

Corporate governance – new experiences  
Zagreb – 3/4 November 2011

# Institutionalised shareholder monitoring as safe harbor for corporate governance?



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# Overview

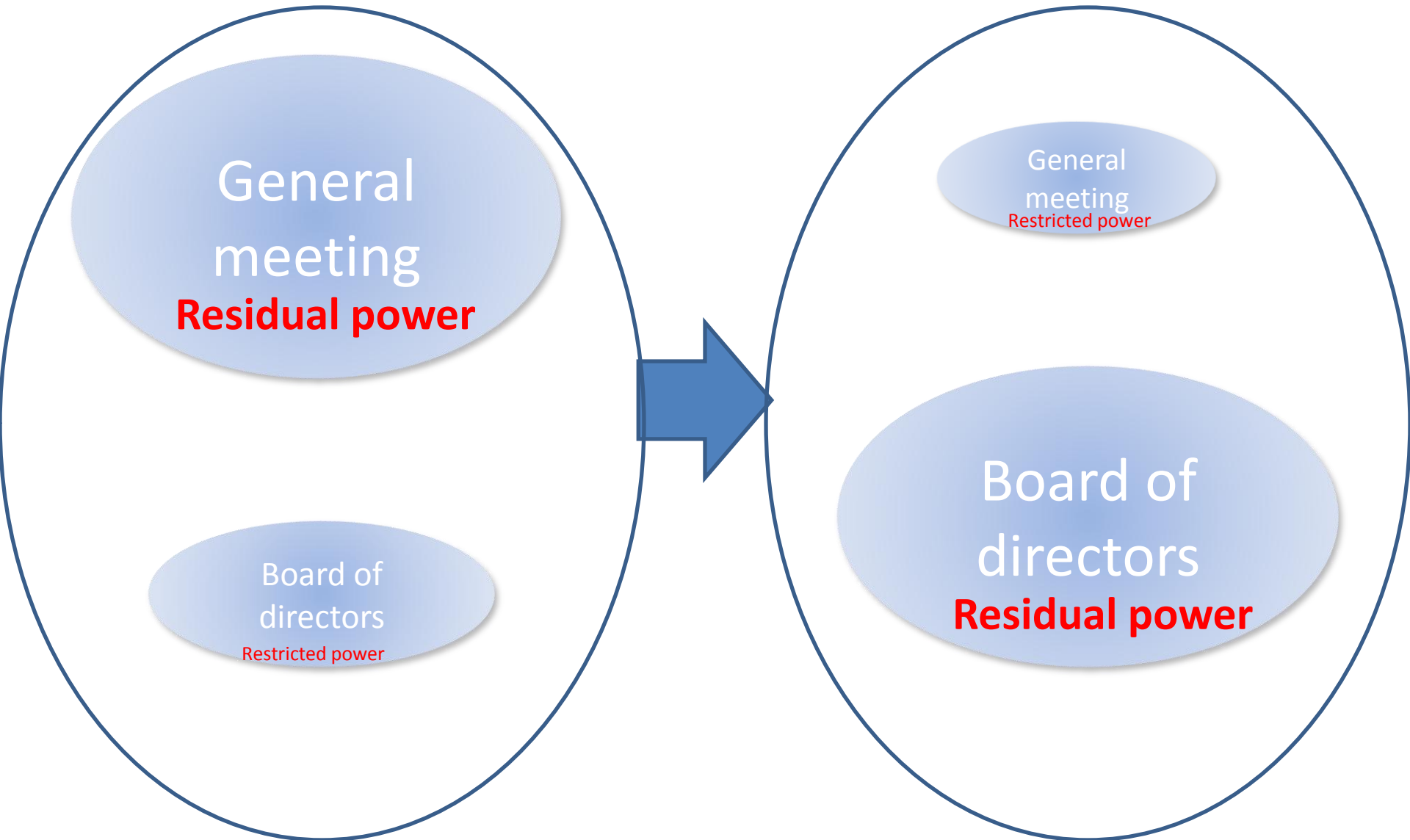
- From corporate law over corporate governance 1.0 to corporate governance 2.0
- Is corporate governance 2.0 the solution?
  - Leximetrics of shareholder rights and investment
  - Shareholder rights and shareholder stewardship
  - Remuneration report and shareholder concern
- Conclusion

# From corporate law over corporate governance 1.0 to corporate governance 2.0

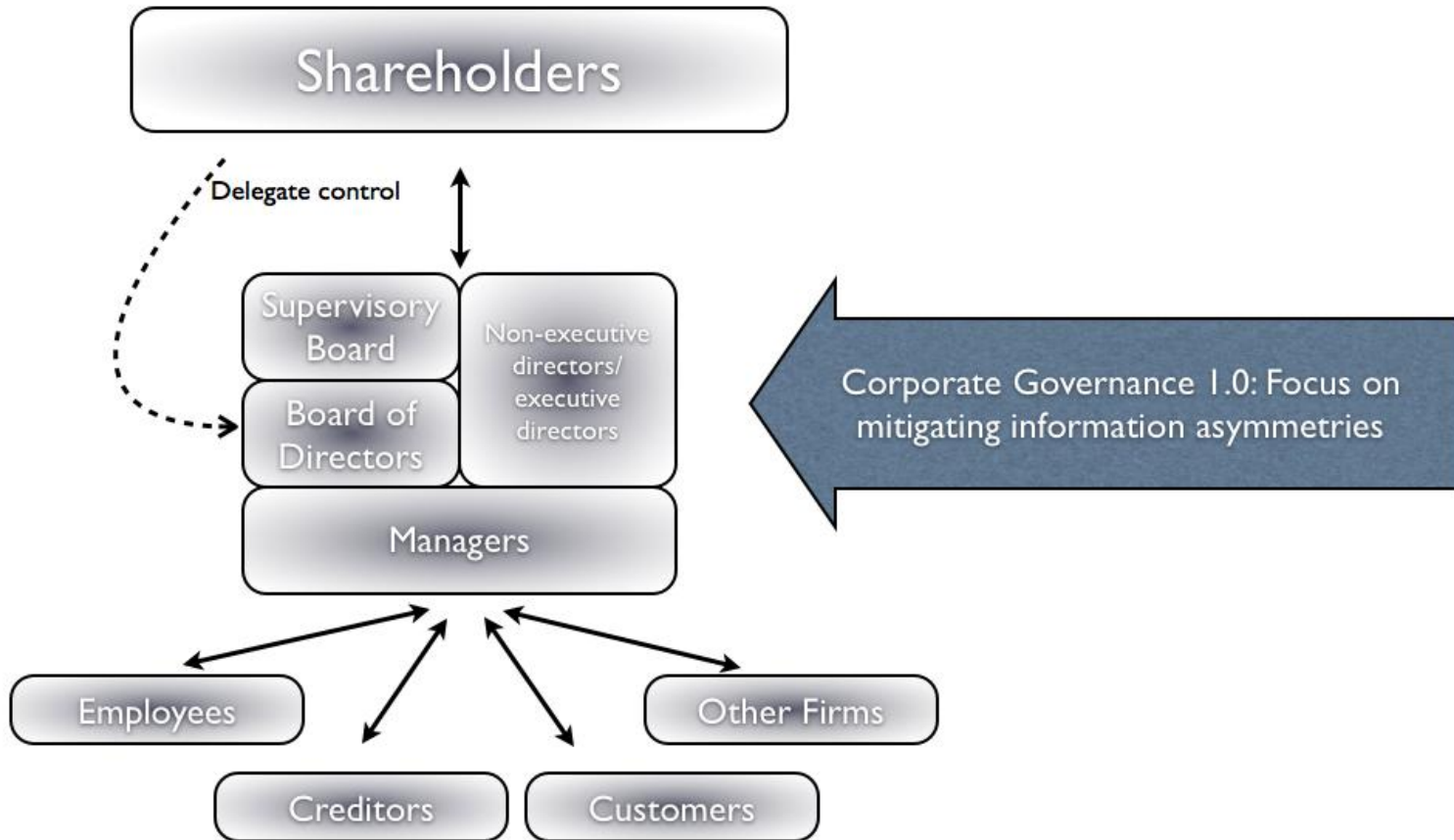


**the Corporation**  
a film by Mark Achbar, Jennifer Abbott & Joel Bakan

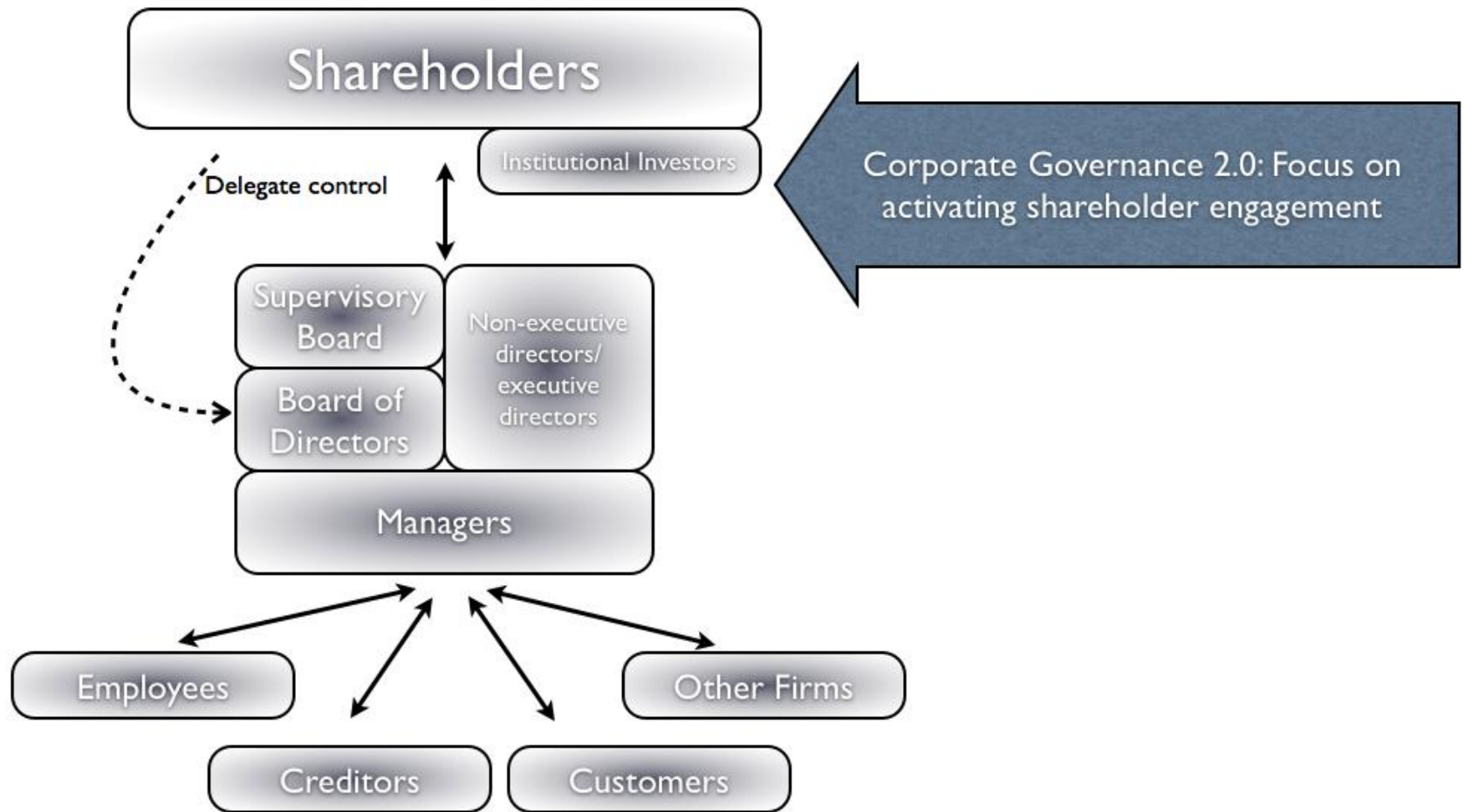
# Corporate Law



# Corporate governance 1.0



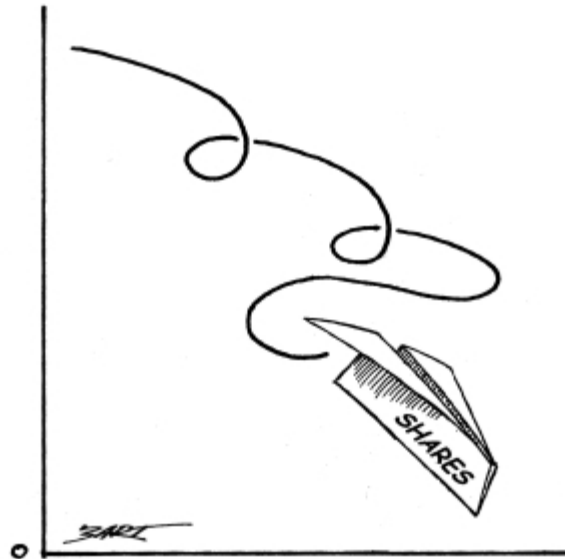
# Corporate governance 2.0



# Effects of corporate governance 2.0

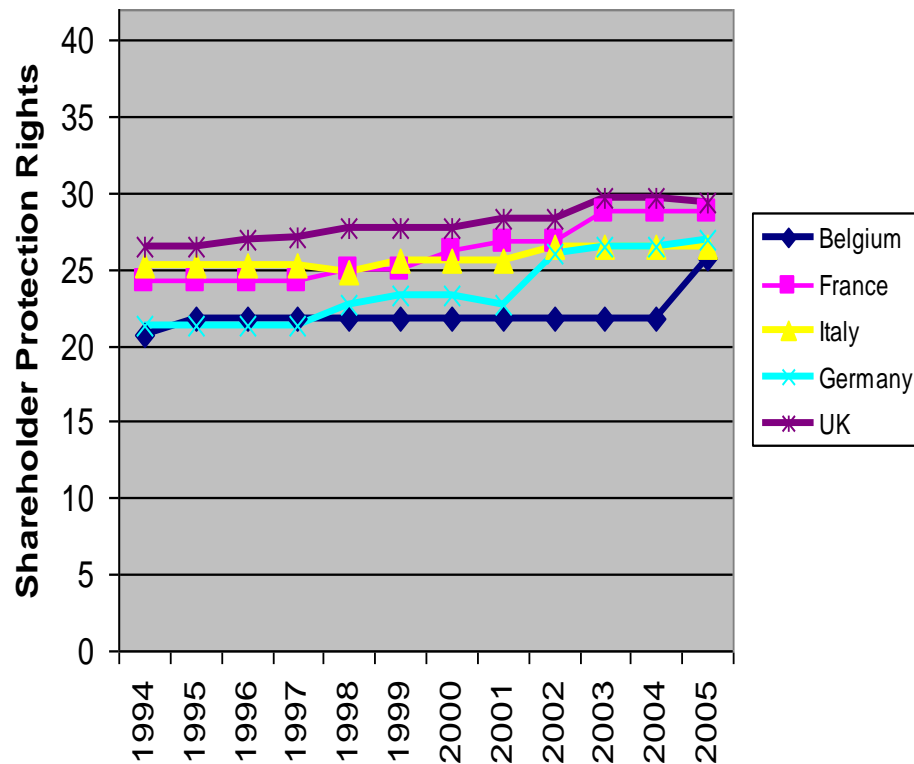
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Leximetrics of shareholder rights  
and investment behavior

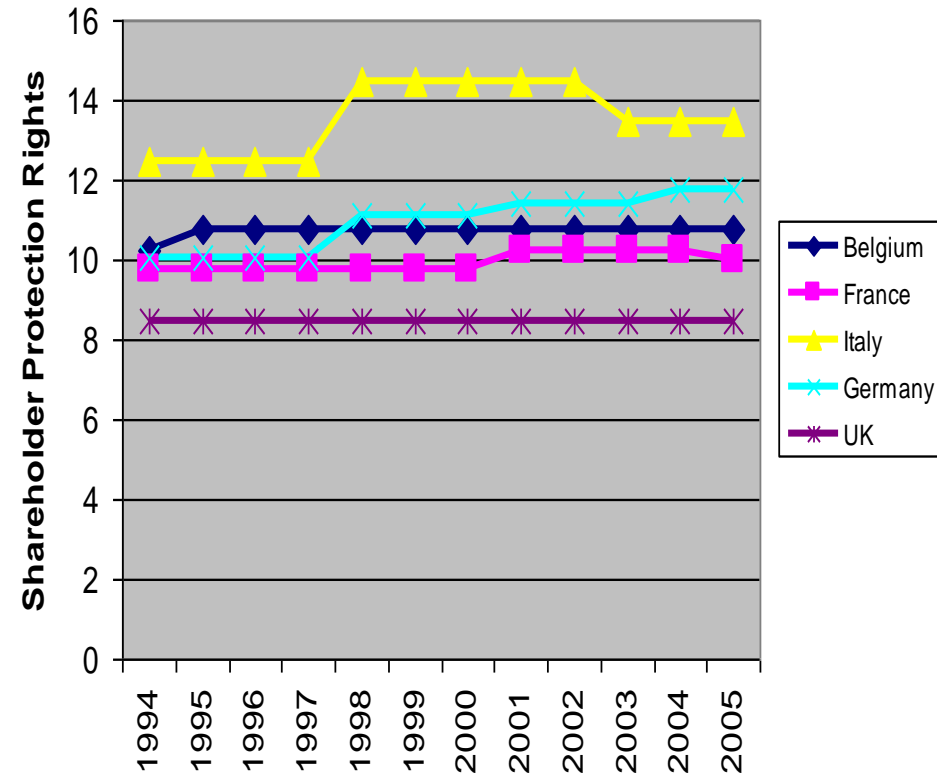


# Leximetrics of shareholder rights

## Anti-director rights



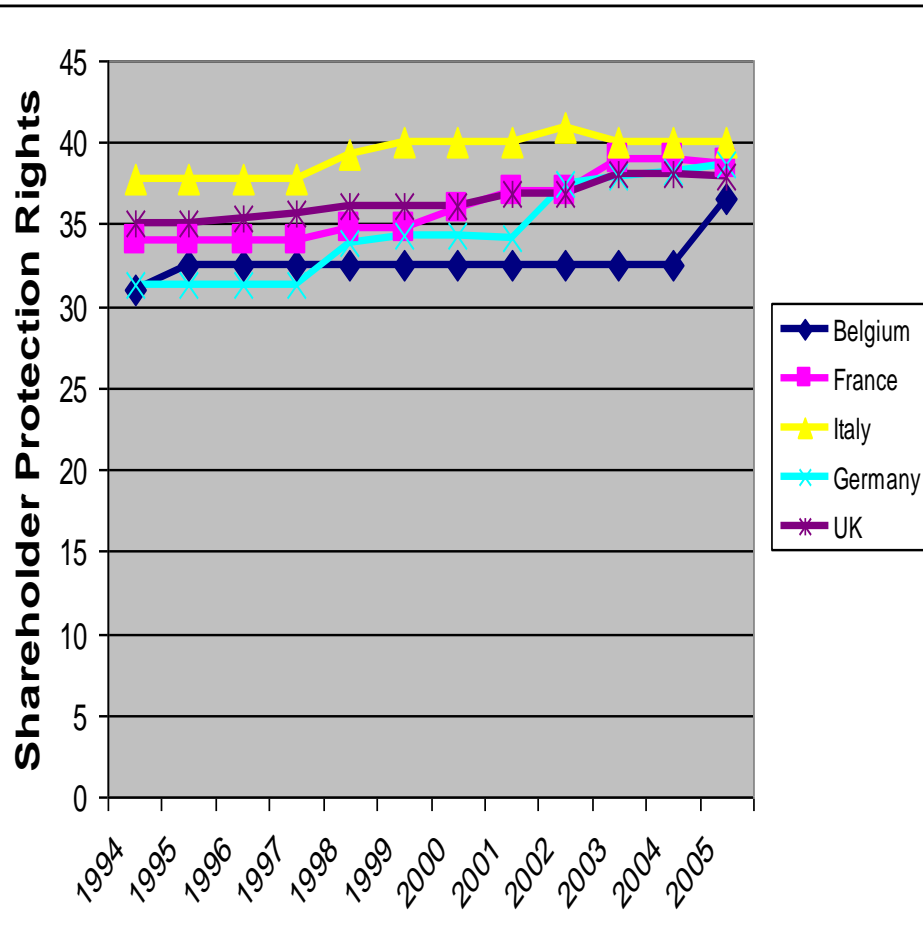
## Anti-majority rights





# Leximetrics of shareholder rights

## All protection rights



<b>Anti-director rights</b>				
	1997	2005	Corr. 97vs 05	t-value 97 vs 05
Belgium	21,75	25,75	0,842	2,442**
France	24,25	28,75	0,839	3,232*
Germany	21,25	27	0,654	2,600**
Italy	25,25	26,5	0,836	0,741
UK***	27,625	29,375	0,903	1,638
<b>Anti-majority rights</b>				
Belgium	10,25	10,75	1,000	-
France	9,75	10	0,952	0,437
Germany	10,08	11,75	0,524	0,894
Italy	12,5	13,5	0,561	0,566
UK***	8,5	8,5	1,000	-
<b>All protection rights</b>				
Belgium	31	32,5	0,881	2,399**
France	34	37	0,874	3,098*
Germany	31,33	37,09	0,607	2,586**
Italy	37,75	41	0,76	0,932
UK***	35,375	36,875	0,943	1,628

\*\*\*: 99 vs 05; \*: significant at 1%; \*\*: significant at 5%

# Investment behaviour

<b><u>small blockholders investment behavior</u></b>							
<b>individual/family</b>				<b>non-financial companies</b>			
	1999	2007	t-value		1999	2007	t-value
Belgium	12,1%	9,5%	-1,539		13,6%	13,3%	-0,213
France	15,2%	15,8%	0,245		13,7%	13,6%	-0,022
Germany	13,3%	12,5%	-0,797		14,1%	13,5%	-0,323
Italy	15,0%	12,1%	-1,142		15,0%	12,0%	-1,142
UK	11,8%	12,1%	0,462		13,7%	14,9%	0,645
<b>Banks</b>				<b>foreign shareholders</b>			
	1999	2007	t-value		1999	2007	t-value
Belgium	8,4%	10,1%	0,813		12,1%	9,5%	-1,539
France	7,7%	6,6%	-0,842		15,2%	15,8%	0,245
Germany	12,7%	13,8%	0,481		13,3%	12,5%	-0,797
Italy	9,6%	9,3%	-0,222		15,0%	12,1%	-1,142
UK	10,9%	8,6%	-0,547		11,8%	12,1%	0,462

# Effects of corporate governance 2.0

2

## Shareholder participation behaviour



# Shareholder participation behaviour

	n	mean	std	min	q1	med	q3	max
total relative voting turnout	153	59,52%	13,25%	17,66%	53,06%	60,21%	69,98%	92,03%
small shareh. voting turnout	150	45,13%	16,91%	1,24%	36,95%	48,72%	57,08%	74,46%

	n	mean	std	min	q1	med	q3	max
AGM items	153	11,76	4,51	5	9	11	13	37
AGM extra items	152	4,53	3,28	0	3	4	5	18
AGM dir elected	153	4,33	3,53	0	2	4	6	20
voting block largest	153	18,05%	16,69%	<5%	6,84%	10,80%	27,14%	84,48%
sum voting blocks	153	25,07%	20,24%	<5%	7,53%	19,98%	37,67%	90,12%
total shareholder return	153	37,03%	52,04%	-60,91%	7,98%	19,82%	56,63%	446,17%
board meetings	151	8,63	3,93	4	6	8	10	33
independence	122	64,38%	20,47%	13,64%	53,62%	65,48%	77,78%	100%
Analyst coverage	153	26,34	7,83	7	21	27	32	43
market cap in mio €	153	18533	24768	870	4294	7902	22799	138905
log (market cap)	153	3,99	0,48	2,94	3,63	3,9	4,36	5,14

# Shareholder participation behaviour

	voting turnout all shareholders			voting turnout small shareholders	
constant	33,49 (3,289)***	43,166 (9,021)***	43,801 (4,273)***	21,957 (1,842)*	43,209 (6,543)***
AGM items	-0,05 (-0,023)		0,06 (0,244)	-0,097 (-0,316)	
AGM extra items		0,265 (0,922)			0,144 (0,365)
AGM dir. Elections		0,834 (3,071)***			0,906 (2,437)**
voting block largest			0,170 (2,178)**		
sum voting blocks	0,253 (4,070)***	0,338 (7,162)***		-0,404 (-4,789)***	-0,310 (-4,546)***
total shareholder return	0,047 (2,497)**	0,042 (2,348)**	0,052 (2,660)***	0,065 (2,537)**	0,065 (2,644)**
independence	-0,083 (-1,364)		-0,139 (-2,222)**	0,607 (0,683)	
board meetings		-0,250 (-1,032)	-0,324 (-1,119)		-0,245 (-0,737)
analysts		0,135 (1,106)			0,167 (0,981)
log (market cap)	6,219 (2,952)***		5,724 (2,596)**	6,958 (2,010)**	
adj R	0,258	0,297	0,196	0,265	0,177
F	9,42	11,326	5,873	9,648	6,178
N	122	148	121	121	145

\*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Source: Van der Elst, Christoph, *Revisiting Shareholder Activism at AGMs: Voting Determinants of Large and Small Shareholders* (July 16, 2011).

ECGI - Finance Working Paper No. 311/2011. Available at SSRN: <http://ssrn.com/abstract=1886865>

# Effects of corporate governance 2.0

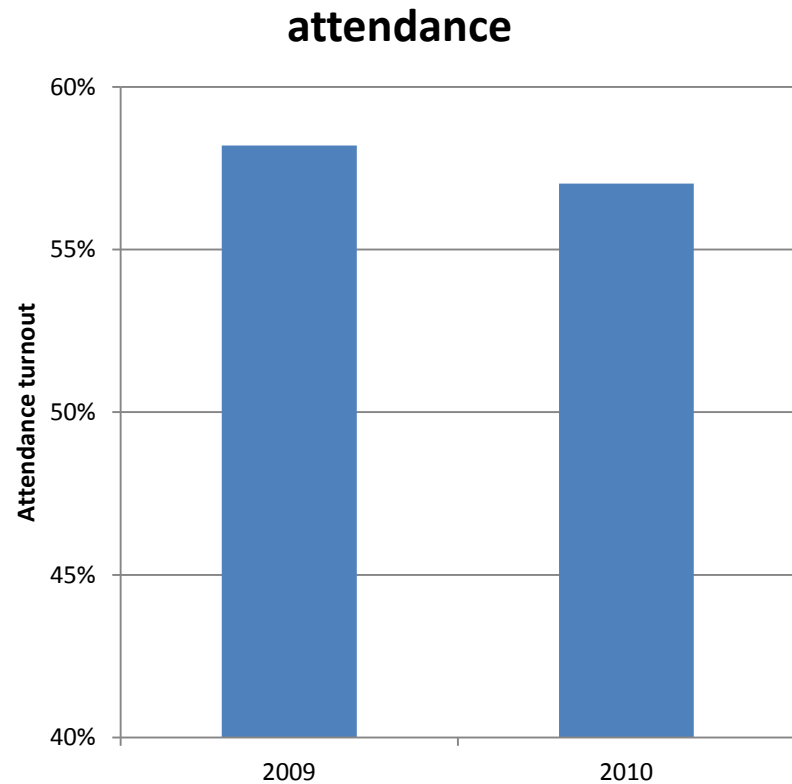
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### Remuneration report and shareholder concern

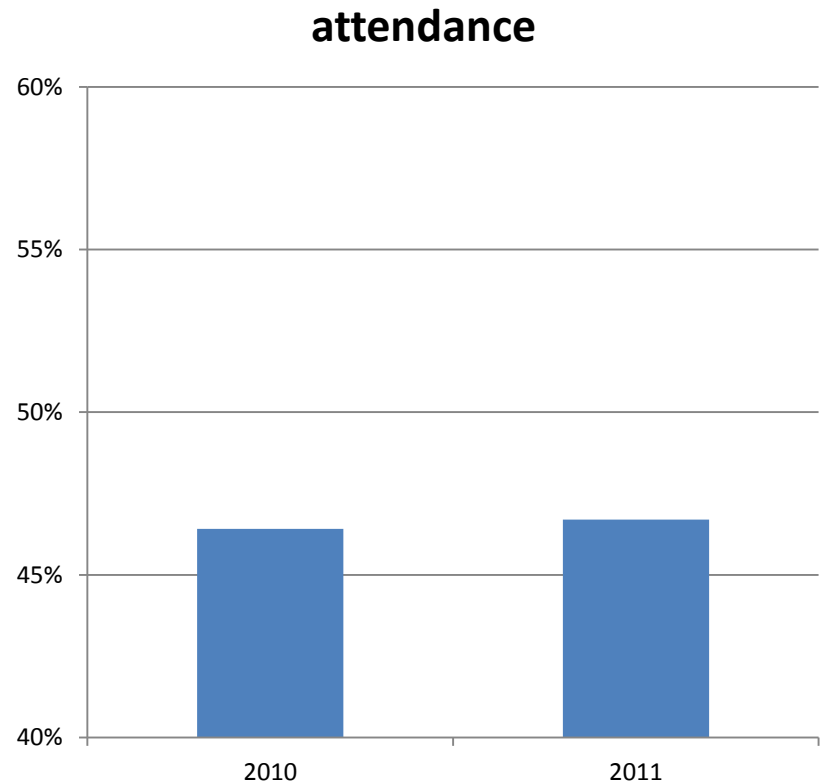


# Remuneration report and shareholder concern

**Impact of mandatory remuneration report on attendance: Germany 2009 vs 2010**



**Impact of voluntary remuneration report on attendance: Belgium 2010 vs 2011**



# Conclusion

- Corporate law and corporate governance developed many rules but “forgot” the appropriate incentives
- Shareholder rights (beyond minimum protection) have minor impact on investment behavior
- Stewardship requirements (will) have minimal influence as incentives are vague
- Shareholder engagement creates new problems
- What can be alternative:
  - Most corporate and governance measure are one size fits all (all listed entities)
  - Minimum standards are prerequisite
  - Allow more transparent tailored made governance structures and opt ins



# Conclusion

- World's most admired companies 2011:

1



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