

**Shareholders' Voting at General Meetings:  
Evidence from the Netherlands**

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ERIM REPORT SERIES <i>RESEARCH IN MANAGEMENT</i>	
ERIM Report Series reference number	ERS-2004-039-F&A
Publication status / version	June 2004
Number of pages	29
Email address corresponding author	proosenboom@fbk.eur.nl
Address	Erasmus Research Institute of Management (ERIM) Rotterdam School of Management / Rotterdam School of Economics Erasmus Universiteit Rotterdam PoBox 1738 3000 DR Rotterdam, The Netherlands Phone: # 31-(0) 10-408 1182 Fax: # 31-(0) 10-408 9640 Email: info@erim.eur.nl Internet: <a href="http://www.erim.eur.nl">www.erim.eur.nl</a>

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## REPORT SERIES *RESEARCH IN MANAGEMENT*

BIBLIOGRAPHIC DATA AND CLASSIFICATIONS		
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Library of Congress Classification (LCC)	5001-6182	Business
	5601-5689	Accountancy, Bookkeeping
	4001-4280.7	Finance Management, Business Finance, Corporation Finance
	HD 2741	Corporate Governance
Journal of Economic Literature (JEL)	M	Business Administration and Business Economics
	M 41	Accounting
	G 3	Corporate Finance and Governance
	L2	Firm Objectives
European Business Schools Library Group (EBSLG)	85 A	Business General
	225 A	Accounting General
	220 A	Financial Management
	100 A	Basic studies on organizations
Gemeenschappelijke Onderwerpsontsluiting (GOO)		
Classification GOO	85.00	Bedrijfskunde, Organisatiekunde: algemeen
	85.25	Accounting
	85.30	Financieel management, financiering
	85.00	Bedrijfskunde, Organisatiekunde: algemeen
Keywords GOO	Bedrijfskunde / Bedrijfseconomie	
	Accountancy, financieel management, bedrijfsfinanciering, beslissonderzoek	
	Aandeelhoudersvergaderingen, bedrijfsbeleid, aandeelhouders, invloed	
Free keywords	Meetings, corporate governance	

# **Shareholders' Voting at General Meetings: Evidence from the Netherlands**

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Keywords: general meetings, corporate governance  
JEL classification: G32, G34, K22

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## **Shareholders' Voting at General Meetings: Evidence from the Netherlands**

### **Abstract**

We study annual general meetings of shareholders in the Netherlands. The Dutch corporate governance system is characterized by relatively concentrated shareholdings and large stakes owned by pension funds, banks and insurance companies. The legal protection of shareholders is poor due to takeover defenses, such as certificates, which deprive shareholders from their voting rights. An analysis of the minutes of 245 general meetings in the period 1998-2002 reveals that about 30% of the shareholders is present at the meeting. This is low in comparison with shareholder turn-out in Anglo-Saxon countries. Management sponsors all proposals at the meeting and only 9 out of 1,583 proposals are rejected or withdrawn. Multivariate analyses of the incidence and extent of voting against a proposal show that firm size and the type of proposal are important determinants. Overall, our findings suggest that shareholders in the Netherlands have hardly any influence on management.

## **1. Introduction**

The reason that investors are willing to provide equity financing to a firm is that they receive control rights in exchange. These control rights allow shareholders to vote on important corporate matters, such as mergers and the election of management. In the corporate governance literature much attention is devoted to the identity and concentration of the shareholders, i.e. the firm's ownership structure (for a review, see Shleifer and Vishny, 1997). Many studies investigate the role in corporate governance of large shareholders and specific shareholders, such as financial institutions. However, the mechanisms that shareholders use to exercise the control, have received little attention. An important forum for shareholders to exercise their control rights is the yearly general meeting of shareholders. In this study we investigate voting behavior at the general meeting.

The general meeting serves to enable shareholders to hold the directors of a company accountable for their actions. As such it is an integral part of a corporate governance system of checks and balances to control agency costs (Jensen and Meckling, 1976). General meetings have three important functions (Strätling, 2003). The first is to inform shareholders about the financial performance of the company. The second is to gain the approval of the shareholders for decisions that are outside the authority of the board of directors such as the adoption of the annual accounts and discharge of board members. The third function is to provide a forum for discussions between directors and shareholders.

In this paper, we study 245 annual general meetings held by 54 Dutch listed firms in the 1998-2002 period. The Netherlands is a typical case of a Continental European country with poor legal protection of small shareholders (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998). To our knowledge, there is no study investigating general meetings in a European country. The focus of the existing literature has been on shareholder activism in the United States. These studies offer mixed evidence of value increases from shareholder governance proposals at the general meeting when measured by short-term stock price reactions and/or long-term performance (Wahal, 1996; Strickland, Wiles and Zenner, 1996; Karpoff, Maletesta and Walking, 1996; Del Guercio and Hawkins, 1999; Gillan and Starks, 2000; Prevost

and Rao, 2000)<sup>1</sup>. Romano (2001) argues that activist institutions should therefore reassess their agendas to use their resources more effectively. However, some pension funds such as CalPERS and TIAA-CREF, have been able to successfully influence corporate governance outside the general meeting through private negotiations with management (Smith, 1996; Carleton, Nelson and Weisbach, 1998).

There are three important institutional differences between the United States and the Netherlands that make our study interesting: the role of private pension funds, the use of takeover defenses and the two-tier board structure. In the United States, private pension funds are legally required to vote their shares at general meetings under the prudent man rule of the Employee Retirement Income Act of 1974 (Mallin, 2001). In the Netherlands, no such voting requirement currently exists. Dutch pension funds own large equity stakes in companies but are free to choose whether or not they vote their shares. This presents a different institutional setting in which pension fund activism can be studied.

The second institutional difference between the Netherlands and the United States is that Dutch companies frequently limit shareholders' rights. These limitations are normally referred to as takeover defenses. However, most defenses in Dutch firms limit shareholder rights also when there is no takeover threat. The most relevant takeover defense is the use of share certificates. The company may create these certificates by depositing the original voting shares with a trust office. For every deposited share the trust office then issues a certificate of a common share that is traded on Euronext Amsterdam. The voting right remains with the trust office, which is often friendly to incumbent management. This implies that in a subset of Dutch companies, shareholders are deprived of their votes at the general meeting, which are not cancelled but cast by the trust office. In the United States, it is illegal to separate shares of their voting rights although it is possible for a certain class of shares to have superior voting rights to another class of shares in a dual class capitalization. We analyze the impact of the certificates on voting outcomes.

Third, Dutch companies have a two-tier board structure. The management board consists of executive directors and is entrusted with the day-to-day management

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<sup>1</sup> Under SEC rule 14A-8 shareholders can make proposals to change corporate governance structures. These proposals can be up to 500 words in length and management must include these proposals in the proxy material. Under relevant state corporate law, these proposals are advisory and not binding (Gordon and Pound, 1993). We refer to Romano (2001) for a survey on institutional investors' activism in the United States.

of the company. A Dutch company's supervisory board consists of non-executive directors and is responsible for supervising the policy pursued by the management board. In performing their duties, the supervisory board members are required by Dutch company law to act in the interests of the company as a whole, and not primarily or exclusively in the interests of shareholders or other groups of stakeholders. The supervisory board acts as a delegated monitor of stakeholders. This two-tier board structure is also common in other countries, such as Germany and Denmark. In a subset of Dutch companies several shareholders' decision rights are transferred from the general meeting to this supervisory board such as the appointment of board members.

The paper continues as follows. Section two discusses the institutional background. This section also includes a discussion of takeover defenses that limit shareholders' influence at the general meeting. The third section develops hypotheses. In section four we present our data. Section five discusses our empirical results. Section six concludes the paper.

## **2. Institutional background**

General meetings in the Netherlands have to be held within six months after the end of the financial year for the purpose of, among other things, the adoption of the annual accounts and the discharge of management board members and supervisory board members from liability regarding the duties performed by them during the financial year. Each year there should be at least one general meeting (Section 108 of Book 2 of the Dutch Civil Code). Each shareholder is entitled to attend general meetings, either in person or through a written proxy, to speak at such meetings and to exercise his voting rights (Section 118 of Book 2 of the Dutch Civil Code). All holders of registered shares must get a 15 days' notice of the meeting sent to their addresses. Holders of bearer shares and certificates must be given notice by placing an announcement in a nation-wide distributed newspaper (Section 115 of Book 2 of the Dutch Civil Code). An ownership record is made no earlier than 7 days before the date of the general meeting (Section 1999 of Book 2 of the Dutch Civil Code). Only shareholders according to the ownership record are entitled to vote. The board must give the shareholders all information they ask for at the general meeting, unless it is of

vital importance to the company to withhold the information (Section 107 of Book 2 of the Dutch Civil Code). Generally, this provision is understood to oblige the boards to respond to questions of individual shareholders at the meeting (Meinema, 2002).

Typically, all proposals at the general meeting pass by a simple majority of votes (>50%), unless Dutch corporate law or the company's articles of association require a larger majority. According to the articles of association of most Dutch companies, shareholders that own more than 1% of the shares can also submit proposals to vote on at the general meeting. However, certain proposals can only be adopted upon a proposal of the management or the supervisory board. Examples are proposals to amend the articles of association, to dissolve the company, to issue shares or to grant rights to subscribe for shares, to limit or exclude any pre-emptive rights and to approve or authorize the management board to sell all or substantially all of the company's assets.

### *2.1. Proposals at the general meeting*

The general meeting typically decides, among others, on the following matters :

#### *i. Adoption of annual accounts and discharge*

The general meeting adopts the annual accounts (Section 101 of Book 2 of the Dutch Civil Code). Unconditional adoption of the annual accounts by the general meeting normally implies a discharge of management board members and supervisory board members from liability for the performance of their duties. Under Dutch law, this discharge is not absolute and is not effective as to matters not disclosed at the shareholders meeting. Since 2001 Dutch companies are legally required to separate the adoption of annual accounts and the discharge from liability into two (sub-) proposals at the general meeting.

#### *ii. Distribution of profits*

The management board, subject to the approval of the supervisory board, determines the proportion of company profits that is to be retained. The remaining profits are at the disposal of the general meeting, which has to approve of the distribution of profits that is proposed by the management board (Section 105 of Book 2 of the Dutch Civil Code).

#### *iii. Issue of shares and pre-emptive rights*



The general meeting has the power to issue shares and to determine the price and further terms and conditions of each issue of shares. They may delegate this power to another corporate body that will have the exclusive power to issue shares following such a delegation<sup>2</sup>. This delegation is valid for a period of up to five years (Section 96 of Book 2 of the Dutch Civil Code). Each shareholder has a pre-emptive right to subscribe for new shares in proportion to the number of shares held. However, the general meeting has the power to limit or exclude any pre-emptive rights of shareholders and may delegate such authority to another corporate body (Section 96a of Book 2 of the Dutch Civil Code). The resolution to limit or exclude any pre-emptive rights legally requires a majority of at least two-thirds of the votes cast in a meeting of shareholders if less than 50% of the issued share capital is present or represented, and a normal majority otherwise.

*iv. Share repurchase*

The general meeting can also authorize another corporate body to repurchase shares (Section 98 of Book 2 of the Dutch Civil Code). This authorization is for a period of up to 18 months and includes references to the maximum shares to be acquired, the manner in which such acquisition may take place and the acquisition price range.

*v. Amendments to articles of association*

In principle, the general meeting has the powers to amend the articles of association of the company (Section 121 of Book 2 of the Dutch Civil Code). However, the articles of association of the company may contain provisions that limit the ability of the general meeting to amend the articles of association. These provisions can only be amended through a unanimous decision at a general meeting where all of the issued share capital is present or represented.

*vi. Reduction of share capital*

The general meeting may resolve, subject to the relevant provisions of Dutch law and the articles of association, to reduce the outstanding share capital by canceling shares through an amendment of the articles of association. A resolution to reduce the share capital legally requires a majority of at least two-thirds of the votes cast in a meeting of shareholders if less than 50% of the issued share capital is present or represented (Section 99 of Book 2 of the Dutch Civil Code).

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<sup>2</sup> Corporate bodies include the general meeting, a priority shareholders' meeting, the management board, the supervisory board and the joint meeting of the management and supervisory board (Sections 78a and 189a of Book 2 of the Dutch Civil Code).

*vii. Appointment of an external accountant*

A Dutch company has to be audited by an external accountant (Section 393 of Book 2 of the Dutch Civil Code). The accountant submits the outcome of his investigation to the corporate body, which is to adopt the account. The general meeting may appoint the external accountant.

*viii. Remuneration of supervisory board members*

Legally the general meeting decides on the remuneration of management board members and supervisory board members (Section 135 of Book 2 of the Dutch Civil Code) unless the company's articles of association state otherwise. In law practice, the general meeting determines the remuneration of supervisory board members whereas the supervisory board usually determines the remuneration and further terms of employment of each member of the management board.

*ix. Appointment, suspension and dismissal of board members*

In principle, the general meeting decides on the appointment, suspension and dismissal of management board members and supervisory board members (Sections 132 and 134 of Book 2 of the Dutch Civil Code). A subset of Dutch companies is subject to the *structured regime* as defined in Sections 158 to 164 of Book 2 of the Dutch Civil Code that transfers decision power from the general meeting to the supervisory board<sup>3</sup>. Any company operating under the structured regime is required to have a supervisory board whose mandate includes the adoption of the annual accounts, the appointment and dismissal of the members of the supervisory board, the appointment and dismissal of the members of the management board and the approval of specific resolutions of the management board<sup>4</sup>.

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<sup>3</sup> The structured regime is legally required for Dutch companies that meet the following three conditions over a consecutive three year period: (1) a book value of equity in excess of €13 million, (2) a workers council and (3) at least 100 people employed in the Netherlands (Meinema, 2002).

<sup>4</sup> In the event of a vacancy for a supervisory board position under the structured regime, the general meeting, the works council and the supervisory board may each put forward a non-binding nomination for a candidate for the position. The general meeting and works council may each lodge an objection to the proposed appointment of a supervisory board member. Appointment may nevertheless carry through if the Enterprise Chamber of the Amsterdam Court of Appeal dismisses these objections. Each member of the management board may be suspended or removed at any time by the supervisory board, provided that the general meeting of shareholders is consulted before such removal. Under the structured regime members of the supervisory board can only be dismissed by the Enterprise Chamber of the Amsterdam Court of Appeal on the grounds of having neglected their duties or for other serious causes.

## *2.2. Takeover defenses*

Dutch companies may decide to limit the influence of their shareholders at the general meeting by adopting one or more takeover defenses (De Jong, DeJong, Mertens and Wasley, 2004). These takeover defenses include:

### *i. Certificates*

Dutch law does not recognize shares without voting rights (Meinema, 2002). The law practice has created share certificates instead. A trust office administers the certificates when issued or initiates a certification process where certificates are exchanged for ordinary shares. The trust office is comprised of members from the company (supervisory board and management board) and outsiders (not from the company). While the chairman and majority of the trust office members must be outsiders, in practice, the trust office is always friendly to existing management. The trust office is given responsibility for the ordinary shares associated with the certificates. Through the process of certification, legal, but not “economic” ownership of the ordinary shares is transferred to the trust office (Slagter, 1996, p.210). Certificate holders have dividend rights, can freely trade their certificates and can attend the general meeting, but they cannot vote (Sections 117 and 118 of Book 2 of the Dutch Civil Code). The trust office holds all voting rights including approval of the dividend policy. The prevailing type of certificate is the limited exchangeable certificate. Once issued, these certificates can be exchanged for ordinary shares up to a maximum percentage of 1% of outstanding share capital. However, once exchanged for ordinary shares, holders lose trading privileges for the exchanged shares. Ordinary shares can be reconverted to certificates, but then voting rights are lost.

### *ii. Priority shares*

Priority shares confer special voting privileges to foundations friendly to the management board. The holders of priority shares have special rights in situations such as merger approval, the payment of dividends, new public offerings, amendments to the articles of association and company liquidation. The priority – a corporate body that consist of the holders of priority shares – typically also has the right to nominate and discharge management and supervisory board members. Priority shares are not traded on the stock exchange.

### *iii. Preference shares*

The most common takeover defense is “protective preference shares”. Management can issue such shares to a friendly trust office or outside investor during a hostile takeover threat. Preference shares are sold at nominal value to the trust office or friendly investor with an obligation to pay only 25% of the amount up front. Preference shares have voting rights at the general meeting and are restricted to a maximum of 50% or 100% of the current outstanding nominal capital depending on the other takeover defenses the company has adopted. Because preference shares get the same voting rights as ordinary shares, substantial voting power can be given to a friendly party at a relatively low cost.

### **3. Hypotheses development**

In this section, we develop five testable hypotheses. We start with pension fund activism. Several studies examine the role of pension funds in the United States (Del Guercio and Hawkins, 1999; Gillan and Starks, 2000; Prevost and Rao, 2000) These studies report that pension funds often attend the general meetings of US companies and submit corporate governance proposals. Dutch pension funds own large equity stakes in companies and are expected to exercise their votes. However, they are free to choose whether or not they vote their shares.<sup>5</sup> Hence,

*Hypothesis 1: Ownership of pension funds is positively related to opposition against a management proposal.*

Romano (2003) argues that institutional investors such as banks and insurance companies may have conflicts of interest that prevent them from voting against management proposals even if this would benefit the value of their shares. This argument is particularly relevant in the Netherlands where a small number of large banks and insurance companies are not only important shareholders in Dutch listed

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<sup>5</sup> Dutch occupational pensions are defined benefit pensions that guarantee 70% of the last earned salary. Because the pensions are capital funded, several funds have relatively large portfolios. For example, ABP, a fund for civil servants, has an assets size of € 150 billion and PGGM (health care fund) has total assets of €53 billion (over 2000, source: Compendium Nederlands Bedrijfsleven 2001). Issues in corporate governance are of interest to these funds and eight large pension funds have founded *Stichting Corporate Governance Onderzoek Pensioenfondsen* (SCGOP) in 1998. This foundation aims to enhance research on governance by pension funds.

companies, but also sell financial services to these same firms<sup>6</sup>. This conflict of interest may prevent them to vote against management proposals at the general meeting (Brickley, Lease and Smith, 1988; Pound, 1988) We hypothesize:

*Hypothesis 2: Ownership of banks and insurance companies is negatively related to the opposition against a management proposal.*

In the Netherlands, there are several opportunities for firms to limit the influence of their shareholders at the general meeting (see section 2). Certificates deprive individual shareholders of their voting rights and are expected to influence voting outcomes. Certificate holders have dividend rights, can freely trade their certificates and can attend the general meeting, but they cannot vote.<sup>7</sup> The trust office casts their votes at the general meeting. This trust office is typically aligned with management and not expected to vote against management proposals. Hence,

*Hypothesis 3: The use of certificates is negatively related to the opposition against a management proposal.*

Gordon and Pound (1993) show that shareholder-sponsored corporate governance proposals receive more votes at general meetings when long-run stock price performance has been poor and current valuation ratios are low. Shareholders might show their discontent about poor firm performance by voting against proposals at the general meeting. This predicts an inverse relation between the likelihood and percentage of votes against a proposal and firm performance. We therefore hypothesize:

*Hypothesis 4: Past firm performance is negatively related to the opposition against a management proposal.*

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<sup>6</sup> The three large banks and insurers (ABN Amro, Fortis and ING) have a 91.8 percent market share in the financial services industry (over 2000, source: Compendium Nederlands Bedrijfsleven 2001).

<sup>7</sup> Recently, some firms allow certificate holders to register their certificates and temporarily transform the certificates into shares during the shareholders meeting, allowing certificate holders to vote. So far, certificate holders make very limited use of this right.

Romano (2003) reports that voting outcomes are best explained by proposal type. Gordon and Pound (1993) and Gillan and Starks (2000) show that shareholder-sponsored corporate governance proposals receive more votes at general meetings when they reinstate shareholders' voting rights. Similarly, we predict that shareholders will be likely to vote against a proposal that directly relates to their rights. In particular, we hypothesize that proposals to authorize the management board to issue equity and to limit or exclude the pre-emptive rights of shareholders will lead to most opposition at the general meeting. These pre-emptive rights are part of the legal protection of minority shareholders. For example, La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) mention the pre-emptive right of minority shareholders to participate in new equity issues at the same conditions as the controlling owner as one of the legal determinants of external finance. Hence,

*Hypothesis 5: Shareholders are more likely to oppose the proposal to authorize the management board to issue new equity and to limit or exclude pre-emptive rights.*

#### **4. Sample description**

Our sample consists of the 54 largest Dutch listed companies that were constituents of the AEX index or AMX index at any time during the period 1998-2002. We obtain the minutes of 245 the general meetings held by our sample firms from the companies or from the *Vereniging van Effectenbezitters* (the Dutch Shareholders' Association). Table 1 shows the summary statistics for the 245 general meetings. We start with the sample characteristics. The average market capitalization equals €10.8 billion. The average market-to-book ratio is 1.9 and the average return on equity (ROE), defined as net profits divided by the book value of equity, equals 31.1 percent. Market capitalization, market-to-book ratio and return on equity are all measured at the end of the year preceding the general meeting. For example, when the general meeting is held in April 1998, we measure these variables at year-end 1997.

We find that the ownership structure of the sample firms is relatively concentrated. The largest outside blockholder owns 14.3 percent of the shares, on

average<sup>8</sup>. All outside blockholders together own 26.9 percent of the firm's shares. Pension funds are relatively important shareholders and own 10 percent of shares on average. The percentage of shares held by banks and insurance companies equals 7.8 percent and 2.7 percent, respectively.

Table 1 also shows that most Dutch firms adopt takeover defenses. Preference shares are most popular with 71 percent of observations using this antitakeover measure. The structured regime is present in 57 percent of our sample firms. Priority shares and certificates are used by 36 percent and 30 percent of observations, respectively.

[Please insert Tables 1 and 2 about here]

Table 2 provides information on the shareholder turn-out at the general meeting in Panel A. We distinguish between the companies that use certificates and those that do not. We find that the average percentage of share capital that is represented at the general meeting is 90 percent or higher in most years for the companies that adopt certificates. This is not surprising because representatives of the trust office always attend the general meeting and represent the certificate holders. The average shareholder turn-out for the companies without certificates is much lower at around 30 percent in most years. The turn-out for Dutch general meetings is substantially below the turn-out of 82.2 percent reported for the United States (Maug and Rydqvist, 2001).

Panel B of Table 2 shows that pension funds attend 35% of the general meetings. However, the number of meetings that pension funds visit has declined over the sample period. Mutual funds and other institutional investors (mainly banks and insurance companies) do not frequently attend general meetings and do not vote against proposals (respectively 8% and 3%).<sup>9</sup> We should note that attendance at

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<sup>8</sup> The 1996 Act on Disclosure of Holdings in Listed Companies, provides that any person, who directly or indirectly, acquires or disposes of an interest in the capital and/or the voting rights of public limited liability company incorporated under Dutch law with an official listing on a stock exchange, must give a written notice of such acquisition or disposal, if as a result of such acquisition or disposal the percentage of capital interest or voting rights held by such person falls within another percentage range held by such person prior to the acquisition or disposal. The relevant percentage ranges referred to in the Disclosure of Holdings Act are 0% to 5%; 5% to 10%; 10% to 25%; 25% to 50%; 50% to 66%; and over 66%.

<sup>9</sup> Table 1 showed that 42% of the firms have a pension fund as one of the blockholders, while the corresponding percentages are 59% and 16% for banks and insurers.

meetings is based on the minutes of the general meeting. It is possible that shareholders were present but if the minutes of the meeting do not mention them we could not identify these shareholders. These statistics are therefore a lower bound on the attendance by institutional investors.

[Please insert Tables 3 and 4 about here]

Table 3 reports that the median number of proposals at the general meetings equals six. The total number of proposals during the years 1998-2002 is 1,583. According to the articles of association of most Dutch companies, shareholders that own more than 1% of the shares can also submit proposals to the general meeting. However, during our sample period there are no shareholder-sponsored proposals. This implies that management sponsors all 1,583 proposals.

Over the entire sample period, 601 proposals (38 percent of all management proposals) have received at least one vote against. We know the exact percentage of votes against the proposal for 487 of these proposals. We observe that the fraction of proposals with votes against increases from 23.1 percent in 1998 to 49.4 percent in 2002. We also report that institutional investors generally do not vote against proposals. However, the number of proposals voted against is increasing for pension funds.

Table 4 gives a detailed overview of the different types of proposals. The table reports the number of proposals, the fraction of those proposals that received votes against and the conditional average percentage of votes against. We refer to Section 2 for a description of the various proposals. For example, in 1998 there were 48 proposals concerning the adoption of annual accounts of which 12.5 percent (6 proposals) received votes against. The percentage of votes against is available for 5 proposals (between brackets in the table) and averages 0.10%. Table 4 shows that the proposals to authorize the management board to issue shares and the proposal to limit or exclude the pre-emptive rights attract most votes against.

The percentage of votes against proposals is typically not large enough to prevent the management proposal from passing. Proposals are rarely rejected at the general meeting. During the sample period there were only nine out of 1,583 proposals that got rejected or withdrawn. Six of these nine proposals that are rejected or withdrawn concern the authorization to issue equity and to limit or exclude pre-



emptive rights. This shows that nearly all management proposals pass at the general meeting. This corresponds to the U.S. findings of Maug and Rydqvist (2001). They report that shareholder-sponsored proposals often fail to get majority support at general meetings whereas management-sponsored proposals always pass. The next section presents our multivariate regression results.

## 5. Results

Table 5 shows our regression results. We use two measures for opposition against a management proposal: the likelihood of votes against a proposal and the percentage of votes against a proposal. In Columns 1 to 3 we estimate a logit regression. The dependent variable is a dummy that takes on the value one if at least one shareholder votes against the proposal and zero otherwise. In this analysis we exclude 69 proposals at which one or more shareholders withheld votes (but no other shareholder voted against the proposal) and 7 proposals with missing information on the voting outcome. This leaves 1,507 proposals of which 597 proposals (39.6% of total) received votes against and the remaining 910 proposals did not.

We include year dummies in the logit model to identify a possible trend. We observe that the probability of votes against a proposal increases in the years 2000, 2001 and 2002 compared to the reference year 1998. The probability of votes against has therefore increased over time. Market capitalization of the company is included as a control variable. Proposals are more likely to receive at least one vote against for larger companies. This can easily be understood because larger companies tend to have more dispersed ownership, which increases the chance of one of the many shareholders voting against a proposal.

To test hypothesis 1, we include the percentage of shares owned by pension funds. Inconsistent with this hypothesis, we report that the likelihood of votes against a proposal is lower when pension funds own more shares in the company. This suggests that these pension funds show any discontent with management in private meetings and not at the general meeting.<sup>10</sup> This finding adds to the results of Smith

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<sup>10</sup> In an unreported additional regression we interacted the shareholdings by pension funds with the five year dummies. All five coefficients are negative and three coefficients (1998, 2001 and 2002) are significant at the 10% level.

(1996) and Carleton, Nelson and Weisbach (1998). They show that U.S. pension funds are able to reach agreements with targeted companies without shareholders voting on the proposal at the general meeting.

Model (1) shows that bank shareholdings are not significantly related to the likelihood of votes against a proposal. This is inconsistent with hypothesis 2. However, we do find that the likelihood of votes against a proposal is lower when insurance companies own shares in the company. This is consistent with hypothesis 2 and suggests that potential conflicts of interests may affect the voting behavior of insurance companies. We also include the stock ownership of the largest outside shareholder in our model. We find that this has a positive influence on the likelihood of votes against a proposal. Large shareholders are less subject to the free-rider problem (Shleifer and Vishny, 1986). It is less costly for them to collect information on firm performance and to attend the general meeting than for minority shareholders.

Model (1) also includes dummies for the different types of proposals that are voted on. We have grouped some related proposals together such as the adoption of annual accounts/discharge and the proposal to authorize the management board to issue new shares/to limit or exclude the pre-emptive right. We consolidate these proposals into one group because they are typically packaged proposals at the general meeting. The results support hypothesis 5. The proposal to authorize the management board to issue new shares and to limit or exclude pre-emptive rights is more likely to be voted against than other proposals. This is consistent with the idea that shareholders will be more likely to vote against proposals to waive their legal pre-emptive rights.

In Model (2) we remove the dummy for proposals to amend the articles of association and bank shareholdings (that were insignificant in Model (1)) and add dummy variables for the various types of takeover defenses. Consistent with hypothesis 3 we find that certificates reduce the likelihood of votes against a proposal. The reason is that the trust office casts the votes at the general meeting and the administrators of the trust office are often on friendly terms with management. We also find that the likelihood of votes against a proposal is lower when the firm uses priority shares or is legally required to apply the structured regime. These takeover defenses transfer some of the key decision rights - such as the appointment of board members from the general meeting - to a foundation (priority shares) or the supervisory board (structured regime). The coefficient on the dummy for preference

shares is significantly positive. This is a puzzling result since we would have expected that these preference shares would not affect voting behavior. Protective preference shares are only issued at the threat of a hostile takeover and therefore not outstanding in most of the sample companies.

Model (3) adds the performance variables. We use one accounting (return on equity) and one stock market based performance (market-to-book ratio) measure. We find that firms with valuable growth opportunities, as reflected in a higher market-to-book ratio, have a lower probability of votes against a proposal at the general meeting. This finding is consistent with hypothesis 4. However, we do not find a relationship between the return on equity and the likelihood of votes against a proposal.

Next, we examine the percentage of votes against a proposal using OLS regressions. We examine only those proposals that have received one or more votes against. Based on the available information we can compute the percentage of votes against for 487 proposals. We drop five observations because of missing information on other variables. This leaves 482 proposals for our analysis.

We use the same set of explanatory variables as before. Model (4) shows that the percentage of votes against is increasing over time and is higher in 2001 and 2002 than it was in 1998. Market capitalization is inversely related to the percentage of votes against a proposal. A plausible explanation is that wealth constraints are more important for larger firms. In larger firms it takes more money to own a significant stake in the company. As a result ownership is more dispersed and it is less likely that there will be a high percentage of votes against a proposal at the general meeting.

We find that pension funds have a negative effect on the percentage of votes against a proposal. This finding is inconsistent with hypothesis 1, but consistent with our findings for the likelihood of votes against. We infer that pension funds do not show their discontent with management by voting against proposals. We also find that the percentage of votes against is lower when banks and insurance companies own shares in the company. However, these coefficients are not statistically significant. This is inconsistent with hypotheses 2. The coefficient on the ownership of the largest shareholder is also insignificant.

The dummies for the proposals are of similar sign and significance as with the probit analysis. We find that the proposal to issue new shares and to limit or exclude the pre-emptive rights of shareholders receives a higher percentage of votes against it in comparison to other proposals. This is consistent with hypothesis 5. Model (5)

removes the insignificant ownership variables and proposal dummies and adds the dummy variables for the takeover defenses. We find that certificates do not affect the percentage of votes against a proposal, which is inconsistent with hypothesis 3. However, the sample has relatively few firms with certificates, because model (2) already showed that certification reduces the incidence of votes against a proposal. We also report that priority shares and the structured regime are not significantly related to the percentage of votes against a proposal. The negative coefficient for preference shares is surprising but becomes insignificant in Model (6). In Model (6) we remove the insignificant dummy variables for the different types of takeover defenses. We add the performance variables. Inconsistent with hypothesis 4, we do not find a negative relationship between the percentage of votes against and firm performance. Instead, there is even a positive relation between the percentage of votes against a proposal and return on equity.<sup>11</sup>

## 6. Conclusion

In this paper we have examined the voting behavior of shareholders at the general meeting in the Netherlands. The Netherlands exemplifies Continental European countries with poor legal protection of shareholders and therefore presents a different institutional setting to existing studies that have primarily focused on the United States.

We observe that the shareholder turn-out in the Netherlands is relatively low. The average turn-out for companies without certificates is around 30 percent whereas the average turn-out is 82.2 percent in the United States (Maug and Rydqvist, 2001) and 45 percent in the United Kingdom (Strätling, 2003). We examine the determinants of the likelihood of at least one shareholder voting against a proposal as well as the determinants of the percentage of votes against a proposal. We find that pension fund ownership decreases the likelihood of votes against a proposal and the

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<sup>11</sup> We ran additional tests and interacted return on equity with each of the proposal dummies (not tabulated). When we add the interaction term between the return on equity and the dummy for the proposal to amend the articles of association, we observe a coefficient of 9.62 with a *t*-value of 5.09 while the coefficient on return on equity equals 1.76 and becomes insignificant (*t*-value=1.47). This shows that the positive relation between the percentage of votes against and return on equity is largely driven by the 30 proposals to amend the articles of association.

percentage of votes cast against a proposal. This suggests that pension funds are less active at general meetings than might be expected. This finding is consistent with other studies. Institutional investors also favor exerting influence on management outside the general meetings in the United Kingdom (Short and Keasey, 1999) and the United States (Smith, 1996; Carleton, Nelson and Weisbach, 1998).

There is no support for the hypothesis that conflicts of interest drive the voting behavior of banks and insurance companies at general meetings. However, we do find that the ownership of insurance companies is negatively related to the likelihood of votes against a proposal. We find strong evidence that certificates reduce the likelihood of votes against a proposal. Certificate holders are not entitled to vote at the general meeting but trust office administrators cast the votes. This finding reflects that these administrators are often friendly to management.

We find weak support for the hypothesis that voting behavior is determined by financial performance. However, we find strong evidence that shareholders are more opposed to proposals that directly relate to their rights. In particular, we document that shareholders are more likely to vote against and there is a higher percentage of votes against proposals to authorize management to issue new shares and to limit or exclude pre-emptive rights.

Currently, governance structures in the Netherlands are changing rapidly. First, Dutch Parliament has approved adjustments in the structured regime in September 2003. The changes imply more shareholder influence in the appointment procedure of supervisory board members (Meinema, 2002). Moreover, the new legislation improves the voting rights for certificates in firms with and without the structured regime. Second, the Tabaksblat committee has proposed a code on corporate governance in December 2003. In its report, the committee proposes that management either complies with the code or explains at the general meeting why it deviates from the code ('comply or explain rule'). Of course, it remains an empirical question whether the current changes have the desired effect, i.e. whether shareholder monitoring and involvement will increase in the Netherlands.

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**Table 1: Summary statistics**

	<b>Mean</b>	<b>Median</b>	<b>Standard deviation</b>	<b>N&gt;0</b>
Market capitalization	10,844,957	1,707,237	21,297,182	245
Market-to-book ratio	1.914	1.470	1.482	245
Return on equity	0.311	0.185	1.076	245
Largest outside blockholder	14.33	9.00	14.94	227
All outside blockholders	26.87	23.46	20.38	227
Pension fund blockholdings	10.08	0.00	17.33	102
Bank blockholdings	7.75	5.31	8.72	144
Insurance company blockholdings	2.66	0.00	9.39	38
Dummy certificates	0.30	0	0.46	74
Dummy priority shares	0.36	0	0.48	89
Dummy preferred shares	0.71	1	0.46	173
Dummy structured regime	0.57	1	0.50	140

The table shows the mean, median, standard deviation and number of observations with value above zero for the 54 sample firms that held 245 annual general meetings. The number of observations is 245. Market capitalization is market value of equity. The market-to-book ratio is the market value (book value of total assets minus book value of equity plus market capitalization) divided by the book value of total assets. Return on equity is net profits divided by book value of equity. Outside blockholdings are stakes of over 5% not held by directors. The dummy variables for the presence of certificates, priority shares, preferred shares and structured regime have a value of one if these defenses are present, and zero otherwise. All variables are measured on December 31<sup>st</sup> or over the year preceding the meeting.



**Table 2: Shareholder turn-out**

<b>Panel A: Shareholder turn-out</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<i>Percentage of share capital, certificates</i>					
Average	89.83	88.15	94.06	92.82	94.03
Median	97.76	97.34	98.62	97.26	98.41
Number of companies	13	14	11	10	9
<i>Percentage of share capital, without certificates</i>					
Average	31.86	36.51	33.52	31.00	33.17
Median	26.63	33.25	37.50	30.42	33.96
Number of companies	25	28	24	25	26
<b>Panel B: Identity of shareholders present</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Pension funds	22	20	15	11	17
Mutual funds	3	4	5	3	5
Other institutional investors	1	1	1	1	4
Number of companies	48	52	49	48	48

Panel A shows means and medians of the percentages of shareholder turn-out, as well as the number of observations per year. Panel B describes the number of meetings per year in which a specific type of shareholder is present, and the total number of meetings per year.

**Table 3: Number of proposals at general meeting**

	1998	1999	2000	2001	2002
Average number of proposals	6.31	5.77	6.49	7.25	6.54
Median number of proposals	6.00	6.00	6.00	7.00	6.00
Total number of proposals	303	300	318	348	314
→Number of proposals with votes against	70	81	127	168	155
→Number of proposals of which we know the percentage of votes against	50	59	97	140	141
Number of proposals voted against by:					
Pension funds	3	1	1	10	7
Mutual funds	0	0	0	0	1
Other institutional investors	0	0	0	0	5

The table shows the mean and median number of proposals per meeting for each of the five years in the first and second row. The total number of proposals per year in the third row is compared with the proposals with votes against in the fourth row. The fifth row contains the proposals with votes against of which the percentage of votes against can be measured. The last three rows contain the number of proposals on which pension funds, mutual funds and other institutional investors cast votes against.

**Table 4: Voting on management proposals at general meeting**

	1998	1999	2000	2001	2002
<i>Adoption of annual accounts</i>					
Number of proposals	48	51	49	48	48
Percentage proposals with of votes against	12.50%	15.69%	20.41%	33.33%	35.42%
Average percentage of votes against	0.10% [5]	0.12% [4]	0.14% [8]	0.37% [14]	3.05% [14]
<i>Discharge</i>					
Number of proposals	46	54	51	50	50
Percentage proposals with of votes against	10.87%	16.67%	27.45%	52.00%	46.00%
Average percentage of votes against	0.01% [3]	0.16% [6]	0.09% [12]	0.70% [24]	0.68% [19]
<i>Distribution of profits</i>					
Number of proposals	43	43	41	42	40
Percentage proposals with of votes against	9.30%	11.63%	21.95%	35.71%	32.50%
Average percentage of votes against	0.05% [3]	0.68% [3]	0.21% [7]	3.11% [12]	0.45% [12]
<i>Issue of shares</i>					
Number of proposals	30	34	32	42	41
Percentage proposals with of votes against	70.00%	73.53%	87.50%	69.05%	80.49%
Average percentage of votes against	4.31% [15]	5.76% [20]	6.20% [20]	7.69% [23]	8.33% [31]
<i>Pre-emptive rights</i>					
Number of proposals	8	7	12	14	13
Percentage proposals with of votes against	87.50%	85.71%	100.00%	85.71%	92.31%
Average percentage of votes against	9.36% [2]	5.73% [5]	4.94% [6]	9.92% [10]	8.42% [12]
<i>Share repurchase</i>					
Number of proposals	41	45	43	44	43
Percentage proposals with of votes against	19.51%	24.44%	30.23%	45.45%	39.53%
Average percentage of votes against	1.04% [8]	2.24% [9]	1.15% [12]	1.11% [18]	4.23% [16]
<i>Amendments to articles of association</i>					
Number of proposals	21	12	23	24	10
Percentage proposals with of votes against	23.28%	50.00%	56.52%	45.83%	70.00%
Average percentage of votes against	1.40% [5]	3.37% [4]	1.58% [8]	2.42% [8]	5.79% [7]
<i>Reduction of share capital</i>					
Number of proposals	4	5	2	5	4
Percentage proposals with of votes against	25.00%	20.00%	50.00%	20.00%	25.00%
Average percentage of votes against	0.00% [0]	0.00% [0]	0.01% [1]	0.00% [0]	0.04% [1]
<i>Appointment of an external accountant</i>					
Number of proposals	14	10	15	16	14
Percentage proposals with of votes against	14.29%	20.00%	40.00%	25.00%	28.57%
Average percentage of votes against	0.06% [2]	0.08% [2]	0.02% [6]	0.13% [4]	0.02% [4]
<i>Remuneration of supervisory board</i>					
Number of proposals	11	7	1	8	7
Percentage proposals with of votes against	18.18%	28.57%	0.00%	37.50%	42.86%
Average percentage of votes against	0.00% [0]	0.54% [2]	0.00% [0]	0.25% [3]	0.87% [2]
<i>Appointment supervisory board member</i>					
Number of proposals	21	15	18	25	21
Percentage proposals with of votes against	14.29%	6.67%	33.33%	60.00%	42.86%
Average percentage of votes against	0.00% [0]	0.00% [0]	0.02% [5]	0.64% [10]	0.23% [9]
<i>Appointment management board member</i>					
Number of proposals	5	8	8	12	12
Percentage proposals with of votes against	40.00%	12.50%	37.50%	50.00%	67.00%
Average percentage of votes against	0.11% [2]	0.24% [1]	0.02% [3]	0.11% [4]	0.13% [8]
<i>Other proposals</i>					
Number of proposals	11	9	23	18	11
Percentage proposals with of votes against	36.36%	44.44%	52.17%	58,33	85,71
Average percentage of votes against	2.20% [4]	5.33% [3]	4.83% [9]	0.85% [10]	4.15% [6]

The table shows the number of proposals and the percentage of these proposals with votes against per type of proposal and per year. The average percentage of votes against is included, with number of observations of which the percentage is known in brackets.

**Table 5: Regression results**

	Likelihood of votes against			Percentage of votes against		
	Logit (1)	Logit (2)	Logit (3)	OLS (4)	OLS (5)	OLS (6)
1999	0.26 (1.20)	0.16 (0.69)	0.17 (0.76)	0.68 (0.86)	0.84 (1.06)	0.19 (0.22)
2000	0.81*** (3.90)	0.68*** (3.20)	0.70*** (3.26)	0.77 (1.05)	0.84 (1.12)	0.73 (0.96)
2001	1.66*** (7.06)	1.56*** (6.49)	1.54*** (6.36)	2.93*** (2.69)	2.99*** (2.67)	2.50** (2.29)
2002	1.92 (7.74)	1.88*** (7.40)	1.83*** (7.12)	3.34*** (2.72)	3.26*** (3.05)	2.71*** (2.86)
Log(Market capitalization)	0.39*** (10.52)	0.47*** (11.56)	0.47*** (11.47)	-1.04*** (-4.88)	-1.08*** (-4.75)	-1.10*** (-5.29)
Pension fund blockholdings	-0.019*** (-3.50)	-0.021*** (-3.72)	-0.021*** (-3.70)	-0.079** (-2.45)	-0.058* (-1.86)	-0.056** (-2.07)
Bank blockholdings	0.010 (1.17)	-	-	0.017 (0.47)	-	-
Insurance company block	-0.045*** (-4.14)	-0.028*** (-3.07)	-0.030*** (-3.30)	-0.023 (-0.35)	-	-
Largest blockholder	0.013*** (2.79)	0.015*** (2.89)	0.015*** (3.05)	0.019 (0.79)	-	-
Proposal adoption of annual accounts/discharge	-0.62*** (-2.62)	-0.76*** (-3.78)	-0.77*** (-3.82)	-2.27** (-2.51)	-1.63*** (-2.83)	-1.56*** (-2.96)
Proposal distribution of profits	-1.01*** (-3.65)	-1.12*** (-4.48)	-1.14*** (-4.54)	-1.31 (-1.23)	-	-
Proposal to issue new shares/ limit pre-emptive rights	2.13*** (7.62)	2.01*** (8.08)	2.01*** (8.03)	3.92*** (3.51)	4.46*** (4.99)	4.63*** (5.42)
Proposal share repurchase	-0.48* (-1.83)	-0.61*** (-2.61)	-0.63*** (-2.69)	0.73 (-0.67)	-	-
Proposal amendment to articles of association	0.29 (0.90)	-	-	0.08 (0.05)	-	-
Proposal appointment external accountant	-0.86** (-2.36)	-0.85** (-2.41)	-0.89** (-2.50)	-2.94*** (-2.96)	-2.13*** (-2.75)	-2.24*** (-3.57)
Proposal appointment board members	-0.56** (1.97)	-0.70** (-2.56)	-0.73*** (-2.66)	-2.25** (-2.56)	-1.21** (-2.46)	-1.12*** (-2.65)
Dummy certificates	-	-0.84*** (-4.78)	-0.84*** (-4.75)	-	-0.35 (-0.27)	-
Dummy priority shares	-	-0.48*** (-2.88)	-0.45*** (-2.72)	-	0.15 (0.23)	-
Dummy preference shares	-	0.89*** (5.79)	0.89*** (5.79)	-	-1.72* (-1.86)	-1.40 (-1.59)
Dummy structured regime	-	-0.25* (-1.74)	-0.29** (-1.96)	-	0.63 (0.83)	-
Market-to-book ratio	-	-	-0.088* (-1.73)	-	-	-0.060 (-0.35)
Return on equity	-	-	-0.004 (-0.05)	-	-	2.36* (1.81)
Intercept	-6.95*** (-11.40)	-7.99*** (-11.76)	-7.77*** (-11.27)	17.71*** (5.23)	18.83*** (4.91)	19.06*** (5.30)
McFadden $R^2$ /adjusted $R^2$	0.248	0.279	0.280	0.210	0.221	0.244
Number of observations	1507	1507	1507	482	482	482

The table shows regression analyses explaining voting behavior on proposals. Columns (1), (2) and (3) contain logit regressions in which the explained variable is a binary variable with a value of one in case of votes against a proposal and zero otherwise. Reported are the coefficient and the  $z$ -statistic in parentheses. The McFadden  $R^2$  measures the explanatory power of the logit models. Columns (4), (5) and (6) contain Ordinary Least Squares regressions in which the explained variables is the percentage of votes against the proposal. Reported are the coefficient and the White heteroskedasticity-consistent  $t$ -statistic in

parentheses. The adjusted  $R^2$  measures the explanatory power of the OLS regressions. All regressions include an intercept and four year dummies. The explanatory variables are defined in Table 1 or dummy variables for specific types of proposals. '\*' indicates significance at the 10% level, '\*\*' at the 5% level, and '\*\*\*' at the 1% level.

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