 3 continues with the differences between the different countries. With the exception of one, the AGM of companies in different countries are not attended by a significant different number of shareholders. However UK AGMs experience the participation of a significant higher number of shareholders than Belgian AGMs. This is also visible in figure 2. In 2007 the average attendance difference between UK AGMs and Belgian AGMs was already 10 per cent to the advantage of the UK AGMs. In 2010 the difference increased to more than 15 per cent.

Table 3. Repeated Measures Anova for countries

All countries combined — Multiple Comparisons

countries

Bonferroni

(I) country	(J) country	Mean Diff. (I-J)	S.E.	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Belgium	Germany	-8,363	3,58204	0,129	-17,9975	1,2714
	France	-8,3345	3,73792	0,167	-18,3883	1,7192
	UK	-13,2281*	3,39864	0,001	-22,3693	-4,087
Germany	Belgium	8,363	3,58204	0,129	-1,2714	17,9975
	France	0,0285	3,14476	1,000	-8,4298	8,4868
	UK	-4,8651	2,73279	0,468	-12,2154	2,4852
France	Belgium	8,3345	3,73792	0,167	-1,7192	18,3883
	Germany	-0,0285	3,14476	1,000	-8,4868	8,4298
	UK	-4,8936	2,93415	0,590	-12,7855	2,9982
UK	Belgium	13,2281*	3,39864	0,001	4,087	22,3693
	Germany	4,8651	2,73279	0,468	-2,4852	12,2154
	France	4,8936	2,93415	0,590	-2,9982	12,7855

Based on observed means.

The error term is Mean Square(Error) = 126,852.

*. The mean difference is significant at the ,05 level.

4.3. Small shareholder attendance behavior

The significant difference of attendance of shareholders at UK and Belgian AGMs is further studied via an analysis of the relative attendance of small shareholders. The fact that Belgian companies are famous for their concentrated shareholdership while UK companies typically have a dispersed ownership structure, might explain the differences in attendance. For this part of the research we started from the assumption that controlling shareholders will attend the general meeting. When these shareholders attend these meetings the difference between the attendance rate and the controlling voting block provides information of the small shareholders willingness to attend the meeting.

We calculated the attendance rate of smaller shareholders recalculated as follows:

Attendance rate of small(er) shareholders = (Total attendance rate – voting block largest or controlling shareholder/concert parties) / (100% - voting block largest or controlling shareholder/concert parties)

For each AGM three different results have been calculated. First the attendance of the shareholders after excluding the largest shareholders is calculated. Only if the largest shareholder has a voting block of over 5 per cent of the voting rights the recalculation was performed. For the second and third recalculation, the companies have been split into two groups. The first group is companies that have a controlling shareholder or controlling shareholders that act in concert. The threshold to consider the company having a controlling shareholder is the threshold that makes it mandatory to start a takeover bid. In Belgium, Germany and the UK the threshold is set at 30 per cent, in France at 1/3. This group consists of 22 companies: 4 Belgian companies, 9 German, 5 French and 4 British. The second group is companies that do not have a shareholder of more than 20 per cent of the voting rights. Seventy companies have no shareholder with more than 20 per cent of the voting rights: 11 Belgian companies, 16 German, 14 French and 36 British. Companies with shareholder owning between 20 and 30 per cent of the votes were excluded as it is unclear whether this voting block offers these shareholders the majority of the votes at the AGM.

The results are presented in figure 4. It is found that the attendance of small shareholders in controlled companies is lower than in non-controlled companies. It confirms the free riding hypothesis. However the differences remain limited. In Belgium the difference is only 1 per cent, in the UK 5 per cent, in France 6 per cent and in Germany 8 per cent. The major difference is found between companies in the three large countries and companies in Belgium. The average attendance of small shareholders both in controlled and in non-controlled companies is less than 20 per cent. In the large countries the relative attendance of these shareholders is between 40 per cent in controlled French companies to more than 60 per cent in non-controlled UK companies. This large difference cannot immediately be explained. However we believe the size in combination with the identity of the shareholders might provide the answer. The companies of the large countries in this sample are larger than the Belgian companies. Larger companies have a more institutional shareholdership. Many institutional investors have a fiduciary or even mandatory duty to vote. The explanatory variables of shareholder attendance at AGMs will be discussed in the next section.

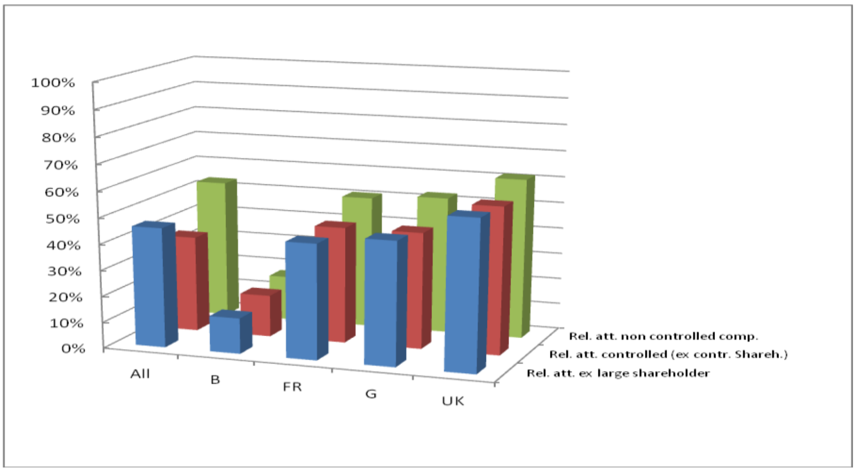

Figure 4. Attendance of small shareholders at AGMs

4.4. Regression results

In the previous section we found that smaller shareholders of Belgian companies tend to free ride. In this section we analyze a number of explanatory variables of overall shareholder attendance. First we assume that larger companies will experience lower attendance rates. Larger companies have more shareholders. More shareholders will free ride. The size of the company is measured as the logarithm of the market capitalization (in mio. euro). Next, we assume that well performing companies needs less monitoring by shareholders. Shareholders of well performing companies will spend less effort to control the company. Hence we hypothesize that companies with higher returns have lower attendance rates at AGMs. In this research the performance is measured as the relative stock price performance during the accounting period. Third, large shareholders have a larger interest to participate. We assume that the larger the voting block of the largest shareholder or shareholders acting in concert as well as the larger the summed voting blocks of all large shareholders with more than 5 per cent of the voting rights, the higher the attendance rate at AGMs. Finally, we assume that the institutional framework will influence the attendance. Shareholders in countries that provide less shareholder protection will attend AGMs to individually protect their interest. The need to attend the AGM decreases with the number of shareholder rights that can be used outside the AGM. Therefore we expect the attendance at AGMs to be higher in civil law countries than in common law countries, with German countries in the middle.

The descriptive results of the variables can be found in table 4. The average size of the company in the sample is 18 bn. Euro, with 50 per cent of the companies having a market capitalization of more than 7,8 bn. Euro.[26] The largest shareholder has an average voting block of 20 per cent, much more than the median voting block of 11 per cent.[27] The summed block of all large shareholders is on average 25 per cent, with a median block of 20 per cent. In 2009 most companies performed well and experienced an increase of their stock price of more than 28 per cent. One company even quadrupled its stock price in the accounting period of 2009.

[26] The market capitalisation of UK companies has been recalculated in euro.

[27] If the voting block of the largest shareholder was less than 5 per cent, it is assumed the shareholder structure is fully dispersed.

Table 4. Descriptive results of the independent variables (2010)

Variable	N	Mean	SD	Min.	Q1	Median	Q3	Max.
Market cap in mln. €	108	18034	22346	1376	4614	7881	28136	138905
Size (log cap in mio. €)	108	4,01	0,45	3,14	3,66	3,89	4,45	5,14
Stake largest/concerting shareholder	108	20,10%	18,99%	<5%	6,97%	11,01%	31,40%	71,64%
Stake all large shareholders	108	25,11%	20,57%	<5%	7,37%	20,28%	38,31%	90,12%
Stockperf	108	28,11%	59,35%	-69,20%	1,93%	7,96%	39,39%	442,24%
Belgium	108	0,14	0,35	0	0	0	0	1
France	108	0,21	0,41	0	0	0	0	1
Germany	108	0,27	0,45	0	0	0	1	1
UK	108	0,38	0,49	0	0	0	1	1

The correlation between the different variables is provided in table 5. None of the variables are significantly related. The size of the voting block of the largest shareholder does not significantly correlate with the summed voting block of all shareholders. Notwithstanding this finding, we split the OLS-regression analysis in two models. In the first model we assess the attendance with the size of the largest voting block as independent variable, in the second model the summed voting block of all large shareholders is used.

Table 5. Correlation between variables

	Attendance	logsize	stockperf	Belgium	France	UK	stake largest	stake all
Attendance	1							
logsize	-0,020	1						
stockperf	0,166	-0,024	1					
Belgium	-0,315	-0,265	-0,182	1				
France	0,051	0,220	-0,194	-0,209	1			
UK	0,363	-0,105	0,266	-0,314	-0,407	1		
stake largest	0,494	-0,200	-0,034	0,328	-0,001	-0,230	1	
stake all	0,414	-0,115	-0,077	0,411	0,013	-0,331	0,928	1

Table 6 provides the results of the regression analysis. Overall it is shown that the ownership structure and the institutional framework are the most influential explanatory variables. An increase in the voting block of the largest shareholders of 1 per cent results in an increase of the attendance rate at AGMs of 0,53 per cent. If the summed blocks of all large shareholders increase with 1 per cent, the attendance soars with 0,46 per cent. Attendance at Belgian meetings is 30 per cent lower than attendance at UK AGMs. However this difference is not necessarily due to the "civil law" effect. French companies experience significant lower attendance rates at AGMs than UK companies but the attendance at the latter meetings is higher than at German companies. Finally, neither size, nor stock price development influence the attendance behavior of shareholders.

Table 6. results of the OLS regression analysis

	Expected	Model 1a	Model 1b	Model 2a	Model 2b
Intercept		61,91 (8,60)*	47,12 (6,25)*	51,13 (6,90)*	37,94 (4,89)*
Log size	-	-0,74 (-0,42)	-0,74 (-0,42)	1,38 (0,77)	1,38 (0,77)
stock perf.	-	0,009 (0,65)	0,009 (0,65)	0,007 (0,53)	0,007 (0,53)
size largest/concert	+	0,53 (11,71)*	0,53 (11,71)*		
size all large	+			0,46 (11,62)*	0, 46 (11,62)*
Belgium	+	-30,47 (-10,98)*	-15,67 (-5,73)*	-26,2 (-9,9)*	-13,01 (-4,83)*
France	+	-8,67 (-3,94)*	6,12 (2,76)*	-7,59 (-3,45)*	5,60 (2,51)**
Germany	=	-14,80 (-7,48)*		-13,19 (-6,72)*	
UK	-		14,80 (7,48)*		13,19 (6,72)*
Adj. R2		0,664	0,664	0,64	0,64
F		33,24	33,24	32,77	32,77
N		108	108	108	108

5. Conclusion

This study partly opens the black box of the European AGMs. The attendance of shareholders at AGMs between 2007 and 2010 is approximately 60 per cent but lower in Belgium and higher in the UK. In the UK and France the attendance is increasing but not in Germany nor in Belgium. The turning point in the UK and France seem to be 2008/2009. We will have to wait for more recent data to see if this trend continues. Small shareholders more often participate if the company is not controlled by one or more large shareholders but the differences with non-controlled companies are relatively small. Small Belgian shareholders avoid AGMs. The ownership structure and the institutional environment are significant explanatory variables for the attendance of shareholders at AGMs. However, the results do not yet convincingly prove that the institutional environment is the tool to improve shareholder activism. While the UK, as a representative of the common law countries experience higher attendance rates, the difference between Belgium and France, both typical civil law countries, shed doubt on the legal framework as an important driver of shareholder activism. Further research is required to identify which variables of the institutional environment can further enhance shareholder activism and revalue the position of the AGM. We believe that the identity of the large shareholders will provide further explanatory evidence. The ownership of the largest companies in France, the UK and even Germany is more institutionalized than in Belgian companies. Institutional investors have fiduciary duties to vote at AGMs. In a follow up research we will try to identify a number of these variables. We will further broaden the research to other and smaller companies and other European countries. Next, another research studies the voting turnouts of agenda items to further clarify the voting behavior during the AGM. We believe that most items on the agenda are approved by an overwhelming majority. Institutional investors meet there fiduciary duties as soon as they attend the meeting. However, they are not expected to be actively involved in the meeting or oppose the agenda items put forward by the board of directors. Further research can prove if shareholder activism depends on the identity of large individual shareholders. This research already sheds doubts on the effectiveness of one size fits all (mandatory) corporate governance measures.

References

To be added

Annex

Histogram of attendance rates in four countries