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Shareholder Activism through Proxy Proposals: The European Perspective

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Abstract – This paper is the first to investigate the corporate governance role of shareholder-initiated proxy proposals in European firms. While proposals in the US are nonbinding even if they pass the shareholder vote, they are legally binding in the UK and most of Continental Europe. Nonetheless, submissions remain relatively infrequent in Continental Europe in particular, with major variations across countries in ownership structures, monitoring incentives, and the laws and regulations governing shareholder access to the proxy. We use sample selection models to analyze target selection and proposal success in terms of the voting outcomes and the stock price effects, and make several contributions to the literature. First, proposal submissions remain infrequent compared to the US in Continental Europe in particular. In the UK proposals typically relate to a proxy contest seeking board changes, while in Continental Europe they are more focused on specific governance issues. Second, there is some evidence that the proposal sponsors are valuable monitors, because the target firms tend to underperform and have low leverage. The sponsors also observe the identity of the voting shareholders, because proposal probability increases in the target's ownership concentration and the equity stake of institutional investors. Third, while proposals enjoy limited voting success across Europe, they are relatively more successful in the UK. The outcomes are strongest for proposals targeting the board but are also affected by the target characteristics including the CEO's pay-performance sensitivity. Finally, proposals are met with strong negative stock price effects when they are voted upon at general meetings. This suggests that rather than attribute them control benefits, the market often interprets proposals and their failure to pass the vote as a negative signal of governance concerns. Indeed, the market responds better to proposals submitted against large firms with low leverage, which is consistent with agency considerations. However, the stock price effects are most negative for poorly performing firms with low market-to-book ratios, which implies that the proposal outcomes only intensify the market's concerns over firms that have previously underperformed.

Keywords: Shareholder activism, shareholder proposals, corporate governance, sample selection.

JEL Classification: G34.

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1. Introduction

Shareholder activism through the proxy process has been subject to intense debate in the US academic literature. Some studies regard shareholder-initiated proxy proposals as a useful tool of corporate governance and the proposal sponsors as valuable monitoring agents (Bebchuk (2005); Harris and Raviv (2008); Renneboog and Szilagyi (2009)). Others argue that the same proposals have no real control benefits due to their nonbinding nature (Gillan and Starks (2000); Prevost and Rao (2000)), and that the proponents either disrupt the board's authority unnecessarily or outright pursue their own self-serving agendas (Anabtawi (2006); Bainbridge (2006)).

While shareholder proposals are rarely mentioned in the European context, the business press regularly cites prominent cases of dissenting shareholders targeting European firms. Activists ousted the chairman of African Platinum as the firm underperformed its industry peers (Bream (2006)), and pushed Dutch banking giant ABN Amro into selling itself (Larsen (2007)). In another well-known example, Acquisitor Holdings targeted the UK dotcom firm Baltimore Technologies. In March 2004, Acquisitor Holdings requisitioned an extraordinary general meeting to replace Baltimore's board of directors. Baltimore claimed that Acquisitor, which then owned 10% of its equity, was opportunistically trying to drive down its share price in a bid to increase its ownership stake (Stewart (2004)). However, Acquisitor pointed out that Baltimore had accumulated trading losses of over GBP1 billion through its poor acquisition strategy, and even launched a website criticizing the CEO (Shah (2004)). Leading up to the meeting on May 6, the battle continued in the press. Baltimore revealed plans to transform into a green energy firm and labeled Acquisitor a vulture fund but subsequently apologized (Harrison (2004)). In response, Acquisitor called the green energy concept "outrageous" and increased its stake to over 16% (Boxell (2004a)). At the meeting, Baltimore directors survived a knife-edge vote as shareholders, many of whom had lost

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personal fortunes, were unhappy with the plans of both Baltimore and Acquisitor (Boxell (2004b)). In his statement to the press, Baltimore's chairman struck a cordial tone when he called for co-operation with Acquisitor and invited negotiations to be conducted privately (Smyth (2004)). As the firm's annual general meeting in July approached, management abandoned the clean energy plan, placing the blame on Acquisitor for a failed takeover (Wendlandt (2004)), and proposed to pay its shareholders a special dividend (Klinger (2004)). Acquisitor, which by then had increased its ownership stake to over 25%, successfully blocked the dividend payout (Shah (2004b)). The power struggle ended at the meeting where Acquisitor replaced management with its own nominees (Nuttall (2004)).

These and other notable cases of shareholder proposals show that European shareholders view the proxy process as a viable tool of expressing dissent and disciplining management. However, it is clear that US lessons on the corporate governance role of shareholder proposals may not be readily applicable in the European context. First, proposals in the US are non-binding even if they pass the shareholder vote, whereas they are legally binding in the UK and in most of Continental Europe. Second, the laws and regulations governing shareholder access to the proxy vary considerably across countries, thereby affecting the incentives of and costs borne by the proponent shareholders. And third, the market-oriented Anglo-American model of corporate governance is very different from the stakeholder-oriented regimes of Continental Europe. La Porta et al. (1998) show, and Martynova and Renneboog (2008) confirm, that minority shareholders enjoy much better protection under US and UK common law, with Continental European firms often violating the one share-one vote rule by issuing multiple classes of stock, setting up pyramids, or engaging in cross-shareholdings. In Continental Europe, corporate ownership is also more concentrated (Barca and Becht (2001); Faccio and Lang (2002)), and while banks are predominantly passive investors in the US, they actively engage in proxy voting in countries

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such as Germany (Franks and Mayer (2001)). Finally, major creditors and employees are often given board representation in Continental Europe, which implies conflicts of interest between the board and outside shareholders (Roe (2004)).

This paper is the first to investigate the corporate governance role of shareholder proposals across Europe, using a sample of 290 proposals submitted in eight countries between 1998 and 2008. While Buchanan and Yang (2008) provide an elaborate comparison of proposal submissions in the US versus the UK, our analysis also includes Continental Europe, which is both very different from a corporate governance perspective and quite diverse in itself.

We simultaneously investigate the selection of target firms and proposal success in terms of the voting outcomes and the stock price effects, and make several contributions to the literature. First, compared to the US, proposal submissions remain relatively infrequent in Continental Europe in particular. In the UK, proposals typically relate to a proxy contest seeking personal changes on the board to force a change in corporate strategy. In Continental Europe, the proposal objectives are more focused on specific governance issues, corresponding to the conventional use of shareholder proposals in the US.

Second, we show that the target firms tend to underperform as well as have low leverage, which Jensen (1986) regards as remedy to free cash flow problems. This coincides with the results of Renneboog and Szilagyi (2009) for the US, and provides some indication that the activists sponsoring proposal submissions are valuable monitors. There is also evidence that the proposal sponsors observe the identity of the voting shareholders, to the extent that proposal probability increases in the target firm's ownership concentration as well as the equity stake of institutional investors.

Third, we find that shareholder proposals enjoy relatively modest voting success in both the UK and Continental Europe. The voting outcomes are most fundamentally driven by

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the issue addressed, and are strongest for proposals that seek personal changes on the board and therefore indicate major governance concerns. However, they are also affected by the characteristics of the target firm, most notably the extent to which the CEO is incentivized through stock-based pay to protect shareholder interests.

Finally, we find that irrespective of the proposal objectives, the shareholder vote on proposal submissions induces significantly negative stock price effects. This suggests that rather than attribute them control benefits, the market interprets proposals and their failure to pass the shareholder vote as a negative signal of governance concerns. Indeed, consistent with agency considerations the market responds better to proposals submitted against large firms with low leverage. However, the stock price effects are more negative for poorly performing firms with low market-to-book ratios and ill-incentivized CEOs, which indicates that unsuccessful shareholder attempts to exert discipline only exacerbate governance concerns.

The remainder of this paper proceeds as follows. The next section provides an overview of the theoretical and empirical literature on shareholder activism through the proxy process. Section 3 discusses the corporate governance structures of the US, the UK, and Continental Europe, and describes the country-specific laws and regulations governing shareholder-initiated proxy proposals. Section 4 provides a description of our sample and investigates proposal success in terms of the voting outcomes and stock price effects. In Section 5 we use sample selection models to perform a multivariate analysis of both target selection and proposal success. Finally, Section 6 allows for some concluding remarks.

2. The literature on shareholder activism through the proxy process

2.1. The role of shareholder proposals in the US

Gillan and Starks (2007) place shareholder activism on a continuum of responses that dissatisfied investors can give to corporate governance concerns. At one extreme of the

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continuum, shareholders can simply vote with their feet by selling their shares (Parrino, Sias, and Starks, 2003). At the other extreme is the market for corporate control, where investors initiate takeovers and buyouts to bring about fundamental changes (Jensen and Ruback, 1983). The role of shareholder activism arises when shareholders continue to hold their shares and seek changes within the firm without a change in control. These investors may then press for corporate reforms by negotiating with management behind the scenes, or – especially when management is unresponsive – by submitting proposals for shareholder vote. Armour (2008) views this process as a private and informal enforcement mechanism, with private and formal mechanisms comprising lawsuits and litigation, and public mechanisms initiated by public bodies.

While shareholder-initiated proxy proposals are generally considered to be a relatively weak disciplinary tool, the academic debate in the US has recently heated up on whether they have any control benefits at all. Bebchuk (2005) and Harris and Raviv (2008) advocate shareholder participation in corporate governance, and argue that proxy proposals are a useful and relevant means of mitigating managerial agency problems. However, Prevost and Rao (2000) point out that even if they pass the shareholder vote, proxy proposals are likely to be ineffective in disciplining management because they are nonbinding under the SEC's Rule 14a-8. The authors add that proposal submissions often convey a negative signal of failed negotiations with management, because institutional activists often try to negotiate behind the scenes and only sponsor proposals as a last resort. The main argument offered against shareholder proposals is that the sponsoring shareholders are likely to pursue their own self-serving agendas (Woidtke (2002), Anabtawi (2006), Prevost, Rao, and Williams (2009)) or be simply too uninformed to make effective governance decisions (Lipton (2002), Stout (2007)). Bainbridge (2006) goes as far as claiming that proposal submissions should be restricted by

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the SEC, because they do more damage than good by disrupting the decision-making authority of the board of directors.

Despite these arguments, the empirical US literature finds considerable evidence that shareholder proposals should be regarded as a useful governance tool and the proposal sponsors as valuable monitoring agents. Recent studies confirm that proposal submissions exert pressure on the target firms despite their nonbinding nature, because as much as 40% of the proposals that win a majority vote end up being implemented (Bizjak and Marquette, 1998; Martin and Thomas, 1999; Thomas and Cotter, 2007; Ertimur, Ferri, and Stubben, 2008). Ertimur, Ferri, and Stubben (2008) show that targets ignoring passed proposals are penalized by drawing negative press and downgrades by governance rating firms, and their their directors are less likely to be reelected and more likely to lose other directorships[1].

Other studies find that the proposal sponsors tend to have the "correct" objective of disciplining management, and as such claims of their agenda-seeking are exaggerated. Early studies report that proposal submissions tend to be directed at large, poorly performing firms (Karpoff, Malatesta, and Walkling (1996), Martin and Thomas (1999)). Renneboog and Szilagyi (2009) add that the targets tend to be underlevered as well as have generally poor governance structures including (i) managers entrenched by antitakeover devices, (ii) ineffective boards, and (iii) ill-incentivized CEOs. Smith (1996) shows that the proposal sponsors also consider the voting shareholders before deciding whether or not to submit proxy proposals, because the targets tend to have high institutional and low insider ownership.

The literature confirms that the target firm's governance quality is also observed by the voting shareholders. Gillan and Starks (2007) find that the voting results are mostly driven by the proposal objectives and the sponsoring shareholders. However, Ertimur, Ferri, and

[1] Del Guercio, Seery, and Woidtke (2008) find that dissatisfied activists often target director elections with "just vote no" campaigns.

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Stubben (2008) and Renneboog and Szilagyi (2009) shows that irrespective of the issue addressed, proposals draw more voting support if the target has heavily entrenched managers and ineffective boards. Cremers and Romano (2007) report that the identity of the voting shareholders is also relevant. On one hand, voting support increases in institutional and decreases in insider ownership. On the other, insurance firms and banks' trust departments are less likely to vote in favor of shareholder proposals than are other institutional investors. Brickley, Lease and Smith (1988) and Pound (1988) regard these investors as being pressure-sensitive due to their existing or potential business relationships with the firms they invest in, which increases the risk of conflicted voting.

The US literature examines the stock price effects of shareholder proposals around the dates the proxy statements are mailed (Bhagat, 1983; Bhagat and Brickley, 1984). Early event studies find no evidence that the market recognizes shareholder proposals as a relevant control mechanism (Karpoff, Malatesta, and Walkling (1996); Bizjak and Marquette (1998); Del Guercio and Hawkins (1999); Prevost and Rao (2000); Thomas and Cotter (2007). However, Renneboog and Szilagyi (2009) find that proposal announcements are actually met with significantly positive stock price reactions, which are sensitive to the proposal objectives but are most fundamentally driven by the target firm's past performance and quality of governance structures.

2.2. The role of shareholder proposals in Europe

Shareholder activism through the proxy process is seldom discussed in the European corporate governance literature. Becht, Franks, Mayer and Rossi (forthcoming) examine the activist strategies of a single institutional investor, the Hermes UK Focus Fund. The study shows that similar to US funds, Hermes rarely submits proxy proposals for shareholder vote, instead negotiating successfully with management behind the scenes. The authors attribute

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this to management concerns of the fund requisitioning an extraordinary general meeting, with the looming prospect of a proxy fight. While Klein and Zur (2009) make a similar point for the US, this threat is even larger in the UK where passed proposals are legally binding, and shareholders can remove directors by an ordinary resolution.

Buchanan and Yang (2008) are the first to perform a comparison of US and UK proposal submissions. The authors find that the target firms tend to be poorly performing in both countries, but report systematic differences in the proposal objectives, the sponsor identities, as well as the voting outcomes. An important insight of the paper is that UK proposals draw more voting support, especially when they target personal changes on the board, and that they are often implemented even if they are later withdrawn. However, subsequent performance improvements are only detected in US firms, as measured by profitability, dividend payout, leverage, and stock price effects.

Girard (2009) is the only study to discuss the governance role of shareholder proposals in Continental Europe, by investigating activist strategies in France. The author examines the success rate of behind-the-scenes negotiations, targeting firms through the media, proposal submissions, and civil law suits. The results show that launching lawsuits is the preferred method of activists engaging firms over governance concerns, and that this particularly aggressive strategy is also more likely to succeed than other forms of activism including the submission of proxy proposals.

Previous studies report no evidence at all on the corporate governance role of shareholder proposals in Continental Europe. An interesting study by De Jong, Mertens and Rosenboom (2006) examines the proposals presented to shareholders at the general meetings of Dutch firms. The authors find that during their sample period, all proposals put to shareholder vote were in fact sponsored by the board of directors. Furthermore, the number of

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votes cast against these submissions was negligible, with only nine out of 1,583 proposals either rejected or withdrawn.

Overall, the literature is clearly incomplete on the extent to which the proxy process is accessible to European shareholders as a disciplinary device, and if so, whether proposal submissions are useful and effective in mitigating corporate governance concerns. The available evidence implies considerable variation across Europe in this regard, as is discussed in the following sections of this paper.

3. The regulatory environment in European countries

The corporate governance role of shareholder proposals should heavily depend (i) on the extent to which laws and regulations support shareholder access to the proxy process, and (ii) the rules and practicalities of proxy solicitation. We now assess the differences in this regard across European countries.

3.1 Shareholder access to the proxy process

A key difference in the legal treatment of shareholder proposals between the US and Europe is that while passed proposals are only advisory in nature in the US, they are legally binding in the UK and most of Continental Europe except the Netherlands. The corporate governance laws and best practices of European countries generally recognize that in order to protect their interests, minority shareholders must be provided with access to general meetings as well as the right to submit proxy proposals for shareholder vote. Nonetheless, the provisions governing shareholder access to the proxy typically remain stringent compared to the US. US shareholders are not allowed to call extraordinary meetings unless the corporate charter or bylaws allow otherwise. However, shareholders owing 1% of the voting shares or USD 1,000 in market value may submit proxy proposals for shareholder vote.

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Table 1 provides an overview of the legal requirements for submitting proxy proposals and convening extraordinary meetings in eight European countries. The table shows that the required voting capital varies considerably across countries. In the UK, shareholders owning no less than 5% of the firm's issued share capital may submit proposals to be voted upon at a general meeting. Alternatively, a group of at least 100 shareholders, each with no less than GBP100 invested, may also put forward a proposal. To call an extraordinary meeting, the support of at least 10% of the voting capital is required.

– Insert Table 1 about here –

France is somewhat more lenient than the UK in that shareholders owning 5% of the voting capital may both submit proposals and call extraordinary meetings. This ownership requirement is gradually reduced with the increase of capital, to 4% between EUR 750,000-4.5 million, 3% between EUR 4.5 million-7.5 million, 2% between EUR 7.5 million-15 million, and 1% over EUR 15 million. A noteworthy provision of the French Commercial Code is that even though a meeting can only deliberate on items on its agenda, *"it may nevertheless remove one or more directors or supervisory board members from office and replace them, in any circumstances*"[2]. Shareholders entitled to change the agenda of a meeting may also demand that a representative appointed by the court convene the meeting[3].

The German Stock Corporation Act (Aktiengesetz) provides that new agenda items and extraordinary meetings can be set by shareholders owning a minimum 5% of the voting capital. However, any shareholder may add a proposal to the existing items of a meeting's agenda, thus the proposal sponsors often include even university professors[4]. The similar

[2] Commercial Code/Book II title II chapter V section III Article L225-105 and L225-120.

[3] Commercial Code/Book II title II chapter V section III Article L225-103; 2001 May.

[4] Ekkehard Wenger and Leonhard Knoll, both from the Julius-Maximilians Universität Würzburg. Knoll sponsored 54 of the sample proposals, either alone or jointly with Wenger.

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Austrian Aktiengesetz also provides that general meetings can be called by shareholders owning at least 5% of the voting capital, but proposals can be submitted by those owning 1% or EUR 70,000 of capital[5].

The Norwegian Code of Practice for Corporate Governance requires firms to inform all shareholders in the notice of the general meeting about their right *"to propose resolutions in respect of matters to be dealt with by the general meeting"*. Shareholders owning at least 5% of the issued share capital have the right to convene an extraordinary meeting.

In the Netherlands, 10% or more of the voting capital is needed to requisition an extraordinary meeting. Proposals may be submitted by shareholders with a stake of at least 1% or EUR 50 million of the firm's shares and certificates[6]. However, only management or the supervisory board may propose resolutions on certain topics including amendments to the articles of association, share issues and subscription rights, asset sales, and the dissolution of the firm itself. Furthermore, provisions of the articles of association that limit the general meeting's power to amend the articles may only be altered by a unanimous decision of a general meeting where 100% of the share capital is represented.

In Switzerland, shareholders must own CHF 1 million of the issued share capital to place a resolution on the meeting agenda, unless the articles of association specify otherwise. In line with the recommendations of the Swiss Corporate Governance Code, large firms such as UBS and Novartis have lowered this threshold, with the minimum ownership requirement

[5] The Austrian Aktiengesetz also provides that when a meeting is convened by a shareholder, whether the costs are to be borne by the firm or the shareholder will be decided at the meeting.

[6] Dutch certificates are tradable depository receipts, issued at the initiative of the supervisory board, that carry cash flow rights but no voting rights. They are designed to replace ordinary shares, which are then deposited with the issuer, the administration office. The administration office takes over all voting rights on the retired shares, thus typically taking a voting majority in the firm. It is always friendly to the management board, and is run by members of the supervisory and/or management boards as well as outside individuals.

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often less than 0.1%. To convene an extraordinary meeting, a petition submitted by shareholders owning no less than 10% of the share capital is required.

Finally, while governance standards in Russia are gradually improving, the resolution of disputes between management and minority shareholders is complicated by institutional loopholes and weaknesses in the protection of shareholder rights. Nonetheless, shareholders with 2% or more of the voting stock can propose items for the agenda of a general meeting, while 10% of the voting stock is required to convene an extraordinary meeting.

3.2. Proxy solicitation and corporate ownership

An important consideration likely to affect proposal submissions is that the sponsoring activist must seek the support of other shareholders. The European Commission (2006) points out that the rules and formalities for proxy solicitation vary considerably within Europe. In the UK, the solicitation request would be included in the proxy documents and distributed to all shareholders at no major cost to the activist. In other countries, the solicitation of proxies at the firm's expense is prohibited, so the production and distribution costs of the solicitation request are borne by the activist (European Commission (2006)).

Manifest (2008) find that for large firms, shareholder participation at annual meetings is fairly consistent across European countries, at 55.5% of the voting capital in France, 54.8% in Germany, and 61.8% in the UK. However, the European Commission (2006) adds that the attendance rate of the free float tends to be low in Continental Europe, at 10.1% in Germany and 17.5% in France compared with 53.2% in the UK. There are many reasons why shareholders would be prevented or discouraged from voting in Continental Europe in particular. First, meeting attendance is often hindered by the late availability or incompleteness of meeting-related information, resolutions in summary form, and overly short notice periods. Second, national regulations in some countries make proxy voting

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unduly cumbersome and prohibitively costly, with stringent restrictions on who and how may be appointed as a proxy. And third, many jurisdictions maintain the practice of share blocking, whereby shareholders must deposit their shares for a few days before general meetings to be able to vote. Share blocking exists to ensure that those who show up to vote are actually shareholders on the day of the vote. However, it is very costly for shareholders, as it prevents them from negotiating shares up to weeks in advance of general meetings[7].

In terms of proxy solicitation, it is an important fact that while large US firms tend to have widely dispersed ownership structures, ownership in the UK and Continental Europe is more concentrated. Goergen and Renneboog (2001) find that in the average UK firm, eight or more shareholders must join forces to attain a majority vote, which renders it fairly difficult to forge voting coalitions. Nonetheless, Becht and Mayer (2001) find that at 10%, the typical voting block in the UK is twice the size of that in the US.

The largest voting blocks in Continental Europea tend to be even larger, ranging from 20% on average in France to 44% in the Netherlands and 57% in Germany.[8] These are often accumulated through pyramidal ownership structures, with approximately 40% of the largest firms held through pyramids in Austria, France, and Germany. Continental European firms also often deviate from the one share-one vote rule by issuing multiple classes of stock, granting multiple voting rights, and introducing voting right ceilings. In France, for example, it is possible to establish a double voting right for registered shares that have been held for two years. DSW (2008) finds that such structures are allowed across Continental Europe except a few countries such as Austria, Germany and Norway, while they are virtually absent in the US and the UK.

[7] See European Commission (2006), DSW (2008), and Manifest (2008) for detailed discussions.

[8] The average market capitalization of the top ten nonfinancial firms is considerably lower in Europe compared to the US. Within Europe, the top firms are twice as large in UK than in Continental Europe (La Porta et al. (1998)).

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Becht (2001) finds that the blockholders of US firms tend to be managers or directors, followed by institutional investors. Institutional investors are likely to support shareholder-initiated proposal submissions, although they are often passive or simply tend to vote with their feet. Insider blockholdings should clearly reduce the probability that a proposal is submitted or later passes the shareholder vote. On one hand, managers and directors are unlikely to cast their votes in favor of a shareholder proposal. On the other, insider ownership should help realign insider and shareholder interests, thereby mitigating the expropriation concerns of minority shareholders.

In the UK, institutional investors are the most important corporate owners, and they tend to be as passive as their US counterparts. Goergen and Renneboog (2001) point out that this often lends considerable power to the board of directors. On one hand, the proxy votes not exercised by shareholders are controlled by the board. On the other, directors themselves are the second largest blockholders in UK firms.

Faccio and Lang (2002) find that while 63% of UK firms can be regarded as being widely held, 50-60% of Continental European firms are effectively owned by families. In addition, many large firms are controlled by banks and holding companies. While banks tend not to hold significant equity in US and UK firms, they control 15% of the largest firms in Germany and Portugal, and 5% in France and Switzerland (La Porta et al. (1999)). Goergen and Renneboog (2001) point out that in Germany, the effective voting power of banks extends well beyond their ownership stakes, because they tend to engage in proxy voting such that they exercise the voting rights on the shares deposited with them. Nibler (1998) reports that in German listed firms, Deutsche Bank, Dresdner Bank and Commerzbank have an overall equity stake of 6.8% on average, but control another 14.4% of the votes through proxies.

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4. Sample description and univariate analysis of proposal objectives, voting outcomes, and stock price effects

We investigate the corporate governance role of shareholder proposals in Europe using submissions reported by the Manifest database. The database contains a total of 720 proposals. However, the voting outcomes are only reported for 290 proposals in Manifest, articles compiled by the Factiva database, and corporate filings[9]. Of these, 195 were submitted in the UK at a total of 62 general meetings of 40 firms between 1998 and 2008. The remaining 95 proposals were submitted between 2005 and 2008 at 28 general meetings of 23 firms in Austria, France, Germany, the Netherlands, Norway, Portugal, Russia and Switzerland.

We collect accounting and stock price data for the target firms from Compustat and Datastream. Ownership information is gathered from Manifest and Bureau van Dijk. We use the Manifest Governance database and Thomson OneBanker to obtain information on governance structures including board composition and CEO ownership and remuneration.

Preliminary analysis of the 720 submissions reported by Manifest shows that shareholder proposals are submitted less frequently in the UK and Continental Europe than in the US. Table 2 compares the frequency of proposal submissions using the US data reported by Renneboog and Szilagyi (2009) for the period between 1996 and 2005. We find that normalized by the size of the stock markets as reported by the World Bank, the number of proposals is 3-4 times as high in the US per publicly listed firm, and approximately twice as

[9] The dissemination of the voting results is not compulsory in many European countries including Belgium, France, Ireland, the Netherlands, Poland, and the UK. Manifest (2008) reports that it has been best practice historically in the UK, with the disclosure rate at 96% among the FTSE 250 firms. In Continental Europe, it has only recently become common practice even for the largest firms, with the disclosure rate increasing between 2005 and 2007 from 51% to 100% for the CAC 100 firms in France, and from 68% to 88% for the AEX 25 firms in the Netherlands.

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high per traded stock value and market capitalization. This implies that on the whole, shareholder proposals play a lesser role in European corporate governance.

– Insert Table 2 about here –

4.1. Proposal objectives

Table 3 provides an overview of the 290 proposals for which the voting outcomes are available by the issue addressed, the year of submission, and whether the target firms was from the UK or Continental Europe. We classify the proposal objectives into nine mutually exclusive categories: (i) election or removal of directors; (ii) corporate governance issues; (iii) pro-management loosening of corporate governance; (iv) asset restructuring; (v) capital structure; (vi) payout policy; (vii) corporate social responsibility; (vii) routine issues related to the general meeting; and (ix) other miscellaneous issues.

– Insert Table 3 about here –

Table 3 shows that 139 out of the 290 sample proposals related to a proxy contest seeking the election or removal of board members in order to trigger corporate changes. This is in sharp contrast with the US practice, where dissident shareholders cannot nominate or remove directors using proxy proposals, thus replacing the board requires a contested solicitation. The number of proposals targeting directors was particularly high in the UK in the latter half of the sample period, with 24 submissions up to 2003, and 105 thereafter. Buchanan and Yang (2008) point out that this is unsurprising, because UK shareholders can replace the board with their own nominees by a simple majority vote.

While two thirds of the UK proposals targeted the board directly, 65 of the 95 proposals submitted in Continental Europe were directed at corporate governance issues. In line with submissions in the US, a number of these related to board quality and shareholder

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rights. However, 27 of the proposals sought to exert discipline retrospectively by calling for a special audit on past matters. In the UK, governance issues were targeted by a total of 21 proposals.

It is notable that five of the Continental European submissions favored management or the board rather than shareholders, and therefore sought to reinforce rather than discipline corporate insiders. These included three proposals (including a resubmission) to limit the number of mandates for directors representing shareholders, one to waive claims against directors, and a counterproposal on calling a special audit.

Of the remaining proposals, 21 related to corporate social responsibility issues such as employee rights, contacts with customers, and environmental matters. These were submitted almost exclusively in the UK, with only three submissions made in Continental Europe. There were a total of 11 proposals seeking asset restructuring, 15 called for payout policy changes, seven proposals submitted in the UK targeted capital structure issues, and five were directed at routine issues associated with the time and location of general meetings.

4.2. Voting outcomes

Table 4 provides an overview of the voting outcomes by the issue addressed, the year of submission, and whether the target firm was from the UK or Continental Europe. The number of proposals that actually passed the shareholder vote is shown in Table 5.

– Insert Tables 4 and 5 about here –

Table 4 shows that the proposals submitted in the UK achieved 30.3% of the votes cast on average. The voting outcomes improved substantially after 2003, coinciding with the results reported for the US by Renneboog and Szilagyi (2009). Continental European proposals drew less voting support, with an average 21.1% of the votes.

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In the UK, the proposals seeking the election or removal of directors were by far the most successful, with 38.6% of the votes on average. In the period after 2003 many of these actually received a majority vote, with as many as 30 out of 37 proposals passing in 2004. Although less widely used, similar proposals submitted against Continental European firms also fared well, with an average 46.5% of the votes in 2007 and 2008. This indicates that the voting shareholders view proposals related to a proxy contest as a strong signal of governance concerns.

The proposals seeking asset restructuring won a similarly high 36.3% of the votes on average. These submissions were also more successful in the latter half of the sample period, with the majority passing the shareholder vote after 2006 in both the UK and Continental Europe.

The voting outcomes on the remaining proposal objectives were significantly weaker. The governance-related proposals won only 15.5% and 19.7% of the votes in the UK and Continental Europe, respectively. The five Continental European submissions that favored management or the board rather than shareholders drew an average 21.2% voting support. The proposals targeting payout policy attracted 16.3% of the votes in the UK, and had little success in all but one case in Continental Europe. Consistent with the findings of Gillan and Starks (2007) for the US, the proposals related corporate social responsibility received even less support, at an average 7.3% of the votes cast. Finally, the proposals targeted at routine and capital structure issues achieved 4.6% and 4.3% of the votes, respectively.

While management should contest shareholder proposals to the extent that they are used as disciplinary tool by the outside shareholders, this was not always the case with the sample proposals. Table 5 partitions the voting outcomes by the voting recommendations issued by management on the individual submissions. The results show two major differences between the UK and Continental Europe. First, while management recommended a no vote on

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186 out of 195 UK submissions, they opposed only 68 of the 95 proposals submitted in Continental Europe. Second, we find evidence that the management-supported proposals mostly passed the shareholder vote in Continental Europe but were unsuccessful in the UK. These results again suggest that in Continental Europe, proposals often reinforce the incumbent leadership rather than serve shareholder interests, whereas in the UK any such attempts are likely to fail.

– Insert Table 6 about here –

4.3. Stock price effects

To examine the stock price effects of the sample proposals, we analyze the cumulative abnormal returns (CARs) around the general meeting dates. The prior US literature examines stock price changes around the dates the proposals are first announced in the proxy statements (Bhagat, 1983; Bhagat and Brickley, 1984). However, our cross-country study does not permit this type of analysis. On one hand, the content, timing and dissemination methods of the materials related to a general meeting show huge variations across countries, with no minimum standards even within the European Union. On the other, several countries allow proposals to be placed on the meeting's agenda with a very short notice period. For example, Germany allows proposals up to a week after the publication of the meeting's notice, while France has no provision at all governing the deadline for submitting proposals, such that shareholders may do so until the meeting is called to order[10].

By analyzing the CARs around the general meeting dates, we effectively measure the stock price reaction to the shareholder vote on the sample proposals, with some probability that the market is informed of the submission itself on the day of the meeting. The market

[10] We try to analyze stock price changes around the date information on the sample proposals first became available on Manifest, but the results are inconsistent.

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response to the proposal outcome is difficult to ascertain, which is likely to lead to a downward bias in the size and significance of the results. On one hand, even if the market is aware of the proposal, it should have reasonable expectations on whether it actually passes, thus the voting results only reveal new information if they differ from this projection. On the other, shareholders receive a great deal of new information during the meeting as well as vote on multiple agenda items, such as director elections, dividend payout, the annual accounts, as well as any other proposals submitted by shareholders and management.

We calculate the CARs using the market model methodology. The model parameters are estimated over the 200-day period ending 21 days before the general meeting dates, using representative national indices to calculate market returns[11]. The significance of the CARs is tested using Boehmer, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test and Cowan's (1992) nonparametric generalized sign test. For robustness, we compute bootstrapped versions of the parametric tests with 3000 repetitions.

Table 7 reports the CARs for the full sample across a number of event windows. The results indicate a strong negative market reaction to the general meetings at which the sample proposals were voted upon. In the three-day [-1,+1] window around the meeting dates, the average and median CAR were -1.20% and -0.71%, respectively, with all tests significant at least at the 5% level. We find similar results for all other event windows. These findings imply that the market associates proposals with a negative signal rather than attribute them control benefits as a disciplinary device. As Prevost and Rao (2000) argue, the market may view proposals as being disruptive from a corporate governance perspective. However, it is likely that the stock price effects are driven by the negative signal of both governance

[11] The market indices used are FTSE All Share, DAX30, PSI20, CAC40, AEX, Swiss Market Index [SMI], ATX, RTS, Oslo BMI.

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concerns as well as the failure to address them, because most proposal submissions tend to fail the shareholder vote.

– Insert Table 7 about here –

Table 8 classifies the CARs by the issues addressed by the proposal submissions. For the general meetings where multiple proposals were presented, the CARs are assigned to each of the corresponding proposal objectives. While the results are mostly insignificant due to sample size issues, the average CARs were negative for each objective across almost all event windows. Nonetheless, there is some evidence that the market responds least favorably to proposals that seek governance improvements or personal changes on the board, with the negative CARs significant in five and two of the eight event windows, respectively. This corresponds to the strong governance implications of these proposal objectives, and thus supports the assertion that the market assesses proposals, irrespective of their voting success, on the severity of the governance problems they signal.

– Insert Table 8 about here –

5. Multivariate analysis of target selection, voting outcomes, and stock price effects

To gain further insight into the governance role of shareholder proposals in Europe, we use sample selection models to determine (i) how activists decide which firm to target with a proxy proposal, and (ii) conditional on the firm being targeted, what drives proposal success in terms of the voting results and the stock price effects. The use of the sample selection models is motivated by the fact that target selection and proposal success are likely to be endogenous. On one hand, the activist is likely to consider the potential outcome before deciding whether or not to submit the proposal, given the nontrivial costs involved. On the other, the market and the voting shareholders may respond to the act of the submission

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beyond the objective of the proposal itself, to the extent that this reveals a negative signal of governance concerns, or in fact a positive signal of close monitoring by the activist.

To identify the firm characteristics that drive target selection and proposal success, we use a comprehensive set of accounting, stock market, ownership and governance data collected from the AMADEUS, Bankscope, Compustat, Datastream, Manifest, and Thomson OneBanker databases, as well as corporate filings. The analysis of target selection is performed through a matching process, such that for each target we select a peer within its industry that is comparable in size. While this process does not cover the entire universe of publicly listed European firms, it decreases the likelihood of a systematic bias due to missing or inaccurate data.

5.1. Descriptive statistics on target and non-target firms

Table 9 compares the descriptive statistics on the target firms and their nontarget peers. The variable descriptions are provided in Appendix A. The differences in means and medians are tested using paired t-tests and Wilcoxon ranksum tests, respectively.

– Insert Table 9 about here –

Panel A of Table 9 shows how the targets and nontargets compared in terms of their financial characteristics, market performance, and institutional ownership. Fama and French's (2001) agency proxies show little evidence that governance concerns in the targets were exacerbated, with no discernible difference in the debt-to-equity and market-to-book ratios of the targets and the nontargets. The performance data show some evidence that the targets underperformed relative to the nontargets in the year up to two months before the general meeting dates. Their stocks delivered an average raw return of 5.5%, and underperformed their respective market indices by 0.8%. The raw return on the nontarget stocks was 12.2%,

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and these actually outperformed their respective indices by 7.6%. Turnover was considerably higher in the target stocks, at 2.6 versus 1.0, which is likely to be symptomatic of shareholders voting with their feet.

Finally, Panel A confirms that there were significant differences in the ownership structures of the targets and the nontargets. First, institutional ownership was higher in the targets at 33.0% and 21.6%, respectively. Using Pound's (1988) classification of institutional investors, we find that both pressure-sensitive and pressure-insensitive institutions held bigger ownership stakes in the targets. Second, there is evidence that ownership in the targets was more concentrated. We measure shareholder concentration using the independence indicators of Bureau van Dijk, and find that the mean concentration in the targets was significantly higher, at 1.9 versus 1.6[12]. Overall, there results imply that activists indeed observe the identity of the voting shareholders before deciding whether or not to submit proxy proposals.

Panel B of Table 9 compares the governance quality of the targets and the nontargets in terms of board effectiveness and the exposure of CEO wealth to firm performance. We measure board effectiveness by (i) size, (ii) the proportion of executive directors, (iii) the average age of nonexecutive directors, and (iv) the independence of the board chairman. The data show mixed evidence on how the two groups compared in terms of board quality. The targets had 12.8 directors on average, significantly more than the 11.4 directors nontargets had and the optimal board size of six to eight directors (Jensen, 1993; Yermack, 1996). However, there is no evidence that the targets had fewer independent directors, with executives constituting 36.4% of the board in the targets and 38.0% in the nontargets. We also find no discernible difference between the age and thus experience of the nonexecutive directors, at 59.3 and 59.9 years, respectively. The posts of CEO and board chairman were

[12] The independence indicators reported by Bureau van Dijk take values of A, B, C, and D. We transform these values into a scale from 1 to 4, with D=4 representing the highest level of ownership concentration.

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separated in 12% of the targets and 17% of the nontargets, but the difference is again insignificant.

The exposure of CEO wealth to firm performance, which Jensen and Murphy (1990) view as a remedy to agency concerns, is measured by (i) the CEO's equity ownership and (ii) the proportion of stock-based compensation in the CEO's total pay. Panel B of Table 6 shows that the target CEOs held smaller equity stakes in their firm, at 0.7% versus 2.5%. However, there is no evidence that CEO compensation was less high-powered in the targets, with options and restricted shares comprising an average 30.8% and 27.6% of total pay, respectively.

5.2. Methodology

We perform the multivariate analysis of target selection and proposal success using Heckman's (1979) sample selection model, often referred to as a type-2 tobit model. The model is specified as follows:

$$y_{1it}^{*} = X_{1it}^{'}\beta_1 + \varepsilon_{1it} \ , \tag{1}$$

$$y_{1it} = \begin{cases} 1 & if \ \ y_{1it}^{*} > 0 \\ 0 & if \ \ y_{1it}^{*} \le 0 \end{cases} ,$$

$$y_{2it}^{*} = X_{2it}^{'}\beta_2 + \varepsilon_{2it} \ , \tag{2}$$

$$y_{2it} = \begin{cases} y_{2it}^{*} & if \ \ y_{1it}^{*} > 0 \\ 0 & if \ \ y_{1it}^{*} \le 0 \end{cases} ,$$

where $\{\varepsilon_{1it}, \varepsilon_{2it}\}$ are drawn from a normal distribution with mean 0, variances σ_1^2 and σ_2^2, and correlation ρ_{12} (Amemiya (1984)). The variable y_{1it}^{*} is a dummy variable showing whether firm i is targeted in year t, while the variable y_{2it}^{*} is the outcome of interest i.e. (i) the voting

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outcome observed at the proposal level, or (ii) the CAR observed at the firm level around the proxy mailing date. It is assumed that only the sign of y_{1it}^{*} is observed, and that y_{2it}^{*} is observed only when $y_{1it}^{*} > 0$. The *X* variables correspond to the explanatory variables. X_{1it} and X_{2it} are not disjoint but do differ. X_{1it} is observed for all i, and includes firm-level variables as well as year and industry dummies. X_{2it} additionally includes proposal-related variables not observed when no proposal is submitted i.e. $y_{1it}^{*} \leq 0$. β_1 and β_2 are vectors of the model coefficients.

In a standard setting, the error terms are assumed to be i.i.d. drawings. We relax this assumption across t as well as allow the clustering of observations corresponding to a given firm *i*, i.e. we assume the error terms to be i.i.d. across firms but not necessarily for different observations within the same firm. This procedure enhances the robustness of our findings and allows us to take the panel data structure of our sample explicitly into account.

Throughout the paper we call Equation (1) the selection equation and Equation (2) the outcome equation. As has been discussed, estimating the outcome equation independently would not be a valid alternative, because the OLS estimator of β_2 is biased when the selection of the outcome sample is endogenous i.e. $\rho_{12} \neq 0$. The sample selection model addresses the endogeneity of selection, and thus renders reliable parameter estimates for the outcome equation.

5.3 Target selection

The sample selection models analyzing the voting outcomes and the stock price effects are depicted in Tables 10 and 11, respectively. The selection equations, shown in Panel A, are configured identically in the two tables. However, the voting outcomes are observed at the proposal rather than the firm level, thus the selection equations of Table 10 overweight the

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targets with multiple proposals in a given year[13]. As the CARs are observed at the firm level, the corresponding selection equations are unbiased. Therefore, the remainder of this section discusses the selection equations shown in Panel A of Table 11.

– Insert Tables 10 and 11 about here –

The selection equations control for the firm characteristics discussed in Section 5.1 and described in Appendix A. Fama and French's (2001) agency argument dictates that the probability of a proposal submission is related negatively to the debt-to-equity and market-to-book ratios. However, market-to-book also serves as a proxy for informational asymmetries, thus the sign on this variable can be positive to the extent that proposal submissions have signaling effects. Proposal probability should be related negatively to prior stock performance and positively to prior stock turnover. We control separately for ownership by pressure-sensitive and pressure-insensitive institutional investors. Proposal probability should increase in both, but less so in the former due to the threat of conflicted voting by pressure-sensitive institutions. Finally, we expect proposal probability to be positively related to shareholder concentration. On one hand, voting coalitions should be easier to build when firm ownership is concentrated. On the other, activists may actually be wary of expropriation by powerful large shareholders, and use proposal submissions to protect minority shareholder interests.

The selection equations include seven variables capturing governance quality. Board effectiveness is proxied by (i) size, (ii) the square of size, (iii) the proportion of executive directors, (iv) the age of nonexecutive directors, and (v) a dummy equal to one if the chairman is independent and zero otherwise. We expect the sign on size to be negative and on squared

[13] Firm-level specifications would yield unbiased results for the selection equations but lead to considerable loss of information on the individual proposals. For robustness, we performed the analysis at the firm level by excluding firms targeted by multiple proposals in a given year, as well as by using the average voting outcomes. The results of the outcome equations were similar to those presented in Section 4.3, but the information loss was significant.

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size to be positive, to the extent that boards should be neither too small nor too large. The sign should be positive on the proportion of executive directors, and negative on director age and chairman independence. As before, the variables pertaining to CEO wealth and compensation are (i) ownership and (ii) stock-based to total pay. We conjecture that the signs are negative on both variables, due to the incentive effects of the CEO's exposure to firm performance.

Panel A of Table 11 show that these selection equations are very effective in explaining why firms get targeted with shareholder proposals. First, we confirm that proposal probability decreases in the prior market performance and increases in the prior stock turnover. Second, we find that highly levered firms are less likely to be targeted, consistent with the role of leverage in mitigating free cash flow problems. And third, there is evidence that activists observe the voting shareholders before deciding whether or not to submit proxy proposals. In Model 5, proposal probability increases by 3.3% and 2.3% for every 1% stock held by pressure-sensitive and pressure-insensitive institutions, respectively. While this shows little indication of conflicted voting by pressure-sensitive investors, the statistical relation is considerably more significant for pressure-insensitive institutions. We find no statistical evidence that proposal probability is affected by the additional proxies for governance quality; the variables capturing board effectiveness and the exposure of CEO wealth to firm performance are insignificant in the models.

5.4 Voting outcomes

The outcome equations analyzing voting success are depicted in Panel B of Table 10 and summarized in Appendix B. The models incorporate a similar set of firm-level variables included in the selection equations. While the voting outcomes are conditional on the target selection process, we conjecture that the variables affect proposal probability and voting success in the same way. We additionally control for firm size in the outcome equations using

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the log of assets, and exclude shareholder concentration to avoid endogeneity problems. We expect that voting success is related negatively to firm size, because while Fama and French (2001) find agency concerns to be more severe in large firms with dispersed ownership, voting coalitions should be much more difficult to build.

In addition to the firm-level variables, the outcome equations include 11 variables capturing the characteristics of the proposals themselves. *Times submitted* is the number of times a proposal has been submitted in consecutive years. We conjecture that consecutive resubmissions of unimplemented proposals improve the voting outcomes, consistent with the earlier findings of Gillan and Starks (2000) and Renneboog and Szilagyi (2009) for the US. *Number of proposals at meeting* captures the number of proposals presented at the same general meeting. While it is not immediate how this should affect voting success, we expect that the more proposals submitted, the greater the support from the voting shareholders due to the stronger signal conveyed over governance concerns. Finally, we use nine dummy variables to control for the proposal objectives. All proposals are uniquely allocated to an issue type, such that the intercept represents proposals addressing routine issues. Corresponding to our univariate results, we expect that proposals seeking personal changes on the board attract the most voting support.

The model statistics in Table 9 confirm that target selection and voting success are endogenous, with ρ sensitive to the model specification but significant in all but one case. Results not reported here show that independent analysis of the voting outcomes produces somewhat different parameter estimates and has lower explanatory power overall. These findings confirm that the voting success of shareholder proposals needs to be analyzed in a sample selection framework.

The results in Panel B of Table 10 confirm that the voting outcomes are largely driven by the proposal objectives. In Model 5, the intercept shows that routine proposals receive

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9.2% of the votes cast. In comparison, proposals seeking to elect or remove directors win 21.8% and 20.6% more voting support, respectively, which is consistent with the strong signaling implications of outright proxy contests. We find no evidence that routine proposals are outperformed by other submissions, including those calling for asset restructuring, with the exception of the single miscellaneous proposal seeking to assert damage claims. The results also show no indication that consecutive resubmissions of the same proposal or multiple submissions at the same general meeting affect the voting outcomes.

Despite the careful target selection process we documented earlier, the firm-level variables add significant explanatory power to the outcome equations. Beyond its impact on the selection decision, institutional ownership has no discernible effect on the voting outcomes. Surprisingly, however, we find that voting success conditional on target selection increases rather than decreases in the target's prior market performance and debt-to-equity and market-to-book ratios. This implies that the voting shareholders view submissions against less likely targets as a negative signal of governance problems. Of the governance-related variables, only the CEO's pay-performance sensitivity affects the voting outcomes. The relation between the two is negative, which shows that the CEO's exposure to firm performance mitigates shareholder concerns over the agency and signaling implications of proposal submissions.

5.5. Stock price effects

The outcome equations analyzing the stock price effects in the days [-1,+1] around the general meeting dates are shown in Panel B of Table 11 and summarized in Appendix B. We control for the same firm characteristics included in the outcomes equations pertaining to the voting results, and conjecture that the variables affect the CARs in a similar way. The only exception is firm size, which should be related positively rather than negatively to the CARs.

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This conjecture assumes that while submissions against large firms are likely to win less voting support, their control benefits are greater to the extent due to agency considerations.

As the CARS are observed at the firm rather than the proposal level, the dummies controlling for the proposal objectives are now equal to one if a corresponding proposal was presented at the general meeting and zero otherwise. We conjecture that in line with their signaling effects, proposals seeking personal changes on the board generate more negative stock price changes. We similarly expect that the CARs are related negatively to the *Number of proposals at meeting* variable, to the extent that multiple submissions signal greater governance concerns.

The model statistics in Table 11 show that the outcome equations have considerable explanatory power, even though we measure the response to the general meetings rather than the individual proposals. Similar to Renneboog and Szilagyi (2009), we find no evidence that the CARs are endogenous to target selection, but as with the voting outcomes, independent regressions are less powerful and produce slightly different parameter estimates.

The outcome equations in Panel B of Table 11 show only limited evidence that the negative market reaction to general meetings is driven by the objectives of the proposals presented. The intercept representing routine proposals is insignificantly negative across all model specifications. In Model 5, the dummy capturing proposals to loosen governance quality is significantly positive. This implies that ceteris paribus, the market responds well to submissions that attempt and fail to relax governance standards, and thereby indicate considerable shareholder dissent vis-à-vis management. The remaining dummies, including those pertaining to proposals that seek governance improvements or personal changes on the board, are statistically insignificant. However, we confirm that the CARs are related negatively to the number of proposals presented, in line with the signaling effects of multiple submissions.

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The model statistics show that the stock price effects are most fundamentally driven by Fama and French's (2001) agency proxies and the target's prior market performance. The CARs are less negative for large firms with low leverage, indicating that the market attributes at least some control benefits to the public vote on shareholder proposals in the presence of agency concerns. However, they increase rather than decrease in both the market-to-book ratio and the prior stock price performance. This is inconsistent with the role of shareholder proposals as a disciplinary device, because it shows that the proposal outcomes only intensify the market's concerns over firms that have previously underperformed.

The results in Panel B of Table 11 provide some support for the relevance of the target's governance structures in explaining the stock price effects. There is evidence that the CARs show the expected nonlinear relation with the number of directors, with board size significantly positive and the square of board size insignificantly negative in the final Model 5. It is notable, however, that the relation between the CARs and the CEO's pay-performance sensitivity is positive rather than negative. This again is inconsistent with the control function of shareholder proposals, in that it indicates that governance concerns over firms with ill-incentivized CEOs are only exacerbated.

6. Conclusion

While the control function of shareholder proposals as a disciplinary mechanism has been subject to much debate in the US academic literature, their role in European corporate governance is rarely discussed. There is evidence for the US that shareholder access to the proxy has nontrivial control benefits, and shareholder proposals should be regarded as a useful disciplinary tool and the proposal sponsors as valuable monitoring agents. In Europe, the empirical investigation of this issue has been complicated by data availability, as well as the fact that European countries are very diverse in terms of their legal provisions governing

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shareholder access to the proxy, corporate ownership structures, as well as the monitoring incentives and costs borne by proposal sponsors.

This paper has contributed to the shareholder activism literature by examining shareholder proposals across eight European countries for the first time. The results have shown that relative to the US, proposal submissions remain less frequent in Continental Europe in particular. The importance of regulation is shown by the fact that while UK activists conveniently use proposals in relation to a proxy contest to replace the board, the proposal objectives remain largely limited to specific governance issues in Continental Europe.

Despite these country-level differences, proposal success in terms of the voting results and the stock price effects remain limited across Europe irrespective of the issues addressed. In fact, proposals are met with significantly negative market reactions when they are put to vote at general meetings. This implies that rather than attribute proposals meaningful control benefits, the market often interprets the shareholder vote as a negative signal of governance concerns. Indeed, although voting success and the stock price effects are both affected by agency considerations, the market responds particularly negatively to proposals submitted against firms that have already underperformed.

Overall, it is unclear why the perceived control benefits of shareholder proposals are limited in Europe. Previous US studies propose that submissions can do more damage than good by disrupting the board's authority, and that the proposal sponsors pursue their selfish agendas rather than maximize shareholder value. However, we have shown that proposal submissions are preceded by a careful selection process, whereby activists target firms that both underperform and are subject to governance concerns. Whether this translates into long-term improvements in operating performance is left for future research.

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Table 1. Statutory requirements on requisitioning an extraordinary general meeting and submitting shareholder proposals.

Country	LLSV origin	EGM	Remark	Proposal	Remark
Austria	German	5%		5%	
France	French	0.5-5%	this fraction can demand appointment of court representative to convene EGM	0.5-5%	decreasing in firm size
Germany	German	5%		5% or ownership of EUR 500,000 in nominal value	any shareholder if related to already existing agenda items
Netherlands	French	10%		1% or share ownership of EUR 50 million in market value	
Norway	Scandinavian	5%		any shareholder	
Portugal	French	5%		5%	
Russia	other	*10%*		*2%*	*specific to sample firm*
Switzerland	German	10%		share ownership of CHF 1 million in market value	*firm-specific information also available*
UK	English	10%		5% or a group of 100 shareholders with shares of GBP 100 each	automatically if meeting convened by proposal sponsor

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Table 2. Shareholder proposals by geographic location and stock market size.

This table shows the number of shareholder proposals submitted in the UK, Continental Europe, and the US. The proxies for stock market size are obtained from the World Bank's World Development Indices. *: from Renneboog and Szilagyi (2009).

Region	Year	Number of proposals	Proposals per year	Proposals per year		
				per listed company	per USD trillion of traded stock value	per USD trillion of market capitalization
UK	1998-2008	362	32.9	0.0140	8.39	11.40
Continental Europe	2005-2008	358	89.5	0.0117	5.80	7.19
US*	1996-2005	2,792	279.2	0.0407	14.56	20.31

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Table 3. Shareholder proposals by issue addressed, geographic location, and year of submission.

	UK												Continental Europe					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total by issue		2005	2006	2007	2008	Total by issue
Elect/remove	-	11	-	1	10	2	37	16	19	27	6	129	Elect/remove	-	-	5	5	10
Elect director	-	*4*	-	*1*	*4*	*1*	*10*	*6*	*14*	*15*	*3*	*58*	*Elect director*	-	-	*3*	*2*	*5*
Remove director	-	*7*	-	-	*6*	*1*	*27*	*10*	*5*	*12*	*3*	*71*	*Remove director*	-	-	*2*	*3*	*5*
Corporate governance	2	2	3	2	3	1	2	1	-	2	3	21	Corporate governance	1	5	31	34	65
Reduce director power	-	-	-	-	-	-	-	-	-	*1*	*2*	*3*	*Reduce director power*	-	-	*1*	-	*1*
Director independence	-	-	*1*	-	-	-	-	-	-	-	-	*1*	*Board size*	-	-	*2*	-	*2*
Director ownership	-	-	-	-	-	-	*1*	-	-	-	-	*1*	*Board liability*	-	-	*3*	-	*3*
Board liability	-	-	-	-	-	-	*1*	-	-	-	-	*1*	*Age limit for directors*	-	-	*2*	-	*2*
Board representation	-	-	-	*1*	-	-	-	-	-	-	-	*1*	*Elect committee/special representative*	-	*2*	-	*6*	*8*
Enfranchise non-voting shares	-	*1*	*1*	-	*1*	-	-	-	-	-	-	*3*	*Shareholder right to comment*	-	-	*2*	-	*2*
Reincorporation in US	-	-	-	-	-	*1*	-	-	-	-	-	*1*	*Special audit*	-	*1*	*12*	*14*	*27*
Convene EGM	*1*	-	-	*1*	-	-	-	-	-	-	-	*2*	*Verbatim minutes*	-	-	*2*	*2*	*4*
Remove auditor	-	-	-	-	-	-	-	-	-	*1*	-	*1*	*Voting issues*	*1*	-	*3*	*1*	*5*
Other	*1*	*1*	*1*	-	*2*	-	-	*1*	-	-	*1*	*7*	*Other*	-	*2*	*4*	*5*	*11*
Corporate governance - loosening	-	-	-	-	-	-	-	-	-	-	-	-	Corporate governance - loosening	-	-	2	3	5
													Waive board liability	-	-	-	*1*	*1*
													Limit shareholder representation	-	-	*2*	*1*	*3*
													Counterproposal - special audit	-	-	-	*1*	*1*
Asset restructuring	-	-	1	3	1	-	-	-	1	-	1	7	Asset restructuring	-	-	3	1	4
Capital structure	4	-	-	-	-	-	-	-	-	3	-	7	Capital structure	-	-	-	-	-
Payout policy	-	2	1	4	4	-	-	-	-	-	-	11	Payout policy	-	1	2	1	4
Corporate social responsibility	-	1	2	2	1	1	4	2	2	2	1	18	Corporate social responsibility	-	-	3	-	3
Routine	-	-	-	1	1	-	-	-	-	-	-	2	Routine	-	-	3	-	3
Other	-	-	-	-	-	-	-	-	-	-	-	-	Other	-	-	1	-	1
Total by year	6	16	7	13	20	4	43	19	22	34	11	195	Total by year	1	6	50	38	95

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Table 4. Percentage of votes FOR shareholder proposals by issue addressed, geographic region, and year of submission.

	UK												Continental Europe				
Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total by issue	2005	2006	2007	2008	Total by issue
Elect/remove	-	29.3 (11)	-	18.9 (1)	23.3 (10)	19.5 (2)	54.2 (37)	38.6 (16)	42.1 (19)	25.2 (27)	30.6 (6)	38.0 (129)	-	-	44.8 (5)	48.2 (5)	46.5 (10)
Elect director	-	*29.1 (4)*	-	*18.9 (1)*	*21.2 (4)*	*35.3 (1)*	*60.9 (10)*	*34.3 (6)*	*38.8 (14)*	*28.8 (15)*	*29.1 (3)*	*36.8 (58)*	-	-	*72.7 (3)*	*69.6 (2)*	*71.5 (5)*
Remove director	-	*29.4 (7)*	-	-	*24.7 (6)*	*3.7 (1)*	*51.6 (27)*	*41.2 (10)*	*51.4 (5)*	*20.8 (12)*	*32.0 (3)*	*39.5 (70)*	-	-	*3.0 (2)*	*33.9 (3)*	*21.5 (5)*
Corporate governance	14.5 (2)	17.0 (2)	22.1 (3)	9.1 (2)	14.6 (3)	10.8 (1)	3.0 (2)	1.9 (1)	-	3.1 (2)	66.0 (3)	19.7 (21)	7.3 (1)	39.4 (5)	8.9 (31)	18.8 (28)	15.5 (65)
Corporate governance – loosening	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.7 (2)	33.5 (3)	21.2 (5)
Asset restructuring	-	-	15.0 (1)	10.2 (3)	7.7 (1)	-	-	-	95.2 (1)	-	66.0 (1)	30.6 (7)	-	-	60.1 (3)	5.3 (1)	46.4 (4)
Capital structure	4.0 (4)	-	-	-	-	-	-	-	-	4.6 (3)	-	4.3 (7)	-	-	-	-	-
Payout policy	-	17.9 (2)	23.2 (1)	17.3 (4)	12.8 (4)	-	-	-	-	-	-	16.3 (11)	-	0.3 (1)	19.0 (2)	99.5 (1)	34.4 (4)
Corporate social responsibility	-	19.1 (1)	15.2 (2)	3.2 (2)	10.3 (1)	5.9 (1)	8.4 (4)	4.2 (2)	6.0 (2)	5.8 (2)	8.9 (1)	8.1 (18)	-	-	2.0 (3)	-	2.0 (3)
Routine	-	-	-	3.5 (1)	14.1 (1)	-	-	-	-	-	-	8.8 (2)	-	-	1.8 (3)	-	1.8 (3)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93.3 (1)	-	93.3 (1)
Total by year	7.5 (6)	25.7 (16)	19.3 (7)	11.3 (13)	18.0 (20)	13.9 (4)	47.5 (43)	33.1 (19)	41.3 (22)	21.0 (34)	41.5 (11)	30.3 (195)	7.3 (1)	32.9 (6)	16.5 (50)	25.6 (38)	21.1 (95)

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Table 5. Number of passed shareholder proposals by issue addressed, geographic region, and year of submission.

This table shows the number of shareholder proposals that received a majority vote. The total number of proposals submitted is shown in parentheses.

	UK												Continental Europe				
Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total by issue	2005	2006	2007	2008	Total by issue
Elect/remove	-	0 (11)	-	0 (1)	0 (10)	0 (2)	30 (37)	4 (16)	8 (19)	3 (27)	0 (6)	45 (129)	-	-	2 (5)	1 (5)	3 (10)
Elect director	-	*0 (4)*	-	*0 (1)*	*0 (4)*	*0 (1)*	*10 (10)*	*1 (6)*	*4 (14)*	*3 (15)*	*0 (3)*	*18 (58)*	-	-	*2 (3)*	*1 (2)*	*3 (5)*
Remove director	-	*0 (7)*	-	-	*0 (6)*	*0 (1)*	*20 (27)*	*3 (10)*	*4 (5)*	*0 (12)*	*0 (3)*	*27 (70)*	-	-	*0 (2)*	*0 (3)*	*0 (5)*
Corporate governance	0 (2)	0 (2)	0 (3)	0 (2)	0 (3)	0 (1)	0 (2)	0 (1)	-	0 (2)	3 (3)	3 (21)	0 (1)	2 (5)	2 (31)	3 (28)	7 (65)
Corporate governance – loosening	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0 (2)	1 (3)	1 (5)
Asset restructuring	-	-	0 (1)	0 (3)	0 (1)	-	-	-	1 (1)	-	1 (1)	2 (7)	-	-	2 (3)	0 (1)	2 (4)
Capital structure	0 (4)	-	-	-	-	-	-	-	-	0 (3)	-	0 (7)	-	-	-	-	-
Payout policy	-	0 (2)	0 (1)	0 (4)	0 (4)	-	-	-	-	-	-	0 (11)	-	0 (1)	0 (2)	1 (1)	1 (4)
Corporate social responsibility	-	0 (1)	0 (2)	0 (2)	0 (1)	0 (1)	0 (4)	0 (2)	0 (2)	0 (2)	0 (1)	0 (18)	-	-	0 (3)	-	0 (3)
Routine	-	-	-	0 (1)	0 (1)	-	-	-	-	-	-	0 (2)	-	-	0 (3)	-	0 (3)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 (1)	-	1 (1)
Total by year	0 (6)	0 (16)	0 (7)	0 (13)	0 (20)	0 (4)	30 (43)	4 (19)	9 (22)	3 (34)	4 (11)	50 (195)	0 (1)	2 (6)	7 (50)	6 (38)	15 (95)

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Table 6. Percentage of votes FOR shareholder proposals by issue addressed, geographic location, and management recommendation.

	UK								Continental Europe							
Management recommendation	Against		Case-by-case		For		Total by issue		Against		Case-by-case		For		Total by issue	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Elect/remove	38.4	(125)	32.0	(3)	2.9	(1)	38.0	(129)	26.0	(4)	3.7	(1)	71.5	(5)	46.5	(10)
Elect director	*36.8*	*(58)*	-		-		*36.8*	*(58)*	-		-		71.5	(5)	71.5	(5)
Remove director	*39.8*	*(67)*	*32.0*	*(3)*	*2.9*	*(1)*	*39.0*	*(71)*	26.0	(4)	3.7	(1)	-		21.5	(5)
Corporate governance	21.5	(19)	-		3.0	(2)	19.7	(21)	6.7	(49)	8.7	(4)	53.7	(12)	15.5	(65)
Corporate governance - loosening	-		-		-		-		3.3	(3)	-		48.1	(2)	21.2	(5)
Asset restructuring	19.8	(6)	-		95.2	(1)	30.6	(7)	46.4	(4)	-		-		46.4	(4)
Capital structure	4.3	(7)	-		-		4.3	(7)	-		-		-		-	
Payout policy	16.3	(11)	-		-		16.3	(11)	19.0	(2)	-		49.9	(2)	34.4	(4)
Corporate social responsibility	8.5	(16)	-		5.4	(2)	8.1	(18)	2.0	(3)	-		-		2.0	(3)
Routine	8.8	(2)	-		-		8.8	(2)	1.8	(3)	-		-		1.8	(3)
Other	-		-		-		-		93.3	(1)	-		-		93.3	(1)
Total by recommendation	30.6	(186)	32.0	(3)	19.2	(6)	30.3	(195)	9.9	(68)	22.0	(6)	57.0	(21)	21.1	(95)

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Table 7. Cumulative abnormal returns around general meeting dates.

This table shows percent cumulative abnormal returns around general meeting dates. Market model parameters are estimated over the 200-day period ending 21 days before the date of the general meeting, using the appropriate national stock exchange index. The significance of means is tested using a cross-sectional t-test, Boehmer, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test, as well as bootstrapped versions of both. Bootstrap simulations are performed with 3000 repetitions. The significance of medians is tested using Cowan's (1992) generalized sign test. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

Event window	N	Mean	Median	Positive: negative	Z test	Bootstrapped Z test	Sign test (p^*=47%)
[-1,+1]	90	-1.227	-0.713	34:56	-2.81***	-2.81***	-1.79**
[-1,0]	90	-0.906	-0.418	36:54	-1.87*	-1.87**	-1.36*
[0,+1]	90	-0.761	-0.103	41:49	-2.14**	-2.14**	-0.31
[-2,+2]	90	-1.142	-0.628	34:56	-2.65***	-2.65***	-1.79**
[-1,+5]	90	-1.323	-1.256	34:56	-2.65***	-2.65***	-1.79**
[-1,+7]	90	-1.584	-1.326	38:52	-2.64***	-2.64***	-0.95
[-5,+5]	90	-1.603	-1.016	36:54	-2.53**	-2.53***	-1.36*
[-10,+10]	90	-2.002	-0.794	38:52	-2.60**	-2.60***	-0.95

Table 8. Cumulative abnormal returns by issue addressed.

The significance of means is tested using Boehmer, Musumeci and Poulsen's (1991) standardized cross-sectional Z-test. *, ** and *** denote significance at the 10, 5 and 1% level.

	N	[-1,+1]	[-1,0]	[0,+1]	[-2,+2]	[-1,+5]	[-1,+7]	[-5,+5]	[-10,+10]
Elect/remove	42	-1.28	-1.25	-0.68	-0.92	-2.20*	-2.78**	-2.60	-3.51
Corporate governance	33	-1.09	-0.59	-0.61	-1.81**	-0.80*	-0.96**	-0.71*	-1.23**
Corporate governance - loosening	5	-2.52	-0.12	-2.29	-4.53*	-2.87	-4.14	-2.62	-2.90
Asset restructuring	8	-1.73	-1.39	-1.40	-3.14	4.16	3.97	3.83	5.93
Capital structure	2	-0.43	-0.75	-0.12	-1.97	-3.54	-0.81	-3.05	-2.16
Payout policy	12	-0.57	-1.03	-1.34	-0.28	-1.99	0.82	1.04	-0.23
Corporate social responsibility	18	-0.32	-0.06	-0.07	-0.57	-0.95	-0.34	-1.13	0.30
Routine	4	-2.12	-1.08	-1.21	-2.89	-5.75	-5.98	-5.80	-3.28
Other	1	-0.11	-0.37	-0.72	-1.09	-1.08	-0.16	-0.11	-1.07

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Table 9. Descriptive statistics of target and nontarget firms.

	Targets				Nontargets				*Difference in means*	*Difference in medians*
	N	Mean	Median	St. dev.	N	Mean	Median	St. dev.		
Panel A: Financial, performance and ownership characteristics										
Assets (GBP millions)	90	53,581	1,390	142,689	89	94,881	3,593	265,195	*-41,301**	*-2,202*
Sales (GBP millions)	90	16,204	392	47,590	89	12,820	2,075	22,041	*3,384*	*-1,683**
Debt-to-equity ratio	90	2.41	0.64	5.18	89	2.48	0.78	4.28	*-0.07*	*-0.13*
Market-to-book ratio	90	2.44	1.65	2.28	89	2.14	1.62	1.80	*0.30*	*0.03*
Prior one-year raw stock return (%)	90	5.46	4.80	38.34	89	12.24	10.95	55.14	*-6.78*	*-6.15*
Prior one-year abnormal stock return (%)	90	-0.77	-1.84	34.27	89	7.55	0.98	50.05	*-8.32*	*-2.82*
Prior one-year stock turnover	90	2.62	1.37	8.43	89	0.98	0.73	0.94	*1.64**	*0.64****
Institutional ownership (%)	90	32.98	25.24	24.72	89	21.60	19.90	17.68	*11.37****	*5.34****
Institutional ownership - pressure sensitive (%)	90	6.34	0.00	15.12	89	3.35	0.00	5.22	*2.99**	*0.00*
Institutional ownership - pressure insensitive (%)	90	26.70	19.00	23.10	89	18.25	10.76	17.97	*8.45***	*8.24***
Shareholder concentration	90	1.88	1.00	1.27	89	1.55	1.00	0.93	*0.33**	*0.00*
Panel B: Governance characteristics										
Board size	90	12.83	12.00	6.98	89	11.43	10.00	5.92	*1.40****	*2.00***
Executive directors (%)	90	36.39	37.50	18.45	89	38.00	36.08	0.17	*36.01*	*37.14*
Average age of nonexecutive directors	90	59.35	58.88	4.69	89	59.91	59.98	5.40	*-0.56*	*-1.10*
Separate chair and CEO (binary)	90	0.88	1.00	0.33	89	0.83	1.00	0.38	*0.04*	*0.00*
CEO ownership (%)	90	0.74	0.01	3.28	89	2.50	0.04	8.05	*-1.76**	*-0.04****
Stock-based to total CEO compensation (%)	90	30.83	27.46	30.31	89	27.61	24.45	28.63	*3.22*	*3.01*

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Table 10. Sample selection models explaining proposal probability and voting outcomes.

Panel A shows selection equations where the dependent variable is a dummy equal to one if a shareholder proposal was submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the percentage of votes cast in favor of the proposal. The firm-level independent variables included in both Panels A and B are described in Appendix A. The proposal-level independent variables in Panel B are dummies equal to one if the variable description holds and zero otherwise. Log of assets is the natural logarithm of the book value of assets. Wald χ^2 tests the joint significance of the selection and outcome equations. $\rho = 0$ tests the independence of the selection and outcome equations using a Wald χ^2 test. T-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel A: Selection equations										
Intercept	0.857	1.63	1.950	1.55	2.516*	1.95	2.6186	1.54	2.64**	2.15
Debt-to-equity	-0.003	-0.14	-0.051	-1.64	-0.077**	-2.48	-0.077**	-2.13	-0.079***	-2.74
Market-to-book	-0.107**	-2.43	-0.097**	-2.20	-0.103**	-2.01	-0.131*	-1.72	-0.129***	-2.56
Prior one-year abnormal stock return	0.029	0.13	-0.216	-1.10	-0.506***	-3.03	-0.500*	-1.89	-0.482***	-2.78
Prior one-year stock turnover	0.317**	2.48	0.685***	6.77	0.653***	6.38	0.684***	4.33	0.669***	7.06
Institutional ownership – pressure sensitive	2.258	1.56	3.579**	2.25	3.365*	1.88	3.166	1.43	3.568**	2.17
Institutional ownership – pressure insensitive	0.822*	1.71	1.814***	3.83	1.714***	3.27	1.793**	2.33	1.811***	3.44
Shareholder concentration			0.174*	1.95	0.174*	1.64	0.166	1.34	0.166*	1.68
Board size			0.005	0.06	-0.030	-0.38	0.040	0.30	0.027	0.32
Board size squared			0.004*	1.68	0.006**	2.27	0.004	0.94	0.004	1.64
Executive directors			1.260**	2.13	1.305*	1.93	1.024	1.25	1.017	1.39
Average age of nonexecutive directors			-0.029*	-1.92	-0.031*	-1.94	-0.034	-1.14	-0.033**	-1.99
Separate chair and CEO			0.506**	2.22	0.435*	1.75	0.377	1.07	0.380*	1.65
CEO ownership			-1.123	-0.56	-1.480	-0.69	-1.152	-0.42	-1.112	-0.52
Stock-based to total CEO compensation			-0.099	-0.25	0.042	0.10	0.311	0.67	0.315	0.96

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Table 10. Sample selection models explaining proposal probability and voting outcomes (*continued*).

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel B: Outcome equations										
Intercept	0.176*	1.82	0.170	1.52	0.142	0.78	0.324	1.31	0.092	0.28
Times submitted	0.006	0.23	0.003	0.09	-0.016	-0.89			-0.021	-1.28
Number of proposals at meeting	-0.005	-0.66	-0.008	-1.05	-0.007	-1.46			-0.007	-1.04
Elect director	0.278***	4.23	0.305***	4.14	0.290***	4.72			0.218***	2.63
Remove director	0.271***	3.73	0.297***	3.64	0.280***	4.53			0.206***	2.57
Corporate governance	0.094	1.52	0.110	1.60	0.051	0.98			0.081	1.37
Corporate governance - loosening	0.165	0.95	0.170	0.95	0.118	0.67			0.183	1.02
Asset restructuring	0.234**	2.08	0.255**	2.10	0.098	1.08			0.105	1.16
Capital structure	-0.087*	-1.75	-0.050	-0.97	-0.043	-0.90			0.008	0.12
Payout policy	0.086	1.09	0.102	1.31	0.060	0.88			0.055	0.70
Corporate social responsibility	-0.029	-0.60	-0.007	-0.12	-0.016	-0.37			0.007	0.11
Other	0.769***	11.25	0.784***	10.80	0.713***	3.82			0.675***	3.06
Log of assets					-0.002	-0.19	0.010	0.95	0.011	1.03
Debt-to-equity					0.018***	2.79	0.018***	4.20	0.018***	4.02
Market-to-book					0.003	0.29	0.036***	3.08	0.025*	1.90
Prior one-year abnormal stock return					0.239***	3.57	0.250***	5.54	0.250***	4.78
Prior one-year stock turnover					-0.002	-0.92	-0.002	-1.59	-0.002	-1.63
Institutional ownership – pressure sensitive					-0.006	-0.03	0.318**	2.12	0.094	0.43
Institutional ownership – pressure insensitive					0.161	1.59	0.069	0.63	0.028	0.34
Board size							-0.029	-1.36	-0.032	-1.15
Board size squared							0.000	0.64	0.001	0.75
Executive directors							-0.045	-0.33	0.077	0.52
Average age of nonexecutive directors							0.000	0.03	0.002	0.51
Separate chair and CEO							0.061	1.45	0.051	0.96
CEO ownership							0.664	1.54	0.092	0.17
Stock-based to total CEO compensation							-0.306***	-4.27	-0.223***	-2.66
Number of observations	380		380		380		380		380	
Number of uncensored observations	290		290		290		290		290	
Number of proposals	290		290		290		290		290	
Wald χ^2	5170.69***		2248.52***		4540.54***		189.28***		7065.09***	
Log-likelihood	-153.014		-105.014		-66.403		-57.136		-38.137	
ρ	-0.597***		-0.641**		-0.457		-0.521**		-0.495**	

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Table 11. Sample selection models explaining proposal probability and cumulative abnormal returns.

Panel A shows selection equations where the dependent variable is a dummy equal to one if a shareholder proposal was submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the cumulative abnormal return in the days [-1;+1] surrounding the date of the general meeting where the proposal was presented. Market model parameters are estimated over the 200-day period ending 20 days before the date of the general meeting, using country-specific stock market indices. The firm-level independent variables included in both Panels A and B are described in Appendix A. The proposal-level independent variables in Panel B are dummies equal to one if the variable description holds and zero otherwise. Log of assets is the natural logarithm of the book value of assets. Wald χ^2 tests the joint significance of the selection and outcome equations. $\rho = 0$ tests the independence of the selection and outcome equations using a Wald χ^2 test. T-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel A: Selection equations										
Intercept	-0.569	-0.96	0.219	0.16	-0.232	-0.20	-0.146	-0.08	-0.162	-0.13
Debt-to-equity	-0.042*	-1.86	-0.045	-0.37	-0.038	-0.83	-0.066	-1.08	-0.069**	-2.02
Market-to-book	0.008	0.17	-0.054	-0.57	-0.024	-0.40	-0.039	-0.64	-0.036	-0.89
Prior one-year abnormal stock return	-0.229	-1.20	-0.481**	-2.40	-0.385**	-2.22	-0.302	-0.50	-0.379**	-2.02
Prior one-year stock turnover	0.346***	3.20	0.438	1.21	0.316**	2.32	0.4572	1.21	0.494***	4.10
Institutional ownership – pressure sensitive	2.116	1.45	2.911	1.70	2.697**	2.48	3.588	1.16	3.331**	2.18
Institutional ownership – pressure insensitive	1.290***	2.75	2.113**	2.25	1.387***	3.04	2.3745***	2.64	2.298***	5.63
Shareholder concentration			0.301***	2.79	0.178	1.11	0.347	0.98	0.310**	2.41
Board size			0.077	1.01	omitted to attain convergence		0.056	0.38	0.063	0.76
Board size squared			0.001	0.54	omitted to attain convergence		0.002	0.49	0.002	0.75
Executive directors			0.664	0.47	0.239	0.27	0.994	0.98	0.989	1.21
Average age of nonexecutive directors			-0.016	-0.66	-0.007	-0.42	-0.021	-0.72	-0.019	-1.18
Separate chair and CEO			0.277	0.73	0.138	0.56	0.282	0.64	0.256	0.93
CEO ownership			-1.548	-0.76	-2.010	-0.69	-0.659	-0.25	-0.787	-0.36
Stock-based to total CEO compensation			0.413	1.24	0.253	0.49	0.686	0.55	0.565	1.51

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Table 11. Sample selection models explaining proposal probability and cumulative abnormal returns (*continued*).

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel B: Outcome equations										
Intercept	-0.000	-0.12	-0.030	-0.9	-0.087*	-1.73	-0.049	-0.62	-0.019	-0.27
Number of proposals at meeting	-0.005*	-1.78	-0.005*	-1.73	-0.005**	-2.29			-0.004*	-1.85
Elect director	0.003	0.18	0.007	0.27	0.003	0.12			-0.006	-0.41
Remove director	0.026*	1.77	0.027	1.39	0.038**	2.14			0.020	1.21
Corporate governance	0.019	1.51	0.012	0.43	0.020	1.39			0.018	1.21
Corporate governance - loosening	0.023	1.25	0.019	1.00	0.023	1.22			0.042***	2.73
Asset restructuring	0.001	0.03	0.006	0.27	0.025	1.41			0.012	0.74
Capital structure	0.015	0.72	0.030*	1.84	0.020	0.98			0.015	0.64
Payout policy	0.017	0.94	0.012	0.30	0.017	1.12			0.017	1.03
Corporate social responsibility	0.024*	1.72	0.019	0.59	0.015	0.96			0.000	0.01
Other	0.003	0.16	0.033	0.66	-0.000	-0.02			-0.025	-1.07
Log of assets					0.004**	2.40	0.003	1.08	0.005**	2.49
Debt-to-equity					-0.003**	-2.33	-0.002	-0.96	-0.003***	-2.65
Market-to-book					0.004*	1.83	0.004	0.82	0.004**	2.15
Prior one-year abnormal stock return					0.020	1.29	0.027	0.67	0.029**	2.11
Prior one-year stock turnover					-0.001	-0.25	0.001	0.38	0.000	0.59
Institutional ownership – pressure sensitive					-0.002	-0.03	0.039	0.65	0.036	1.14
Institutional ownership – pressure insensitive					0.009	0.25	0.056	0.88	0.033	1.37
Board size							-0.000	-0.06	-0.005*	-1.8
Board size squared							0.000	-0.06	0.000	1.34
Executive directors							0.038	0.66	0.029	1.34
Average age of nonexecutive directors							-0.001	-0.53	-0.001	-1.17
Separate chair and CEO							-0.002	-0.18	0.008	0.64
CEO ownership							0.221	0.61	0.173	0.98
Stock-based to total CEO compensation							0.037*	1.75	0.039**	2.07
Number of observations	180		180		180		180		180	
Number of uncensored observations	90		90		90		90		90	
Number of firms	124		124		124		124		124	
Wald χ^2	10.23		14.88		44.67***		50.17***		77.00***	
Log-likelihood	57.163		74.152		71.373		85.334		93.311	
ρ	-0.615		0.539		-0.265		0.568		0.207	

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Appendix A. Variable descriptions.

Variable name	Description and source
Panel A: Financial, performance and ownership characteristics	
Assets ($ millions)	The book value of total assets. Source: *Compustat*.
Sales ($ millions)	The value of total net sales. Source: *Compustat*.
Debt-to-equity ratio	Total debt divided by the book value of equity. Source: *Compustat*.
Market-to-book ratio	Market capitalization of equity divided by the book value of equity. Source: *Compustat*.
Prior one-year raw stock return	The dividend-adjusted stock price return in the year up to two months before the general meeting date. Source: *Datastream*.
Prior one-year abnormal stock return	The dividend-adjusted stock price return minus the return on the appropriate national stock exchange index, in the year up to two months before the general meeting date. Source: *Datastream*.
Prior one-year stock turnover	The total number of shares sold during the year up to two months before the general meeting date, divided by the total number of shares outstanding. Source: *Datastream and Compustat*.
Institutional ownership	The number of shares held by institutions, divided by the total number of shares outstanding. Source: *Manifest, Bureau van Dijk and annual reports*.
Institutional ownership – pressure sensitive	The number of shares held by banks and insurance companies, divided by the total number of shares outstanding. Source: *Manifest, Bureau van Dijk and annual reports*
Institutional ownership – pressure insensitive	The number of shares held by pension and labor union funds, investment funds and their managers, independent investment advisors, and university endowments, divided by the total number of shares outstanding. Source: *Manifest, Bureau van Dijk and annual reports*.
Shareholder concentration	An independence index indicating ownership concentration. 1: no shareholder with ownership over 25% (direct or total). 2: no shareholder with ownership over 50% (direct or total), but one or more shareholders with ownership over 25%. 3: shareholder is ultimate owner with ownership over 50% (direct or total). 4: shareholder is ultimate owner with direct ownership over 50%. Source: *Bureau van Dijk*.
Panel B: Corporate governance characteristics	
Board size	The number of directors on the board of directors. Source: *Manifest, Thomson OneBanker and annual reports*.
Executive directors	The number of directors employed by the firm, divided by total board size. Source: *Manifest, Thomson OneBanker and annual reports*.
Average age of nonexecutive directors	The average age of directors not employed by the firm. Source: *Manifest, Thomson OneBanker and annual reports*.
Separate chair and CEO	A dummy variable equal to one if the chairman of the board and the CEO are different persons, and 0 otherwise. Source: *Manifest and annual reports*.
CEO ownership	The number of shares held by the CEO divided by total shares outstanding. Source: *Manifest and annual reports*.
Stock-based to total CEO compensation	The value of stock options and restricted stock grants, divided by total CEO compensation for the individual year. Source: *Manifest and annual reports*

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Appendix B. Economic effects.

This table summarizes the economic effects of proposal and firm characteristics on the voting outcomes as shown in Model 5 of Table 10, and on the probability of proposal submissions and the cumulative abnormal returns as shown in Model 5 of Tables 11. The variables are described in Appendix A. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

	Proposal probability		Voting outcomes		Cumulative abnormal returns	
	Exp. Sign	*Economic effect*	*Exp. Sign*	*Economic effect*	*Exp. Sign*	*Economic effect*
Panel A: Proposal characteristics						
Times submitted			+	nss		
Number of proposals at meeting			+	nss	-	-0.004*
Elect director				0.218***		nss
Remove director				0.206***		nss
Corporate governance				nss		nss
Corporate governance - loosening				nss		nss
Asset restructuring				nss		0.565*
Capital structure				nss		nss
Payout policy				nss		nss
Corporate social responsibility				nss		nss
Other				0.674***		nss
Panel B: Financial, performance and ownership characteristics						
Log of assets			-	nss	+	0.005**
Debt-to-equity	-	-0.069**	-	0.018***	-	-0.003***
Market-to-book		nss		0.025*	-	0.004**
Prior one-year abnormal stock return	-	-0.379**	-	0.250***	-	0.029**
Prior one-year stock turnover	+	0.494***	+	nss	+	nss
Institutional ownership – pressure sensitive		3.331**		nss		nss
Institutional ownership – pressure insensitive	+	2.298***	+	nss	+	nss
Shareholder concentration	+	0.310**				
Panel C: Governance characteristics						
Board size		nss	-	nss	-	-0.005*
Board size squared		nss	+	nss	+	nss
Executive directors		nss	+	nss	+	nss
Average age of nonexecutive directors		nss	-	nss	-	nss
Separate chair and CEO		nss	-	nss	-	nss
CEO ownership		nss	-	nss	-	nss
Stock-based to total CEO compensation		nss	-	-0.223***	-	0.039**

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