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Expressive Shareholder Democracy: A Multilevel Study of Shareholder Dissent in 15 Western European Countries

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ABSTRACT This study develops an expressive understanding of shareholder dissent. In this view, shareholder dissent is not only about the voting outcomes of proposals put to the vote, but also expresses an evaluation of the firm's corporate governance set-up. We hypothesize that shareholder dissent expresses an agency theoretical evaluation of corporate governance, but that the degree to which the capitalist system of a country is a coordinated market economy (CME) leads shareholders to evaluate corporate governance more in team production terms. We test our theoretical model using multilevel techniques on a sample of 12,513 proposals voted on in 717 firms listed in 15 Western European countries and find support for our predictions. Our study not only contributes to a better understanding of the corporate governance role of shareholder dissent, but also shows that what shareholders express through dissent differs across national contexts.

Keywords: agency theoretical evaluation, capitalist systems, comparative corporate governance, shareholder dissent, team production theoretical evaluation

INTRODUCTION

The persistence of corporate governance failures (Coffee, 2005), a growing disappointment in boards of directors (Ahern and Dittmar, 2012), and mixed empirical evidence on the effectiveness of corporate governance mechanisms (Dalton et al., 2007) have fuelled a movement to empower arm's-length shareholders in the USA (Bebchuk, 2005) and Europe alike (Enriques and Volpin, 2007). The main objective of this movement is to enable and encourage shareholders to actively use their voting rights in order to secure their residual claims on the firm. In an attempt to infuse this movement with public legitimacy,

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its protagonists often appeal to the ideal of 'shareholder democracy' as a paradigm of good corporate governance in public firms (Bebchuk, 2005). Note that the analogy between shareholder democracy and political democracy is problematic in a normative sense (e.g., Rodrigues, 2006; van Oosterhout, 2007), even if only because the 'plutocracy' in public firms in which large shareholders have more voting rights than small shareholders is at odds with a foundational principle of political democracy, according to which each citizen counts as one and none as more than one (Smythe, 2006). In this study, we will not be concerned with a *normative* analysis of shareholder democracy. Instead, we will focus on investigating the *practical* question whether and how shareholder democracy can be an effective and useful corporate governance practice.

A core premise of the quest for shareholder democracy involves the assumption that shareholder voting is a powerful corporate governance practice that allows shareholders to secure their interests in the firm (Easterbrook and Fischel, 1991). Taking place at regularly held shareholder meetings (Yermack, 2010), shareholder voting provides ample opportunities for shareholders to intervene in the firm by voting against the (re-)election of directors (Hillman et al., 2011) or any other proposal put to the vote and recommended by the board (Bebchuk, 2005). In theory, the right to vote at shareholder meetings is the most powerful control right that shareholders can use to secure their interests (Mallin and Melis, 2012).

In practice, however, empirical research has documented that shareholder dissent – defined as shareholder votes cast in opposition to the board's voting recommendations on proposals put to the vote (Hillman et al., 2011) – is generally insufficient to keep board-sponsored proposals from receiving majority support (Cai et al., 2009; Listokin, 2008; Yermack, 2010).[1] Even when shareholders sponsor proposals, these typically fail to be supported by the majority of shareholders (Cziraki et al., 2010). By challenging the assumption that shareholder dissent is an effective corporate governance mechanism (Yermack, 2010), these findings question the feasibility of shareholder democracy.

To reconcile our theoretical understanding of the corporate governance role of shareholder dissent with the available empirical evidence, this study develops an alternative understanding of the corporate governance role of shareholder dissent. Rather than understanding shareholder dissent exclusively in *instrumental* terms in which its effectiveness depends only on the ability to sway voting outcomes, we draw on the political science literature to develop an *expressive* understanding of shareholder dissent (Brennan and Lomasky, 1993). In this view, shareholder dissent is not only about the voting outcomes of proposals put to the vote, but also *expresses* an evaluation of the effectiveness of the firm's corporate governance set-up (Hillman et al., 2011), similar to how voting outcomes in political democracy not only serve to appoint a future government (Downs, 1957), but also express an evaluation of the incumbent one (Brennan and Lomasky, 1993). In this study, we investigate the corporate governance role of this expressive understanding of shareholder dissent across 15 Western European countries.

We develop our understanding of shareholder dissent as a mechanism of 'expressive shareholder democracy' by investigating two aspects that underlie this view. First, building on the political science literature on expressive voting in political democracy (Brennan and Lomasky, 1993), we predict that regardless of what is at stake in a proposal and irrespective of whether the proposal receives majority support, shareholder dissent *expresses* an evaluation of the basic corporate governance set-up of the firm (Hillman et al., 2011). Because shareholders are prone to evaluate corporate governance from a perspective that reflects their interest in the firm as residual claimants (Fama and Jensen, 1983), we argue that shareholder dissent will express an agency theoretical evaluation of corporate governance mechanisms (Hillman et al., 2011).

Second, research has documented that corporate governance mechanisms are not equally effective across Western Europe (Aguilera and Jackson, 2010; Desender et al., 2013). Because different capitalist systems (Hall and Soskice, 2001) shape the relations between the firm and its stakeholders in distinct ways (Blair and Stout, 1999), we argue that shareholders' evaluation of corporate governance mechanisms varies across the capitalist systems of Western Europe (Davis, 2009; Jansson, 2013). Specifically, we argue that in more liberal market economies (LMEs), such as the UK and Ireland, where markets play an important role in corporate governance, shareholder dissent is even more likely to express an *agency theoretical* evaluation of corporate governance. In LMEs, the ultimate goal of corporate governance is to reduce the agency costs that result from the separation of ownership and control (Shleifer and Vishny, 1997). An important means to achieve this goal in LMEs is to facilitate markets to reduce agency costs in firms (Aguilera et al., 2015; Edmans, 2009). In more coordinated market economies (CMEs), such as Germany and France, where coordination with stakeholders through non-market means is often required, shareholder dissent is more likely to express a *team production* theoretical evaluation of corporate governance (Kaufman and Englander, 2005). In CMEs, the ultimate goal of corporate governance is to undergird the ongoing team production between the firm and its stakeholders by securing firm-specific investments and stakeholder relationships (Blair and Stout, 1999).

To test these predictions, we focus our hypotheses development on three corporate governance mechanisms that are prevalent in both LMEs and CMEs (i.e., relational blockholders, stakeholder directors, and CEO equity-based pay), but that are known to serve different corporate governance roles across capitalist systems. Because the contextualization of the corporate governance role of these three governance mechanisms only comes in at the country level, we first hypothesize the firm-level effects from an agency theoretical perspective, as shareholders are eager to protect their residual claims on the firm. We subsequently hypothesize that the degree to which a country resembles a CME will lower the extent to which shareholders express an agency theoretical evaluation of corporate governance, because in CMEs corporate governance mechanisms that support team production between the firm and its stakeholders may be more suitable to maximize shareholder returns.

We test our hypotheses using a sample of 12,513 proposals voted on in 717 firms listed in 15 Western European countries for the years 2008 and 2009, and use multilevel modelling as our analytical approach. We use a Western European sample because Western Europe is an economically well-developed part of the world hosting a persistent variety of capitalist systems that may lead shareholders to express different evaluations of governance mechanisms cross-nationally (Cernat, 2004). It thereby provides a unique empirical setting to test our predictions.

Our study seeks to make at least three contributions. First, by developing an understanding of shareholder dissent as a mechanism of *expressive* shareholder democracy, we contribute to the corporate governance literature, which has long questioned the *instrumental* effectiveness of shareholder voting (Yermack, 2010). Second, our finding that *what* shareholders express through shareholder dissent differs across the well-developed capitalist systems of Western Europe, contributes to the comparative corporate governance literature (Aguilera and Jackson, 2010; Filatotchev, 2007). Finally, we discuss some practical implications of understanding shareholder dissent as a mechanism of expressive shareholder democracy.

THEORY AND HYPOTHESES

Corporate governance scholars have long investigated how corporate governance mechanisms, both inside and outside the firm, remedy the agency costs that result from the separation of ownership and control (Aguilera et al., 2015; Fama and Jensen, 1983). Although research to date has focused mostly on ownership structure (Connelly et al., 2010a, 2010b), board composition (Dalton et al., 1998; van Essen et al., 2012b), and executive pay (Bruce et al., 2005; van Essen et al., 2012a), mixed findings about the effectiveness of these mechanisms (Dalton et al., 2007) has increasingly shifted research attention to investigate the corporate governance role of shareholder activists (Goranova and Ryan, 2014).

Shareholder activism comprises all actions undertaken by shareholders to monitor and, if necessary, to exercise their control rights in order to realize changes in a firm's governance, management, and ultimately performance (Karpoff, 2001). Although various scholars have researched the antecedents and performance consequences of shareholder activism (Romano, 2001), an unequivocal understanding of the corporate governance role of shareholder activism remains forthcoming due to a mixed bag of empirical findings (Goranova and Ryan, 2014). Whereas studies have found that private, behind-the-scenes negotiations with managers may be performance enhancing (Becht et al., 2009), public forms of shareholder activism have commonly not been found to have positive performance consequences (Cai et al., 2013; Karpoff, 2001; Romano, 2001).

Shareholder voting is the most important manifestation of public shareholder activism (Yermack, 2010). First, voting rights provide shareholders with the ultimate remedy to refuse (re-)election of directors favored by the incumbent board (Hillman et al., 2011). Second, voting rights require shareholder consent on decisions that seek to change the governance 'rules of the game' in the firm that may restrict shareholder rights (Bebchuk, 2006; Kacperczyk, 2009), such as charter amendments for example (Kraakman et al., 2004). Third, shareholders can vote down any proposal they believe to be value-decreasing (Yermack, 2010). As such, shareholder voting is potentially the most powerful instrument that shareholders can use to secure their residual claims on the firm (Mallin and Melis, 2012).

The available empirical evidence on shareholder voting has not borne out this potential, however (Yermack, 2010). Instead, research to date suggests that shareholder dissent is a 'paper tiger' rather than an effective governance practice (Cai et al., 2013). In practice, shareholders almost always follow the board's voting recommendations, meaning that proposals recommended by the board virtually always receive majority support (Listokin, 2008). Although shareholders also submit proposals, these typically fail to be accepted and hence hardly fare better than board-sponsored proposals (Cziraki et al., 2010).

Although these findings suggest that shareholder dissent is a ‘paper tiger’ indeed, they do not necessarily imply that it is a useless corporate governance practice. Similar issues have plagued our understanding of the role of voting in political democracies, because the influence that any particular citizen has on voting outcomes is negligible and would not justify even the smallest effort to cast a vote (Downs, 1957). In response to this problem, political theorists have developed alternative theories of voting behavior (for reviews, see Feddersen, 2004; Geys, 2006). Below, we draw on the distinction between expressive and instrumental voting to develop an alternative understanding of the corporate governance role of shareholder dissent (Brennan and Lomasky, 1993).

Expressive and Instrumental Voting

Voting is instrumental to the extent that it takes place to influence a collective voting outcome. In instrumental voting models, voters are interested only in voting outcomes, which are relatively easy to predict and influence in small group settings (Blankart and Margraf, 2011). Because collective action problems will often disconnect the act of voting from its intended outcomes in larger groups (Hamlin and Jennings, 2011), political scientists have developed an alternative theory of voting behavior that understands voting at least partly as a form of expressive political action (Brennan and Lomasky, 1993).

Voting can be understood as expressive to the extent that it expresses an evaluation of the status quo, irrespective of the (expected) outcome of the voting process (Hamlin and Jennings, 2011). Brennan and Buchanan (1984) use the analogy of cheering at a sports match to illustrate the expressive dimension of voting. Supporters do not cheer for their team to influence the outcome of the game, as for each supporter the act of cheering is unlikely to have any causal influence on what happens on the pitch. Instead, supporters can be understood to cheer to express an evaluation of their team’s performance, irrespective of what may causally result from this cheering on the pitch (Brennan and Lomasky, 1993). In the context of shareholder voting, shareholders of Deutsche Bank are likely to have voted expressively when a substantial minority of them voted against a proposal to discharge the board in order to express their discontent with the bank’s leadership, knowing that they could not legally dismiss any board members by voting against this proposal (Shotter, 2015).

It is important to note, first, that although conceptually distinct, instrumental and expressive voting need not be mutually exclusive as a matter of fact. In practice, voting will combine both dimensions, although expressive voting is likely to dominate instrumental voting the lower the (expected) causal efficacy of voting in realizing a certain voting outcome is (Hamlin and Jennings, 2011). Second, even when voting is purely expressive, this does not imply that it may not have useful consequences. The example of cheering at a sports match illustrates the point, as the *aggregate* outcome of all individual cheering behaviour may actually matter to the sportive outcome of the game (Carmichael and Thomas, 2005). This is also true for shareholder voting because shareholder dissent, even when insufficient to sway voting outcomes, may lead to subsequent governance and leadership changes because shareholder dissent transmits a public signal that challenges the way the firm is governed. Recent studies have documented that such signals are interpreted and acted upon within the firm and that they predict subsequent leadership and governance changes (Cai et al., 2009; Fischer et al., 2009). This presumably also happened at Deutsche Bank, as less than a week after shareholders expressed dissent in the way describe above, the bank's leadership stepped down at their own initiative (Shotter and Arnold, 2015).

Although empirical research on expressive voting has focused mostly on the question *why* people vote – exemplified by experimental research designs (Dittmann et al., 2014) or research examining the levels of voter turnout from an expressive perspective (Copeland and Laband, 2002; Laband et al., 2009) – expressive voting may also affect *what* people vote (Hamlin and Jennings, 2011). This is the case, for example, when citizens vote to protest against their incumbent government rather than to appoint their future government (Pop-Eleches, 2010). Rather than investigating *why* shareholders vote, this study will investigate *what* shareholders express through shareholder dissent from *aggregated* voting outcomes. We argue that aggregate levels of shareholder dissent not only reflect the voting outcomes of the proposals put to the vote, but also express an evaluation of the basic corporate governance set-up of the firm.

Shareholders focus on the corporate governance set-up of a firm in expressing dissent because corporate governance is the most important means through which shareholders can secure their residual claims on the firm (Bushee et al., 2013). Arm's-length shareholders in particular may lack the abilities to become directly involved in the firm. Focusing on corporate governance in expressing dissent is then the next best alternative means for securing shareholders' claims on residual returns (Fama and Jensen, 1983).

Corporate Governance Mechanisms and Shareholder Dissent

Prior research on US-based firms has documented that by voting against individual directors, shareholders not only evaluate the individual directors, but also the board as a whole, and that they rely on an agency theoretical understanding of the governance role of the board in doing so (Hillman et al., 2011). In line with these findings, we predict that shareholders will also express an agency theoretical evaluation of the firm's governance mechanisms more generally, because agency theory prioritizes shareholder interests over all other corporate constituents (Hillman et al., 2011).

Yet, we also argue that the optimal corporate governance set-up may depend on the prevailing capitalist system in a country. Because agency theory is intimately connected to countries in which markets play an important role in corporate governance, we predict that shareholders evaluate corporate governance mechanisms in a different light when markets play a less important role. In many parts of Europe, non-market forms of cooperation between stakeholders and the firm are employed to develop and maintain firm-specific resources (Hall and Soskice, 2001). In these contexts, the effectiveness of corporate governance mechanisms is more likely to be evaluated in terms of their ability to secure the 'team production' value that results from these firm-specific stakeholder relationships (Blair and Stout, 1999).

In translating these predictions into a multilevel research design, we will first develop *firm-level* hypotheses about what shareholders express through shareholder dissent from an agency theoretical perspective of corporate governance. Acknowledging that the role of corporate governance mechanisms differs across Europe (Desender et al., 2013), we subsequently hypothesize at the *country level* that the capitalist system prevailing in a country will moderate the extent to which shareholders express an agency theoretical evaluation of corporate governance mechanisms. In order to be able to tease out the firm-level and country-level effects on shareholder dissent, we focus our hypotheses development on three corporate governance mechanisms that are prevalent in both LMEs and CMEs (i.e., relational blockholders, stakeholder directors, and CEO equity-based pay), but that serve different corporate governance roles across capitalist systems (van Essen et al., 2012a, 2012b, 2013).

Relational blockholder. An important governance mechanism that shareholders evaluate when voting involves the presence of large blockholders who maintain long-term relationships with the firm (Ayres and Cramton, 1994). Especially in Western Europe, public firms are often owned by large relational blockholders, who are durably and multiply tied to the firm (Faccio and Lang, 2002; van Essen et al., 2013). These relational blockholders, such as the Quandt family at BMW in Germany or the Bettencourt family at L'Oréal in France, are often well-known among the public and are therefore seen as an important governance mechanism for securing shareholders' residual claims on the firm (Gilson, 2007). Relational blockholders are typically able to secure private access to boards and management, while arm's-length shareholders lack such access and are dependent on the shareholder meeting to exercise voice. Private, behind-the-scenes access to boards is a more effective way to secure residual claims than voting at shareholder meetings because of the private information and private influence channels available to relational blockholders (Becht et al., 2009). Relational blockholders may also enjoy the trust of arm's-length shareholders because their large shareholdings and long-term commitment provide them with incentives to monitor the firm, even though this monitoring function may come at a cost to shareholders (Gilson and Schwartz, 2013). Shareholders may hence infer from the presence of a relational blockholder that their residual claims are appropriately secured in the firm and that expressing dissent adds little over the influence that the relational blockholder can muster. Hence:

> Hypothesis 1a. *The presence of a relational blockholder as the largest shareholder is negatively related to shareholder dissent.*

Stakeholder directors. The board of directors is not only the primary decision-making body in the firm (Bainbridge, 2003), but also the foremost defender of shareholders' residual claims inside the firm (Cai et al., 2009). For the board to play this role effectively, its non-executive directors should be independent from management (Fama and Jensen, 1983). Yet independence from management is not a sufficient condition for the board to fulfill its monitoring role well (Dalton et al., 1998; Peng, 2004). At least equally important is that directors also have shareholder interests at heart (Bainbridge, 2003).

This ostensibly is not the case with stakeholder directors, because stakeholder directors are sensitive to stakeholder demands that may compete with shareholders' residual claims (Kassinis and Vafeas, 2002; Luoma and Goodstein, 1999). Stakeholder directors may represent a variety of stakeholder groups such as suppliers, customers, employees, governments, and communities (Hillman et al., 2001). Although Kock et al. (2012) find that boards with more stakeholder directors increase the firms' stakeholder performance, shareholders may evaluate the pursuit of stakeholder interests as distracting from securing residual claims (Jensen, 2002) and reducing managerial responsiveness to shareholder demands (Rehbein et al., 2013). A larger number of stakeholder directors may therefore increase shareholder dissent. Hence:

Hypothesis 2a. *The number of stakeholder directors on the board is positively related to shareholder dissent.*

CEO equity-based pay. CEO equity-based pay involves compensation contracts that tie CEO pay to firm stock market performance in order to align CEO incentives with shareholder interests (Jensen and Murphy, 1990). Such incentive contracts are typically introduced to focus the CEO's attention and actions on securing residual returns for shareholders (Nyberg et al., 2010). Granting large equity packages to the CEO is therefore thought of as a strategic investment in the financial alignment between shareholders and the CEO (Zajac and Westphal, 1994). While this alignment may not be perfect (Sauerwald et al., in press), shareholders are likely to evaluate the financial alignment between shareholder wealth and CEO financial interests as a clear commitment to securing shareholders' residual claims (Nyberg et al., 2010). As a result, shareholders are less likely to express dissent by voting against the board. Hence:

Hypothesis 3a. *The degree of CEO equity-based pay is negatively related to shareholder dissent.*

Comparative Capitalism and Shareholder Dissent

The role and effectiveness of corporate governance mechanisms differs cross-nationally, which research has shown to be the case for blockholder ownership (van Essen et al., 2013), board monitoring (Peng, 2004; van Essen et al., 2012b), and CEO equity-based pay (van Essen et al., 2012a). This is because corporate governance mechanisms must be complemented by national institutions to optimally maximize shareholder wealth (Peng et al., 2009). While it is well established that the effectiveness of corporate governance mechanisms differs between developed and emerging economies (Peng et al., 2008), differences also exist across developed countries (Gilson, 2006; Lubatkin et al., 2007).

A key difference between developed countries are capitalist systems that coordinate stakeholder inputs either via market or non-market means (Hall and Soskice, 2001; Jackson and Deeg, 2008). Corporate governance mechanisms may not only serve to control agency costs, but may also engender mutually beneficial cooperation between stakeholders and the firm that may increase the residual returns to shareholders (Aguilera et al., 2008; van Essen et al., 2013). To conceptually map the variety of capitalist systems in Western Europe, the 'varieties of capitalism' (VoC) literature provides a theoretically sophisticated and empirically validated distinction between liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall and Gingerich, 2009; Hall and Soskice, 2001).

In LMEs, for which the UK is paradigmatic, firms coordinate with stakeholders mainly through arm's-length exchange in competitive markets in which exchange takes place via prices and formal contracting (Hall and Soskice, 2001). As a result, firms in these settings often employ corporate governance mechanisms that complement and facilitate market exchanges. Corporate governance mechanisms that facilitate liquidity and an active takeover market, for example, keep managers on their toes and allow shareholders to invest in liquid financial markets (Hendry et al., 2006).

In CMEs, for which Germany is exemplary, firms tend to coordinate stakeholder interests through non-market interactions in which relationship-specific assets are developed and exploited (Blair and Stout, 1999). In this view, the firm comprises a productive team of stakeholders whose contributions are highly complementary and largely inseparable because factor markets often do not adequately price relationship-specific contributions (Blair and Stout, 1999). Corporate governance mechanisms that enable mutually beneficial cooperation between the firm and its stakeholders as a 'cooperative team' and support highly dedicated relationships between the firm and its stakeholders will therefore best fit CMEs (Kaufman and Englander, 2005; van Essen et al., 2013). Specifically, shareholders in CMEs may evaluate corporate governance mechanisms more according to their role in developing and leveraging firm-specific investments, such as firm-specific human capital for example, that are needed for effective 'team production' (Blair and Stout, 1999; Heracleous and Lan, 2012; Kaufman and Englander, 2005).

Relational blockholder. Although the presence of a relational blockholder will generally be understood as an effective mechanism to secure residual claims because of dedicated monitoring abilities, this mechanism may be evaluated differently in CMEs and LMEs. In LMEs, relational blockholders are more likely to be considered a mixed blessing. Although their private, behind-the-scenes access to management is generally taken to be an effective route for monitoring managers and pursuing shareholder interests, shareholders in LMEs may also consider the possibility that relational blockholders abuse this access at the expense of arm's-length shareholders, resulting in agency problems between controlling and minority shareholders (Enriques and Volpin, 2007). Moreover, relational blockholders mute the market for corporate control because firms with large blockholders are more difficult to acquire (Gomez-Mejia et al., 2007; Li and Qian, 2013). Relational blockholders may also reduce risky investments that arm's-length shareholders generally prefer (Gomez-Mejia et al., 2011). As LMEs provide a setting in which markets play a critical role in keeping management on their toes (Edmans, 2009), shareholders are likely to be less positive about the presence of relational blockholders in LMEs.

In CMEs, on the other hand, relational blockholders are not only seen as an effective countervailing power against organized labour interests (Roe, 2003), but they may also enable strategic coordination with other stakeholders to produce new value in a cooperative team (van Essen et al., 2013). For instance, relational blockholders may finance complex projects that would otherwise go unfunded because of the lack of deep capital markets (Chang, 2003). Additionally, relational blockholders may pledge their reputation as an intangible asset that may induce employees to invest in firm-specific human capital (Gilson, 2007). In sum, relational blockholders provide a less ambiguous mechanism to maximize residual returns in CMEs than in LMEs, and will hence lower shareholder dissent in CMEs:

> Hypothesis 1b. *The negative relationship between the presence of a relational blockholder as largest shareholder and shareholder dissent will be stronger the more the team production governance model prevails in a country.*

Stakeholder directors. Although the board is the most proximate defender of shareholder interests inside the firm (Cai et al., 2009), boards play different roles cross-nationally. In LMEs, the main function of the board is to monitor management in an independent and impartial manner (Fama and Jensen, 1983). Services and advice, such as compensation advice (Conyon et al., 2009) and corporate governance assessments (Daines et al., 2010), are provided to boards primarily through markets. As a result, the presence of stakeholder directors in LMEs may be evaluated as compromising the monitoring function of the board, because stakeholder directors are less likely to impartially assess firm policies and strategies because of their strong allegiance to various stakeholders (Coff, 1999; Schneper and Guillén, 2004).

This is different in CMEs, in which team production and long-term strategic coordination with stakeholders plays a larger role and in which the board also functions to protect the firm-specific investments of stakeholders. In CMEs, the board is understood to function more as a 'mediating hierarch' that serves to safeguard stakeholder contributions to the team production in the firm (Blair and Stout, 1999; Collin, 2008). In this view, the presence of stakeholder directors need not stand in the way of the board fulfilling its role effectively. This function of the board is exemplified in the German system of co-determination, where half of the (supervisory) board of large firms is appointed by shareholders, while the other half is appointed by employees (Gorton and Schmid, 2004). Because of the different evaluations of the effectiveness of stakeholder directors in LMEs and CMEs, shareholders in CMEs are less likely to evaluate the presence of stakeholder directors as an indication that their residual returns may be jeopardized, and are hence less likely to express dissent. Hence:

> Hypothesis 2b. *The positive relationship between stakeholder directors and shareholder dissent will be weaker the more the team production governance model prevails in a country.*

CEO equity-based pay. While shareholders will generally evaluate CEO equity-based pay as a way to strengthen shareholder claims on residual returns (Kock et al., 2012; Nyberg et al., 2010), they are likely to evaluate this mechanism differentially in CMEs and LMEs. In LMEs, CEO equity-based pay serves as a bonding instrument that is a relatively cheap substitute for board monitoring (Zajac and Westphal, 1994). CEOs with high equity-based pay packages are more likely to focus on financial goals that are evaluated positively by investors. Moreover, in LMEs equity markets are considered to be efficient and provide useful feedback regarding the CEO's performance (Morck et al., 2000), making CEO equity-based pay a fitting governance mechanism in LMEs.

In contrast, shareholders in CMEs are more likely to also weigh the costs of CEO equity-based pay, as equity-based pay is likely to also affect relationships with stakeholders (Bruce et al., 2005). Not only may equity-based pay induce overly risky strategic actions (Burns and Kedia, 2006; O'Connor et al., 2006) that may jeopardize employment and firm-specific investments in human capital (Blair and Stout, 1999), but equity-based pay is also believed to focus the CEO's attention too much on shareholder interests. This may jeopardize implicit contracts with other stakeholders that play an important role in the team production context. As such, shareholders in CMEs are less likely to interpret CEO equity-based pay as an unambiguously effective mechanism to maximize their residual returns. Hence:

Hypothesis 3b. *The negative relationship between the degree of CEO equity-based pay and shareholder dissent will be weaker the more the team production governance model prevails in a country.*

METHODS

Data and Sample

We build our sample from the ISS Global Meetings database. Institutional Shareholder Services (ISS) is a corporate governance research and advisory firm that provides the voting results of shareholder meetings for publicly-traded corporations in different countries. We focus on the shareholder meetings of 835 corporations listed on the major stock indexes in 15 Western European countries during the years 2008 and 2009. For example, we included corporations listed on the SBF 120 in France, the FTSE 250 in the UK, and the DAX and MDAX in Germany. Our sample starts in 2008 because the European Commission mandated the disclosure of shareholder voting results for all European Union member states in June 2007 (European Directive 2007/36/EC). This allows us to avoid potential sample selection issues resulting from firms choosing to keep voting results private.

The resulting dataset has three levels of analysis: (1) proposal level, (2) firm level, and (3) country level. At the proposal level, we have access to 14,871 voting proposals. These proposals not only include director elections (Hillman et al., 2011), but also all other proposals put to the vote during the meetings in our sample. Table I provides an overview of the proposals included. For each proposal, ISS provides the proposal content, sponsor, ISS' voting recommendation, and voting outcome. Firm-level variables on ownership and governance characteristics were manually collected from annual reports and investor relations websites prior to the shareholder meeting, while financial information came from DataStream. Country-level data were collected from the World Bank and the OECD (Hall and Gingerich, 2009).

After matching proposals with firm- and country-level information, our final sample is reduced to 12,513 proposal-level observations nested in 717 firms and 15 European

Table I. Overview of proposals during the 2009 proxy season

	Firm	*Proposal*
1	Merck KGaA (Germany)	**Annual report confirmation**: The General Partners and the Supervisory Board propose that the submitted financial statements of Merck KGaA as at 31 December, 2008 be adopted.
2	UBS (Switzerland)	**Auditor confirmation**: The Board of Directors proposes that Ernst & Young Ltd., Basel (Ernst & Young), be re-elected for a one-year term of office as auditors for the financial statements of UBS AG (. . .).
3	Siemens (Germany)	**Profit distribution**: The unappropriated net income of Siemens AG for the fiscal year ended 30 September, 2008 amounts to €1,462,725,473.60. This net income shall be used to pay a dividend of €1.60 on each no-par value share entitled to the dividend.
4	Unilever (Netherlands)	**Management discharge**: It is proposed that the Executive Directors in office in the 2008 financial year be discharged for the fulfillment of their task in the 2008 financial year.
5	GlaxoSmithKline (UK)	**Director elections**: The company's Articles of Association require any Director newly appointed by the Board to retire at the first Annual General Meeting ('AGM') after appointment. You are therefore asked to elect as a Director, Mr James Murdoch, who has been appointed by the Board since last year's AGM. The Board considers that his experience of global business, marketing and communications will bring a unique and alternative perspective to the Board and he will also be an excellent addition to the Board's Corporate Responsibility Committee, an area where he has shown particular leadership at BSkyB and News Corporation. The Board has determined that he will be an independent Non-Executive Director in accordance with the Combined Code on Corporate Governance.
6	Bouygues (France)	**Anti-takeover**: Delegation of powers to issue equity warrants during the period of a public offer for the company's shares (poison pill).
7	TomTom (Netherlands)	**Compensation approving**: Adoption of the proposals to amend the Remuneration Policy for member of the management Board. In accordance with Book 2, article 135 paragraph 1 of the Dutch Civil Code TomTom currently has a policy governing the remuneration of the Management Board. This policy is available on the TomTom website.
8	Credit Agricole (France)	**Capital increase**: Grant of authority to issue preferred shares and/or securities granting access to preferred shares with pre-emptive rights.
9	BNP Paribas (France)	**Capital decrease**: (. . .) shareholders are being asked to authorise the Board for 18 months to establish a programme to purchase the company's ordinary shares up to a maximum of 10% of the capital, as authorised by law.
10	Stobart Group (UK)	**M&A approval**: Approve acquisition by the company of entire issued share capital of Stobart Air Ltd. on the terms and subject to the conditions contained in existing Carlisle airport option and Carlisle airport acquisition agreement.
11	Commerzbank (Germany)	**Shareholder proposal**: Appointment of special auditors pursuant to Art. 142 (1) AktG to examine the actions of management, in particular capital raising measures with subscription rights excluded, in acquiring the 100% stake in Dresdner Bank Aktiengesellschaft from Allianz SE.

Notes: Boards recommended to vote 'for' all board-sponsored proposals (1-10), but 'against' the shareholder-sponsored proposal 11. ISS recommended 'for' all proposals, except proposal 6 (poison pill).

countries. We checked whether the firms excluded from the final analysis were systematically different from the firms included using the Kolmogorov-Smirnov two sample tests (Siegel and Castellan, 1988). There were no significant differences ($p > 0.10$) with respect to a variety of important variables at different levels, such as firm size, financial performance, ownership structure, governance quality, and proposal types.

Main Variables

Shareholder dissent. Shareholder dissent was calculated as the percentage of votes present at the meeting that oppose the board's voting recommendation on any individual proposal. Boards typically recommend to vote 'for' board-sponsored proposals and 'against' shareholder-sponsored proposals. All votes not following the board's voting recommendation are classified as shareholder dissent.

Shareholders may not only cast their vote on a proposal as 'for' or 'against', but also as 'abstain'. In calculating shareholder dissent, we consider 'abstain' votes because they are present at the shareholder meeting (i.e., fulfill quorum requirements). Abstain votes also indicate shareholders' skepticism vis-à-vis the board (Conyon and Sadler, 2010; Ertimur et al., 2013). For instance, Warren Buffett voted 'abstain' on Coca Cola's executive compensation proposal in 2014 because he disagreed with the board's proposed pay plan, but did not want to 'go to war' with the board (Das and Holm, 2014). Importantly, 'abstain' votes differ from shares 'not voted' because shareholders who do not vote are not counted in the voting outcomes. We log-transform shareholder dissent because the vote distribution is skewed.

Relational blockholder. We classify a firm as having a relational blockholder as largest shareholder by including a dummy variable that takes the value '1' if three conditions are met: First, the ownership structure of the firm features a blockholder holding at least 10 per cent of outstanding voting rights (we vary this threshold in the robustness checks). Second, the blockholder can be classified as a 'relational investor' that actively monitors the firm and is committed to the firm for the long-term. We consider this to be the case when the blockholder is a bank, an insurance company, a family, or another corporation (van Essen et al., 2013). The reference category includes institutional investors and hedge funds (David et al., 2010; van Essen et al., 2013). Third, no other blockholder owns more voting rights than the relational blockholder.

Stakeholder directors. Following Hillman et al. (2001), we counted the total number of stakeholder directors serving on the board. This information was based on biographical information from annual reports. Following previous research (Hillman et al., 2001; Kassinis and Vafeas, 2002; Kock et al., 2012), we included (1) employee representatives (i.e., lower-level current employees), (2) union representatives, (3) academics (e.g., professors at universities), (4) customer and supplier representatives, (5) politicians, and (6) community representatives (e.g., bishops, celebrities) as stakeholder directors.

CEO equity-based pay. CEO equity-based pay includes all forms of compensation that are tied to firm stock market performance, such as stock options, restricted stock, stock appreciation rights, and performance plans (Bruce et al., 2005; Kock et al., 2012;

Nyberg et al., 2010). We calculated it as the ratio of annual equity-based pay to total annual CEO compensation.

Team production governance model. We operationalize the capitalist system of a country using the 'coordination index' developed by Hall and Gingerich (2009). This index measures the institutional support for either market or non-market coordination between firms and their stakeholders across developed countries (Hall and Gingerich, 2009, p. 454). It is normalized from zero to one. Scores closer to '0' indicate country-level institutions typical for LMEs, whereas scores closer to '1' represent characteristic CMEs. This variable was named 'team production governance model' because it captures the degree to which team production governance models are more appropriate in a particular capitalist system. This index was developed through factor analysis and captures institutional variations in the spheres of corporate governance – i.e., shareholder rights, size of the stock market, and country-level free float – as well as labour relations – i.e., degree and level of wage-coordination and labour turnover. While the VoC literature has identified several other areas of coordination between firms and their stakeholders (Hall and Soskice, 2001), these two spheres are likely among the most important and also show a significant degree of variation across capitalist systems (Hall and Gingerich, 2009). Both management (Fenton-O'Creevy et al., 2007) and voting studies in political science (de Neve, 2013) have used this index before.

Control Variables

Proposal types. We control for proposal types because shareholders may be differentially concerned with different voting issues (Bethel and Gillan, 2002). We include dummy variables for each of the most common proposal types. Specifically, we control for annually reoccurring *routine proposals* (i.e., annual report confirmation, auditor confirmation, profit distribution, management discharge, and director elections), *governance proposals* (i.e., anti-takeover and compensation approving), *strategy proposals* (i.e., capital decrease, capital increase, and M&A approval), and *shareholder proposals*.

Firm size. We include firm size measured as the log-value of the book value of total firm assets because activist shareholders often target larger and more visible firms (Cai and Walkling, 2011).

Market-to-book ratio. Market-to-book ratio captures the expected future financial performance and is included because shareholders are more likely to vote against the board when performance is poor (Krause et al., 2014). It is measured as the average equity market value of the firm over the 260 trading days prior to the shareholder meeting divided by the most recent reported book value of equity.

Financial leverage. Financial leverage is measured as the value of debt divided by the book value of total assets. It is included because low levels of debt may be perceived positively by shareholders for the expected future distribution of slack financial resources to shareholders (Klein and Zur, 2009).

Board size. Board size is measured by the number of directors on the board. Large boards may suffer from coordination problems, which may be perceived negatively by shareholders. We also include a square term to account for a potentially non-linear relationship (Coles et al., 2008).

Board independence. Board independence is measured as the ratio of non-executive directors having no relationships with management to the total number of directors (Cziraki et al., 2010). It is included because shareholders are likely to perceive boards that are independent from management as better able to monitor self-interested managers (Fama and Jensen, 1983).

Foreign directors. Foreign directors are identified by reviewing director biographies to determine if the director comes from a country other than where the focal firm's headquarters is located (Masulis et al., 2012). Foreign directors may be weaker monitors of managers' strategic and operational decisions (Oxelheim et al., 2013), partially because of a lack of country-specific knowledge or social ties in the firm's home country as well as logistical and cultural challenges in the boardroom (Masulis et al., 2012).

Two-tier board. Firms in Europe feature either one-tier or two-tier boards. Two-tier boards are divided into a 'management board' and a 'supervisory board' composed of non-executive directors. This variable takes the value '1' if a two-tier board is present, and '0' otherwise.

CEO duality. This variable is '1' if the CEO is chairperson of the board. CEOs who simultaneously chair the board may be perceived as having too much influence over the board (Dalton et al., 1998).

CEO tenure. CEO tenure captures the number of years the CEO is in office. CEOs with longer tenures may signal a reluctance to adjust strategic priorities and cause shareholder dissent (Miller, 1991).

Shareholder turnout. We also control for the possibility that shareholders do not vote their shares at the shareholder meeting. This variable is calculated as the ratio of shareholders who attended and voted at the shareholder meeting to all voting shares in the firm.

Free float. Free float is the percentage of freely traded shares. It is calculated by subtracting closely-held shares owned by blockholders with at least 5 per cent ownership from total shares outstanding (Holderness, 2003). We adjusted for legal devices that may obscure blockholder voting power such as shareholder agreements and family holdings (Barca and Becht, 2001, pp. 16–17).

Government blockholder. Government blockholders do not fall neatly into the relational or arm's-length blockholder categories (van Essen et al., 2013). Thus, we include a dummy variable with the value '1' if the largest blockholder in the firm is controlled by the state, and '0' otherwise.

Foreign ownership. Foreign shareholders may have different incentives and capabilities to monitor and express dissent than domestic shareholders (David et al., 2010). We include a binary variable that takes the value '1' if a foreign investor with at least 5 per cent ownership is present, and '0' otherwise.

ISS negative recommendation. This binary variable takes the value '1' if ISS advised shareholders to vote against a proposal and '0' if ISS advised to vote in favour of the proposal. ISS voting recommendations are key causes of shareholder dissent in the US context (Bethel and Gillan, 2002).

Analysis

The hypotheses developed in this paper predict relationships at the firm- and country-level of analysis. It therefore is important to control for the confounding effects emanating from one level of analysis while testing hypotheses at another level. We use multilevel modelling (MLM) to account for the nested structure of our data (Peterson et al., 2012). While ordinary least squares (OLS) regression assumes independent observations, MLM estimates a random intercept for each level of analysis, leading to more conservatively estimated standard errors. Following Hillman et al. (2011), we also tested whether the variance on the industry level was significant as firms are also embedded in different industries. Since this variance was insignificant, we included industry dummy variables. We also included a year dummy variable to account for the fixed effects of time. We performed the estimation with the 'xtmixed' command in Stata 13.1.

RESULTS

Tables II and III provide an overview of our data. Table II presents cross-country means for our independent and moderating variables. Relational blockholders as largest shareholder are most (least) common in Austria (Switzerland), stakeholder directors are most (least) prevalent in Germany (Netherlands), and CEO equity-based pay is most (least) common in the UK (Spain). The team production governance model is most (least) applicable to Austria (UK). The cross-national standard deviation of team production governance model equals 0.25, indicating substantial variation in corporate governance models across our sample countries. Table III presents pooled descriptive statistics and correlation coefficients. Variance inflation factors (VIFs) are well below the rule-of-thumb value of ten, indicating that multicollinearity is less of a concern.

Table IV contains the MLM results. Model 1 includes all control variables and reveals some exploratory effects that, in addition to our hypothesized effects, are telling in regard to our research aims. First, shareholder dissent differs considerably by the type of proposal. Routine and strategic proposals receive the lowest levels of shareholder dissent while governance and shareholder proposals receive the highest levels of dissent, suggesting that shareholders indeed focus their attention on governance issues when expressing dissent. The focus on governance issues is also manifested in the significant negative effect of board independence and the significant positive effect of foreign directors. In a similar vein, the insignificant result of the market-to-book ratio indicates that

Table II. Country-level overview of key variables

Country	*Legal Origin*[a]	*Stock Index*	*Relational Blockholder*[b]	*Stakeholder Directors*	*CEO Equity-based Pay*	*Team Production Governance Model*[c]
Austria	Germanic	ATX	0.70	4.72	0.12	1.00
Belgium	French	BEL20	0.60	1.93	0.18	0.60
Denmark	Nordic	OMXC20	0.46	3.64	0.16	0.58
Finland	Nordic	OMXH25	0.36	0.68	0.25	0.65
France	French	SBF120	0.48	1.02	0.20	0.68
Germany	Germanic	DAX/MDAX	0.46	9.07	0.20	0.93
Ireland	Anglo-Saxon	ISEQ	0.43	1.62	0.19	0.25
Italy	French	MIB/Midex	0.65	0.88	0.25	0.87
Netherlands	French	AEX/AMX	0.30	0.54	0.24	0.60
Norway	Nordic	OBX	0.42	3.40	0.16	0.65
Portugal	French	PSI-20	0.57	1.02	0.12	0.66
Spain	French	IBEX	0.47	0.60	0.07	0.62
Sweden	Nordic	OMXS30	0.44	5.81	0.12	0.62
Switzerland	Germanic	SMI	0.19	0.67	0.23	0.41
UK	Anglo-Saxon	FTSE250	0.22	1.07	0.31	0.00

[a] Legal origins derived from La Porta et al. (2008).
[b] Proportions of firms with a 10% relational blockholder.
[c] Team production governance model is normalized from 0 to 1 (larger numbers indicate more team production).

shareholder dissent is focused on governance rather than performance issues. Third, the level of free float and a negative voting recommendation from ISS significantly increase shareholder dissent, suggesting that shareholder dissent is a more important governance mechanism for arm's-length investors, and that proxy advisory services wield considerable influence on shareholder voting.

Model 2 tests Hypotheses 1a through 3a. Hypothesis 1a predicts that the presence of a relational blockholder as largest shareholder reduces dissent. The negative coefficient ($p < 0.001$) confirms this prediction and hence supports Hypothesis 1a. In terms of practical significance, the presence of a relational blockholder as largest shareholder reduces dissent by 1.1 per cent. Given the low-base rate nature of shareholder dissent (the average level of dissent in our sample is 4.1 per cent),[2] this represents a 27 per cent relative decrease in the average level of shareholder dissent. Hypothesis 2a predicts that stakeholder directors are positively related to shareholder dissent. We find a positive and significant result for stakeholder directors ($p < 0.01$), which supports Hypothesis 2a. In terms of practical significance, a one standard deviation increase in the number of stakeholder directors results in a 4 per cent increase of shareholder dissent relative to the average level of shareholder dissent. Hypothesis 3a predicts that CEO equity-based pay is negatively related to dissent. We obtain an insignificant coefficient for this variable ($p > 0.10$), indicating that CEO equity-based pay may not be unequivocally understood as a mechanism for securing shareholders' residual returns in Western Europe. Hence, Hypothesis 3a is rejected.

Table III. Descriptive statistics and correlation matrix

#	*Variable name*	*Mean*	*S.D.*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*	*22*	*23*
1	Shareholder dissent[a]	0.95	1.00	1.00																						
2	Routine proposals[b]	0.52	0.50	−0.16	1.00																					
3	Governance proposals[c]	0.05	0.22	0.11	−0.23	1.00																				
4	Strategy proposals[d]	0.20	0.40	0.07	−0.51	−0.11	1.00																			
5	Shareholder proposals	0.00	0.07	0.12	−0.07	−0.02	−0.03	1.00																		
6	Firm size[a]	8.96	2.04	0.04	0.02	−0.03	−0.02	0.08	1.00																	
7	Market-to-book ratio	3.56	9.37	−0.02	0.01	−0.00	−0.01	−0.01	−0.13	1.00																
8	Financial leverage	0.27	0.21	0.02	−0.02	−0.01	0.01	0.01	0.01	0.08	1.00															
9	Board size	14.67	7.01	0.09	0.01	−0.06	0.00	0.06	0.49	−0.07	0.03	1.00														
10	Board independence	0.69	0.16	−0.06	0.00	0.00	−0.05	0.02	0.21	−0.02	0.04	−0.01	1.00													
11	Foreign directors	2.37	2.58	0.04	0.01	−0.01	−0.02	0.02	0.30	−0.03	−0.08	0.13	0.16	1.00												
12	Two-tier board	0.45	0.50	0.09	−0.00	−0.06	−0.01	0.04	0.13	−0.06	0.07	0.56	−0.16	0.02	1.00											
13	CEO duality	0.20	0.40	0.11	−0.09	−0.02	0.02	−0.02	−0.02	−0.04	0.00	0.06	−0.00	0.00	0.08	1.00										
14	CEO tenure	5.46	5.54	0.03	−0.03	0.00	0.02	−0.03	−0.14	−0.03	0.01	−0.05	−0.12	−0.08	−0.04	0.19	1.00									
15	Shareholder turnout	0.55	0.25	−0.05	0.05	0.01	0.02	0.00	−0.07	0.03	−0.02	−0.04	−0.06	−0.08	−0.19	−0.16	−0.04	1.00								
16	Free float	63.28	24.74	0.03	0.05	0.02	−0.01	0.03	0.12	−0.00	−0.07	−0.15	0.01	0.12	−0.15	−0.16	−0.01	−0.18	1.00							
17	Government blockholder	0.06	0.24	−0.02	−0.02	0.02	−0.02	0.04	0.14	−0.03	0.03	0.13	0.08	−0.04	0.09	0.06	−0.06	−0.11	−0.12	1.00						
18	Foreign ownership	0.48	0.50	0.01	0.01	−0.01	0.02	0.02	−0.19	0.03	0.02	−0.20	−0.01	0.07	−0.14	−0.01	−0.04	0.09	−0.03	−0.10	1.00					
19	ISS negative recommend.	0.12	0.32	0.56	−0.08	0.02	0.03	0.04	−0.00	−0.01	0.03	0.11	−0.01	−0.04	0.14	0.15	0.07	−0.04	−0.13	0.05	−0.04	1.00				
20	Team production gov. model	0.50	0.32	0.08	−0.02	−0.07	−0.05	0.05	0.17	−0.08	0.09	0.55	0.21	−0.02	0.75	0.23	−0.02	−0.25	−0.21	0.13	−0.17	0.19	1.00			
21	Relational blockholder	0.37	0.48	−0.01	−0.02	−0.02	−0.00	−0.02	−0.09	0.04	0.04	0.15	0.02	−0.00	0.16	0.10	0.04	0.13	−0.48	−0.20	−0.02	0.11	0.22	1.00		
22	Stakeholder directors	2.42	4.17	−0.04	0.11	−0.03	−0.04	0.09	0.24	−0.05	−0.01	0.53	0.22	0.04	0.29	−0.14	−0.05	0.02	0.04	0.17	−0.09	−0.03	0.40	−0.01	1.00	
23	CEO equity-based pay	0.29	0.19	−0.00	0.03	−0.00	0.00	−0.02	−0.02	−0.03	−0.04	0.09	0.06	0.04	0.02	−0.07	−0.05	0.08	0.05	−0.01	−0.05	−0.03	0.02	−0.01	0.15	1.00

N = 12.513; Correlations with an absolute value of larger than 0.03 are significant at the $p < 0.05$ level.

[a] Variable is log transformed.

[b] *Routine proposals* are the aggregate of annual report confirmation proposals, auditor confirmation proposals, profit distribution proposals, management discharge proposals, and director election proposals.

[c] *Governance proposals* are the aggregate of anti-takeover proposals and compensation approving proposals.

[d] *Strategy proposals* are the aggregate of capital decrease proposals, capital increase proposals, and M&A approval proposals.

Table IV. Multilevel regressions of shareholder dissent

DV: Shareholder dissent	*Model 1*	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Proposal-level variables						
Annual report confirmation[a]	−0.083**	−0.083**	−0.082**	−0.083**	−0.083**	−0.082**
	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)
Auditor confirmation[a]	−0.090**	−0.090**	−0.090**	−0.091**	−0.090**	−0.091**
	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)
Profit distribution[a]	−0.376***	−0.375***	−0.375***	−0.376***	−0.375***	−0.376***
	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)
Management discharge[a]	0.094**	0.094**	0.093**	0.095**	0.094**	0.095**
	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)
Director elections[a]	0.060**	0.061**	0.061**	0.060**	0.062**	0.061**
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Anti-takeover[b]	0.959***	0.963***	0.963***	0.962***	0.962***	0.962***
	(0.107)	(0.107)	(0.107)	(0.107)	(0.107)	(0.107)
Compensation approving[b]	0.540***	0.539***	0.539***	0.538***	0.538***	0.538***
	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)
Capital increase[c]	0.326***	0.327***	0.326***	0.327***	0.328***	0.326***
	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
Capital decrease[c]	−0.094**	−0.093**	−0.093**	−0.093**	−0.093**	−0.092**
	(0.032)	(0.032)	(0.032)	(0.032)	(0.032)	(0.032)
M&A approval[c]	−0.120+	−0.110	−0.111	−0.112	−0.115	−0.119+
	(0.071)	(0.071)	(0.071)	(0.071)	(0.071)	(0.071)
Shareholder proposals	1.483***	1.480***	1.474***	1.496***	1.476***	1.486***
	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)
Firm-level variables						
Firm size	−0.001	−0.002	−0.002	−0.004	−0.002	−0.003
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Market-to-book ratio	−0.001	−0.001	−0.001	−0.000	−0.001	−0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Financial leverage	0.012	0.019	0.022	0.011	0.022	0.017
	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
Board size	0.002	0.001	0.000	0.000	−0.001	−0.002
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Board size^2	0.000	0.000	0.000	0.000	0.000	0.000+
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Board independence	−0.281***	−0.304***	−0.311***	−0.292***	−0.313***	−0.308***
	(0.058)	(0.059)	(0.059)	(0.059)	(0.059)	(0.059)
Foreign directors	0.010**	0.010**	0.009**	0.010**	0.010**	0.008*
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Two-tier board	−0.083**	−0.069*	−0.069*	−0.070*	−0.058+	−0.058+
	(0.030)	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)
CEO duality	−0.050*	−0.047*	−0.048*	−0.048*	−0.042*	−0.043*
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
CEO tenure	−0.002	−0.002	−0.002	−0.002	−0.002	−0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Shareholder turnout	−0.025	−0.018	−0.019	−0.020	−0.018	−0.020
	(0.032)	(0.032)	(0.032)	(0.032)	(0.032)	(0.032)
Free float	0.005***	0.004***	0.004***	0.004***	0.004***	0.004***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

Table IV. *Continued*

DV: Shareholder dissent	*Model 1*	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Government blockholder	−0.091**	−0.151***	−0.147***	−0.158***	−0.144***	−0.148***
	(0.032)	(0.034)	(0.035)	(0.035)	(0.034)	(0.035)
Foreign ownership	0.068***	0.066***	0.064***	0.065***	0.066***	0.065***
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
ISS negative recommendation	1.564***	1.566***	1.567***	1.567***	1.564***	1.566***
	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
Country-level variables						
Team production gov. model		−0.339	−0.296	−0.274	−0.445	−0.337
		(0.291)	(0.292)	(0.296)	(0.285)	(0.291)
Independent variables						
Relational blockholder (H1a, −)		−0.067***	0.023	−0.073***	−0.064***	0.023
		(0.018)	(0.023)	(0.018)	(0.018)	(0.023)
Stakeholder directors (H2a, +)		0.009**	0.009**	0.028***	0.008*	0.029***
		(0.003)	(0.003)	(0.009)	(0.003)	(0.009)
CEO equity-based pay (H3a, −)		0.056	0.057	0.061	0.010	0.013
		(0.038)	(0.038)	(0.038)	(0.041)	(0.041)
Interaction variables						
Relational blockholder X Team production gov. model (H1b, −)			−0.128***			−0.131***
			(0.038)			(0.038)
Stakeholder directors X Team production gov. model (H2b, −)				−0.027*		−0.028**
				(0.011)		(0.011)
CEO equity-based pay X Team production gov. model (H3b, +)					0.179**	0.188**
					(0.058)	(0.058)
Constant	0.580**	0.878***	0.855**	0.849**	0.900***	0.847**
	(0.190)	(0.264)	(0.264)	(0.266)	(0.260)	(0.263)
Wald χ^2	7,642***	7,670***	7,681***	7,690***	7,693***	7,705***
N	12,513	12,513	12,513	12,513	12,513	12,513

Year and industry dummy variables are included, but not reported here. Robust standard errors are reported in parentheses.
$+p < 0.10$.
$*p < 0.05$.
$**p < 0.01$.
$***p < 0.001$ (two-tailed test).
[a] Routine proposals.
[b] Governance proposals.
[c] Strategy proposals.

Models 3 to 6 test the interaction effects. Hypothesis 1b predicts that the negative effect of a relational blockholder as the largest shareholder in the firm becomes more negative in countries with a relatively stronger team production corporate governance model. In Model 3, the coefficient on the interaction term has the theorized negative direction and is significant ($p < 0.001$). Thus, Hypothesis 1b is supported. Hypothesis 2b suggests that shareholders interpret the effectiveness of stakeholder directors more favourable in countries exhibiting a stronger team production governance model, thus lowering the level of shareholder dissent. Indeed, we find a negative and significant ($p < 0.05$) coefficient in Model 4. Hypothesis 2b therefore receives support. Hypothesis 3b predicts that CEO equity-based pay is less desirable in countries characterized by a stronger team production governance model, thus weakening the main effect of CEO equity-based pay. We find a positive and significant ($p < 0.01$) coefficient in Model 5, suggesting that CEO equity-based pay results in more shareholder dissent in countries featuring a stronger team production governance model, hence supporting Hypothesis 3b. Finally, Model 6 includes all interaction effects, which remain stable in terms of direction and show similar significance levels.

Robustness Checks

We conducted four robustness checks. First, our dependent variable shareholder dissent represents an aggregated voting outcome, a common approach when individual voting records are not available (Brickley et al., 1988; Cremers and Romano, 2011; Ng et al., 2009). This aggregated voting outcome is representative of voting by an average shareholder (Ng et al., 2009, p. 2213). However, some shareholders (e.g., blockholders) may prefer private activism whereas arm's-length shareholders (e.g., diversified institutional investors) are more prone to use public activism channels. It thus would be informative to unpack the voting behaviour of these two shareholder types. While the behaviour of arm's-length shareholders is unobservable, the Ecological Inference (EI) method developed by King (1997) allows us to estimate the unobservable behaviour of arm's-length shareholders. The necessary information for this inference comes from (1) aggregated voting outcomes and (2) information about the proportion of blockholders in the ownership structure. We used the R program 'EI: A(n R) Program for Ecological Inference,' which implements King's (1997) EI method to arrive at an estimate of shareholder dissent by arm's-length shareholders alone.[3] While this method has limitations, it has been extensively used in voting studies before (King et al., 2008) and is 'the best and often the only hope of making progress' in the absence of more detailed data (King et al., 2004, p. 1). Our results are similar to our main findings (Table V, Models 7 and 8), suggesting that arm's-length shareholders are mostly driving dissent.

Second, Faccio and Lang (2002, p. 369) argue that '20 per cent of the voting shares suffices to ensure control' in most Western European corporations. The effect of a relational blockholder that is also a *controlling shareholder* should be an even more powerful governance mechanism for arm's-length shareholders. We created a binary variable taking the value '1' if the largest shareholder in the firm is a relational blockholder with at least 20 per cent ownership. As Models 9 and 10 in Table V show, the results are qualitatively similar.

Third, we also performed our analysis with an alternative measure for stakeholder directors. While Hillman et al. (2001) measure stakeholder directors as count variable, other studies use a ratio variable defined as the number of stakeholder directors divided

Table V. Robustness checks: multilevel regressions of shareholder dissent

DV: Shareholder dissent	*Model 7*	*Model 8*	*Model 9*	*Model 10*
Firm size	−0.006	−0.007	−0.003	−0.004
	(0.007)	(0.007)	(0.005)	(0.005)
Market-to-book ratio	−0.000	−0.000	−0.001	−0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Financial leverage	0.100*	0.095*	0.022	0.021
	(0.045)	(0.045)	(0.034)	(0.034)
Board size	0.002	−0.001	0.000	−0.002
	(0.006)	(0.006)	(0.004)	(0.004)
Board size^2	0.000*	0.000**	0.000	0.000*
	(0.000)	(0.000)	(0.000)	(0.000)
Board independence	−0.247**	−0.251**	−0.296***	−0.306***
	(0.077)	(0.078)	(0.059)	(0.060)
Foreign directors	0.014***	0.013**	0.011***	0.009**
	(0.004)	(0.004)	(0.003)	(0.003)
Two-tier board	−0.006	0.002	−0.071*	−0.060+
	(0.039)	(0.039)	(0.031)	(0.031)
CEO duality	−0.022	−0.015	−0.043*	−0.037+
	(0.027)	(0.027)	(0.021)	(0.021)
CEO tenure	0.002	0.002	−0.002	−0.002
	(0.002)	(0.002)	(0.001)	(0.001)
Shareholder turnout	−0.033	−0.035	−0.013	−0.015
	(0.042)	(0.042)	(0.032)	(0.032)
Free float	0.001**	0.001*	0.004***	0.004***
	(0.000)	(0.000)	(0.000)	(0.000)
Government blockholder	−0.182***	−0.193***	−0.148***	−0.149***
	(0.044)	(0.045)	(0.034)	(0.035)
Foreign ownership	0.089***	0.087***	0.065***	0.063***
	(0.019)	(0.019)	(0.015)	(0.015)
ISS negative recommendation	0.239***	0.238***	1.564***	1.564***
	(0.030)	(0.030)	(0.023)	(0.023)
Main variables				
Team production gov. model	−0.381	−0.381	−0.344	−0.356
	(0.287)	(0.282)	(0.290)	(0.291)
Relational blockholder (H1a, −)	−0.050*	−0.020	−0.081***	0.013
	(0.023)	(0.026)	(0.019)	(0.020)
Stakeholder directors (H2a, +)	0.012**	0.036**	0.009**	0.027**
	(0.004)	(0.011)	(0.003)	(0.009)
CEO equity-based pay (H3a, −)	−0.037	−0.077	0.056	0.014
	(0.050)	(0.054)	(0.038)	(0.041)
Relational blockholder X		−0.084*		−0.152***
Team production gov. model (H1b, −)		(0.043)		(0.033)
Stakeholder directors X		−0.033*		−0.025*
Team production gov. model (H2b, −)		(0.014)		(0.011)
CEO equity-based pay X		0.171*		0.180**
Team production gov. model (H3b, +)		(0.077)		(0.059)
Constant	1.242***	1.212***	0.837**	0.798**
	(0.300)	(0.295)	(0.262)	(0.261)

Table V. *Continued*

DV: Shareholder dissent	*Model 7*	*Model 8*	*Model 9*	*Model 10*
Wald χ^2	310***	322***	7,686***	7,719***
N	12,513	12,513	12,513	12,513

Year, industry, and proposal dummy variables are included, but not reported here. Robust standard errors are reported in parentheses.
+ $p < 0.10$.
*$p < 0.05$.
**$p < 0.01$.
***$p < 0.001$ (two-tailed test).
[a]Model 7/8: *Shareholder dissent* estimated with Ecological Inference (EI) method (King, 1997).
[b]Model 9/10: *Relational blockholder* measured at the 20% cutoff suggested by Faccio and Lang (2002).

by board size (Kock et al., 2012). We find qualitatively similar results when we run our analysis with the ratio variable.

Finally, we also created an alternative measure of shareholder dissent by excluding abstain votes, hence only including explicit votes against the board's recommendations. We excluded abstain votes from the numerator and denominator of shareholder dissent. The results remained qualitatively similar.

DISCUSSION

This study has developed an understanding of shareholder dissent as a mechanism of expressive shareholder democracy in which shareholders express an evaluation of the corporate governance mechanisms of the firm by voting against the board's voting recommendations on a broad variety of proposals. We not only find that shareholder dissent expresses an agency theoretical evaluation of these corporate governance mechanisms, but also that the degree to which shareholder dissent is guided by agency theory is moderated by the extent to which a country approximates a CME in which team production oriented governance models may be more suitable to secure the residual returns of shareholders.

Expressive Shareholder Dissent

By finding an average level of shareholder dissent of 4.1 per cent across our sample, our study echoes earlier findings that shareholder dissent is hardly effective in instrumentally swaying voting outcomes. Our findings also show that shareholder dissent is driven mostly by arm's-lengths shareholders who are unable to influence voting outcomes individually, and who also lack private access to the board, which is known to be a more effective route for exercising control (Becht et al., 2009). Finally, this study documents that in voting against the board's voting recommendations, shareholders focus on corporate governance rather than on strategic or performance issues. These findings not only support the theoretical assumptions we made in developing our hypotheses, but also set the stage for expressive voting to occur.

Specifically, this study documents that shareholder dissent is not only about the voting outcomes of the proposals in question, but also expresses an evaluation of the firm's corporate governance set-up. Although these findings do not provide conclusive evidence on whether individual shareholders vote expressively in the strict theoretical sense described earlier, they complement prior studies documenting empirical *indications* for expressive voting that have either investigated micro-level voting motivations experimentally (Feddersen et al., 2009; Fischer, 1996) or that have similarly inferred expressive voting from (aggregate) voting data (Blankart and Margraf, 2011; Copeland and Laband, 2002; Laband et al., 2009). The unique contribution of this study, however, is that it documents *what* shareholders express by voting against board-recommended proposals (i.e., their evaluations of corporate governance mechanisms) rather than that it attempts to explain *why* shareholders vote (i.e., voter turnout). As such, it contributes a novel piece of empirical evidence to fit the expressive voting puzzle (Hamlin and Jennings, 2011).

More important than its potential contribution to the expressive voting literature, however, this study develops a novel understanding of the corporate governance role of shareholder dissent that can complement existing views that have thus far failed to gain empirical support (Yermack, 2010). Rather than understanding shareholder dissent solely as an instrumental decision-making practice in the firm, this study conceives shareholder dissent more in terms of a political process in which shareholder voting serves as a public communication channel between shareholders and the board (Yermack, 2010). This channel not only creates the possibility for arm's-length shareholders (who are typically unable to influence voting outcomes directly) to express their views by voting against the board, but it has also been shown to be indirectly effective in advancing governance and leadership changes in firms (Cai et al., 2009; Fischer et al., 2009). As such, shareholder dissent may be a useful corporate governance practice, in spite of its documented failure to affect voting outcomes directly.

Shareholder Dissent and Comparative Corporate Governance

Our finding that shareholder dissent expresses an agency theoretical evaluation of corporate governance mechanisms, but is less likely to do so in CMEs where team production oriented corporate governance models prevail, also contributes to the comparative corporate governance literature (Aguilera and Jackson, 2010). Specifically, our findings suggest that *what* shareholders express through shareholder dissent differs across the economically well-developed but highly diverse capitalist systems of Western Europe.

In LMEs, where shareholders are prone to maintain arm's-length relationships with firms and where markets play an important role in corporate governance, the expression of shareholder dissent is more likely to be guided by agency theoretical concerns about how governance mechanisms can secure residual claims against competing demands from managers and other stakeholders. In CMEs, where more team production oriented governance models prevail, shareholder dissent is less likely to express an agency theoretical evaluation of corporate governance mechanisms because such mechanisms may not be optimally geared toward maximizing residual returns in such contexts. Specifically, shareholders in CMEs seem more sensitive to the risk that agency theoretical governance mechanisms may jeopardize the ongoing team production in firms, which may create value from firm-specific stakeholder relationships.

As our findings show that both *what* shareholders express by voting against the board's voting recommendations and the conditions in which they express shareholder dissent differ between the economically and institutionally well-developed capitalist systems of Western Europe, they caution against developing a decontextualized theory of shareholder dissent. This caution is particularly interesting in light of our finding that a negative voting recommendation from proxy advisor ISS significantly increases shareholder dissent (see Table IV). Proxy advisors like ISS have been accused of relying too much on a rigid agency theoretical understanding of corporate governance mechanisms that may suit the US context in which these services were originally developed (Armstrong et al., 2013), but that may not be equally suitable for the rest of the world where very different conditions prevail. The corporate governance role of proxy advisors across national contexts is beyond the scope of this study, however, but our finding that what shareholders express through dissent differs across capitalist systems suggests that future research on proxy advisors' influence and quality across national contexts is warranted. Moreover, the lack of unequivocal shareholder support for equity-based CEO pay across our European sample calls into question the universal usefulness of incentive-based compensation contracts to remedy conflicts of interest as proposed by agency theory. Specifically, given the influence of CEOs over equity-based pay (Sauerwald et al., in press), it seems necessary to also consider contextual factors such as the institutional development (van Essen et al., 2012a) and the prevailing capitalist system as shown in the present study to design effective compensation arrangements.

Practical Implications

This study also has practical implications. Advocates of shareholder interests and policy makers around the world have called for more shareholder democracy in public firms, and have empowered and stimulated shareholders to vote on an increasing array of issues, including say-on-pay proposals (Krause et al., 2014) and director elections (Campbell et al., 2012). European policy makers have even made shareholder empowerment a political priority (European Commission, 2005), not only because foreign institutional investors demand more shareholder democracy (Schouten, 2009), but also because of the need to strengthen managerial discipline in European firms (Renneboog and Szilagyi, 2013).

Echoing prior research, our findings caution against overly optimistic expectations about any direct effects of shareholder dissent on firm decision-making and thereby challenge a foundational assumption of the quest for shareholder democracy. Yet at the same time, this study calls attention to the broader, more political process in which shareholder voting constitutes a public communication channel between shareholders and the board, and through which shareholders can express their evaluation of corporate governance through shareholder dissent, irrespective of what is at stake in proposals put to the vote and regardless of what they expected the voting outcome to be.

This expressive mechanism of 'shareholder democracy' may be a practically useful corporate governance practice not only because research has documented that it may lead to leadership and governance changes further down the road (Cai et al., 2009;

Fischer et al., 2009), but also because it is typically the only alternative for arm's-length shareholders to exercise voice in the firm. It may even bring the governance mechanism of shareholder dissent within the ambit of retail investors, as an expressive use of voting rights is more compatible with the very limited monitoring capabilities of these investors. The enfranchisement of retail investors is likely to make the expression of shareholder dissent an even more political process than it already is.

Finally, our findings may also contain lessons for managers of firms targeted by shareholder dissent. Given that the expression of shareholder dissent communicates a public signal that may prompt future leadership and governance changes (Cai et al., 2009; Fischer et al., 2009), managers should not rest too comfortably with securing majority voting outcomes alone. Instead, they should carefully monitor both the levels and substantive messages expressed through shareholder dissent, and try to proactively address the concerns expressed by shareholders. Understanding shareholder dissent as a mechanism of expressive shareholder democracy may hence prompt managers to behave more like politicians, and engage in symbolic shareholder management practices that have been widely documented in the literature (Westphal and Zajac, 2013). As a practical objective, finally, understanding shareholder voting also as a mechanism of expressive shareholder democracy may be a more realistic objective to pursue than any form of shareholder democracy that focuses on instrumentally influencing voting outcomes alone.

Limitations and Future Research

Our study offers several fruitful research opportunities. First, the voting results that we analyse in this study represent aggregated voting data as explained in the methods section. More detailed voting data linking votes to individual shareholders may not only allow methodological improvements to our study – such as controlling for possible sample selection biases by examining the trade-off between exit (selling) and voice (voting), for example – but may also enable finer-grained tests of expressive voting in shareholder meetings. Specifically, future studies may examine the voting of different types of shareholders in order to tease out expressive from instrumental voting at the individual shareholder level.

Second, future studies may also examine our cross-national findings in a larger sample of countries, as our study was limited by the availability of shareholder voting data in the European Union. Additionally, our cross-country operationalization of the variety of capitalist systems may benefit from including other institutional domains of modern capitalist societies. This might be particularly useful for researchers seeking to extend our findings to parts of the world that have not yet been included in the established measures for capitalist systems that we use in this study (Hall and Gingerich, 2009).

CONCLUSION

This study has developed an understanding of shareholder dissent as a mechanism of expressive shareholder democracy that can complement exclusively instrumental approaches to shareholder voting in the literature that to date have failed to muster empirical support. It has shown that in voting against proposals recommended by the board, shareholders express an evaluation of the firms' corporate governance set-up, which may prompt subsequent governance and leadership changes in these firms (Cai et al., 2009; Fischer et al., 2009). This study has also shown that what shareholders express through dissent differs across the advanced capitalist systems of Western Europe, suggesting that shareholders express a contextualized understanding of corporate governance and questioning the 'one-size-fits-all' governance prescriptions of agency theory. Overall, this study conceives the corporate governance role of shareholder dissent as a political process in which shareholders publicly communicate with the board through the use of their voting rights. This expressive understanding of shareholder democracy may provide a more realistic corporate governance ideal than the exclusively instrumental conceptions of shareholder democracy that are currently being advocated by policy makers.

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NOTES

[1] Generally, the board provides voting recommendations to shareholders on all proposals put to the vote at the shareholder meeting. When the board submits a proposal, this voting recommendation is generally positive, whilst proposals submitted by shareholders often get a negative voting recommendation from the board. Because we are interested in shareholder *dissent*, we define shareholder dissent as shareholder votes cast in opposition to the board's voting recommendations on proposals. For the sake of brevity, we will often describe shareholder dissent as voting against board recommendations in the text, while strictly speaking shareholders vote on the proposal and not on the recommendation that accompanies it.

[2] The average level of dissent we find in the current study is comparable to Hillman et al. (2011, p. 680).

[3] The software can be downloaded at http://gking.harvard.edu/eiR

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