Shareholder Voting in Mergers and Acquisitions: Evidence from the UK

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Dedicated to my dearest friend

Sayat Abdrakhmanov

Abstract

This thesis consists of three empirical chapters examining shareholder voting on mergers and acquisitions (M&A). The sample of 362 M&A deals approved by shareholders of UK publicly listed companies from 1997 to 2015 is used to advance our understanding of the shareholder voting process under the UK regulations, the determinants of voting dissent, the consequences of such voting on M&A performance, and the relationship between corporate diversification and shareholder voting.

Chapter 2 examines the determinants of voting dissent and impact of the recent financial crisis on the voting behaviour of shareholders. It is found that dissent on M&A resolutions is negatively related to bidder M&A announcement returns and positively related to shareholders' general dissatisfaction towards the management. The results also indicate an increase in shareholder dissent after the 2007-2008 financial crisis.

Chapter 3 investigates the consequences of shareholder voting dissent on M&As. It is found that voting dissent is an important predictor of the announcement returns of subsequent M&A deals. It explains market reaction to voting outcomes but has no relationship with post-M&A abnormal returns. This supports the notion that voting dissent is used by shareholders and prospective investors to infer the firm's acquisition strategy and management ability.

Chapter 4 addresses the issue of corporate diversification in relation to shareholder voting. It is widely accepted that managers pursue diversification strategies to benefit themselves leading to shareholder value destruction. This chapter examines whether shareholders can take part in diversification strategies of their managers by voicing their opinion through voting, and assess the value implications of proposed acquisitions. A positive relationship is found between measures of firm diversification and voting dissent. It is also found that shareholders vote against diversifying deals.

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Declaration

I declare that this thesis is my own work and has not been submitted for the award of a degree elsewhere. Some parts of this thesis draw on joint work with Professor Steve Thompson and Dr Hang Le. Parts of Chapters 2 and 3 were presented as a paper at the *2nd BAM Conference on Corporate Governance* in Nottingham and *4th Young Finance Scholars Conference* in Sussex both in June 2017, *31st BAM Annual Conference* in Warwick and *3rd ICGS Annual Conference* in Rome both in September 2017, and *30th Australasian Finance and Banking Annual Conference* in Sydney in December 2017. This paper is forthcoming in the *European Journal of Finance*. Some results of Chapter 4 were presented at *Doctoral and Early Career Researchers Conference* in Nottingham and *3rd BAM Conference on Corporate Governance* in Leeds in May and June of 2018, respectively. We intend to develop this chapter into a paper and submit it to a journal.

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1. Introduction

1.1. Research Subject

This thesis focuses on the determinants and consequences of shareholder voting on M&As and the relationship between corporate diversification and shareholder voting. The use of voting to engage in shareholder activism has long been seen by researchers as fundamental to corporate governance. Whilst recent research, largely in the US context, has started to take place on shareholder voting, there is a paucity of evidence on voting in the UK, especially in the context of M&As.

Shareholder activism is defined as a range of actions taken by active shareholders, dissatisfied with company management, with the purpose of improving financial performance and/or achieving organisational changes (Gillan and Starks, 2007). Shareholders can simply sell their shares to discipline management (Admati and Pfleiderer, 2009) or voice their dissatisfaction in the following ways. First, they can directly engage with the management to resolve governance related issues behind the scenes through writing letters, meeting in person, or asking questions at shareholder meetings (Carleton, Nelson, and Weisbach, 1998). Becht et al. (2008) find that activism yields more returns when done through private negotiations. Second, shareholders can propose own resolutions and vote on management proposals at general meetings (Cuñat, Gine, and Guadalupe, 2012). This thesis will focus on shareholder voting on M&As proposed by management. With the number of companies targeted by shareholder activists hitting a record high in 2018 worldwide (Bloomberg, 2018) and the recent developments in the

UK as a result of significant resources spent by the government, corporations and investors, shareholder activism has become an important subject for investigation (Filatotchev and Dotsenko, 2015).

Given the importance of shareholder voting and the lack of research on this corporate governance mechanism, this thesis aims to provide what is believed to be the first comprehensive analysis of shareholder voting on M&As in the UK context. Using a unique sample of 362 M&A deals approved by shareholders of UK publicly listed companies from 1997 to 2015, this thesis advances our understanding of the shareholder voting process under the UK regulations and provides empirical evidence on the determinants of voting dissent, the consequences of such voting on M&A performance, and the relationship between corporate diversification and shareholder voting.

Shareholder empowerment is a key component – along with improvements to information flows and an enhanced non-executive scrutiny of company boards – of the recent corporate governance reforms (see e.g. Yermack, 2010; European Commission, 2014). Since the very need for governance is usually predicated on the potential conflict of interest between a firm's management and its suppliers of capital (Tirole, 2001), this may seem self-explanatory. If managers were using their discretion to make self-serving or unreasonably risky decisions, an increase in the authority of shareholders would appear to be an obvious remedy. Thus, for example, the 'say-on-pay' movement, in insisting that executive remuneration is sanctioned by the shareholders who bear its cost, reflects the 'rents capture' view (Bebchuk and Fried, 2004) that the rising rewards of executives are in part a consequence of their influence over pay-setting.

The contrasting view is that shareholder empowerment is likely to be ineffective insofar as it fails to recognise the distinctive roles of managers and shareholders. An acknowledged strength of the corporate form is to allow a division of labour in which executives, with time and resources at their disposal, gather information necessary to make corporate decisions whilst shareholders, free from the costs of information acquisition, can invest in numerous ventures within a diversified portfolio (Berle and Means, 1932). Fama and Jensen (1983) contrast this decision management role of the executives with the restricted decision control or ratification/monitoring role of shareholders. On this view, extending their responsibilities in decision-making is unlikely to generate effective participation among shareholders. In support of this position there is considerable empirical evidence that, when empowered, most shareholders tend to back management decisions most of the time (e.g. Burch, Morgan, and Wolf, 2004; Cai, Garner, and Walkling, 2009; Iliev et al., 2015).

Shareholder voting behaviour – and indeed corporate governance mechanisms – may alter in response to developments in the business environment such as internal scandals and external threats (Yermack, 2010) or to landmark changes in the institutional framework of governance such as the Cadbury (1991) in the UK, the Sarbanes-Oxley (2002) and Dodd-Frank (2010) in the US and the recent post-2008 reforms in Europe and elsewhere. Gregory-Smith, Thompson, and Wright (2014), for example, report a significantly higher level of dissent in shareholder voting on executive remunerations after the 2007-2008 global crisis, which seems to be driven by public and policy interests in executive pay, corporate scandals and the growing gap between rich and poor (Dillon, 2009; Financial Times, 2017a, 2017b).

Voting on mergers and acquisitions, unlike the say-on-pay, has received relatively little academics' or practitioners' attention, particularly outside the US (Becht, Polo, and Rossi, 2016). This apparent neglect is surprising, since the potential to destroy shareholder value via an ill-conceived large deal, would appear to completely dwarf the costs of over-paying a firm's CEO. Few corporate decisions have the potential to destroy shareholder value on the scale of a failed acquisition (Moeller, Schlingemann, and Stulz, 2005). Furthermore, it has long been recognised that the interests of executives and shareholders may conflict in the acquisition decisions. The former, whether motivated by the desire for size-related rewards (Murphy, 1999), or hubris (Roll, 1986), may be more tolerant of high-risk or ill-advised deals than those who stand to bear their consequences. In a reflection of this, many countries have recently introduced – or are considering implementing – changes in corporate laws to protect shareholders by requiring a mandatory binding shareholder vote on proposed acquisitions.

In the US, shareholder approval is necessary for deals involving the expansion of the acquirer's equity by more than 20% (Burch, Morgan, and Wolf, 2004). Canada introduced a similar 25% threshold after a controversial deal involving HudBay in 2009 (Ontario Securities Commission, 2009). In 2014, the EU proposed changes to the Shareholder Rights Directive (European Commission, 2014) to require shareholder voting on significant related party transactions. Individual European countries, including Germany and France (Schult and Nikoleyczik, 2012; Segain and Favier, 2017) have also introduced directions on acquisition approval since the crisis. The Australian Stock Exchange began consulting on shareholder approval for selected takeovers in 2015 (Australian Stock Exchange, 2015).

There are only few studies that examine shareholder voting on M&A resolutions and all (Burch, Morgan, and Wolf, 2004; Hsieh and Wang, 2008; Kamar, 2011; Henning, 2015; Ouyang, 2015; Iliev et al., 2015) except one (Becht, Polo, and Rossi, 2016) study US firms. Becht, Polo, and Rossi (2016) compare deals requiring and not requiring shareholder approval in the UK and conclude that mandatory voting on M&As is an effective governance mechanism that should be adopted more widely around the world. This thesis adds to the existing literature by studying the determinants and consequences of shareholder voting dissent on proposed acquisitions and the relationship between voting dissent and corporate diversification using the results of shareholder voting at extraordinary general meetings (EGMs) held at UK publicly traded firms from 1997 to 2015.

1.2. UK Institutional Setting

The UK, which has required shareholder approval for at least some acquisitions since 1975, currently provides a distinctive institutional setting to explore the shareholder voting decision. By the UK Listing Rules (LR, 2015), companies with premium listing, i.e. those meeting the UK's highest standards of regulation and corporate governance, are required to call general meetings to approve deals that have the potential to change the shareholders' economic interests in the company's assets or liabilities. The intention is to encourage shareholders, as owners, to ratify and monitor their agents' decisions in order to protect themselves from self-interested managers.

Mandatory binding approval is required when a deal is large relative to the acquirer company (LR, 2015). The comparison of size is made by using percentage ratios resulting from applying four different 'class test' calculations to an acquisition: ratios of gross assets, profits and gross capital of the target and the acquirer, and the ratio of the consideration for the deal and the market capitalisation of the acquirer. Shareholder approval is required for deals where at least one class test percentage ratio is 25% or more. If managers want to 'game' this threshold by reducing the relative size to avoid shareholder voting, they will have to manipulate all four tests. Becht, Polo, and Rossi (2016) find no evidence of vote avoidance in this context. Voting is also mandatory for reverse takeovers and related party acquisitions.

In the US, approval is required when the share issuance to finance a deal exceeds 20% of the existing share capital of the acquirer. Thus, voting is not mandatory for acquisitions per se and can be avoided by changing the financing method (Li, Liu, and Wu, 2018). This makes the UK context advantageous as the voting requirement is not dependent on the form of financing adopted for the deal. This generates a more comprehensive selection of M&A deals subject to shareholder approval than those currently observed elsewhere and forms the basis of this research. Moreover, the UK is extensively investigated in the say-on-pay literature (see Obermann and Velte (2018) for review of literature). It is almost the first country to require mandatory approval of director remuneration reports (DRRs) from 2003 (Gregory-Smith, Thompson, and Wright, 2014). This thesis also adds new evidence to the existing literature on say-on-pay in the UK by examining voting on DRRs as a measure of shareholder dissatisfaction with the management and determinant of subsequent voting dissent on M&As.

There are two main reasons for choosing the period of time between 1997 and 2015 to examine shareholder voting. First, data on voting before this period are not available. The nineteen-year period was also chosen to cover as many voted deals as possible as the number of deals subject to shareholder approval is generally low. This is done in order to have sufficient statistical power in the analysis. Second, it covers years around the dot.com bubble and financial crisis when markets experienced both drastic increase and decrease in M&A activities. Yermack (2010) suggests that these two periods have witnessed waves of shareholder outrage in response to corporate scandals which makes it more relevant to analyse voting dissent.

The data were collected from several sources to compile a comprehensive dataset to study shareholder voting on M&As in the UK. Data on voting for M&A deals that took place from 1997 to 2009 were obtained from Manifest

Ltd[1]. Data on voting for M&A deals that took place from 2009 to 2015 were hand collected. To do this, all M&A deals announced by UK listed firms between 2009 and 2015 were first downloaded from Thomson One. Deals with missing financial, accounting data and deal characteristics were excluded. Finally, every remaining deal was manually checked for the requirement of approval with the Regulatory News Services, company websites, and business press. When the approval is required the results of EGMs were collected. Approval results of acquisitions from 1997 to 2009 were also manually checked with these sources.

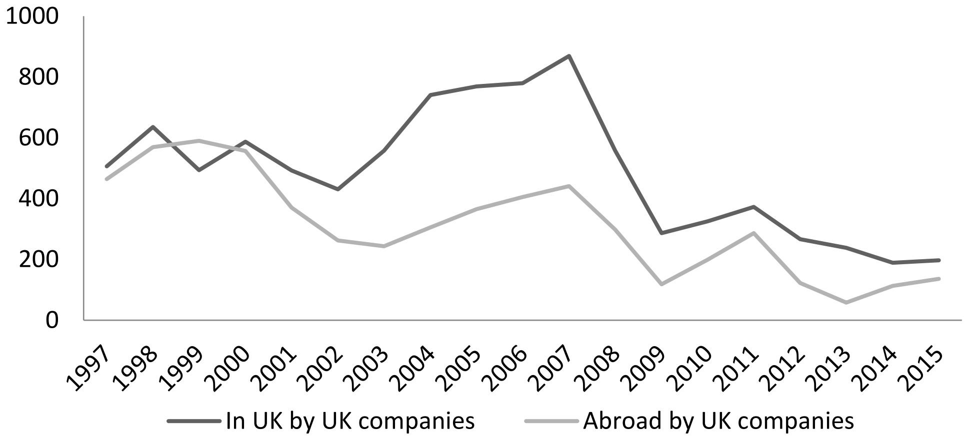
Data on directors' remunerations resolutions were also obtained from Manifest for the period 1997-2009 and manually collected for the period 2009-2015. Data on the M&As were collected from Thomson One. Financial and accounting data of bidders were downloaded from Datastream. Data on CEO compensation from 1999 to 2015 were downloaded from BoardEx[2]. For firms from 1997 to 1999 the data were collected manually from annual reports. Finally, manually collected annual reports were used to construct governance and shareholding ownership variables. The final sample consists of 362 M&A deals approved by shareholders of UK publicly listed firms from 1997 to 2015.

1 Manifest is a UK-based proxy voting agency that provides corporate governance and proxy voting services and data for institutional investors, company advisors and academics. Some of the studies that have used data from Manifest are Conyon and Sadler (2010); Gregory-Smith, Thompson, and Wright (2014); Stathopoulos and Voulgaris (2016). Note that from March 2018 Manifest Ltd is called Minerva Analytics Ltd.

2 The BoardEx database contains biographic information and detailed compensation of board members. Some of the studies that have used data from BoardEx are Fernandes et al. (2013); Ferry and Maber (2013); Feito-Ruiz and Renneboog (2017).

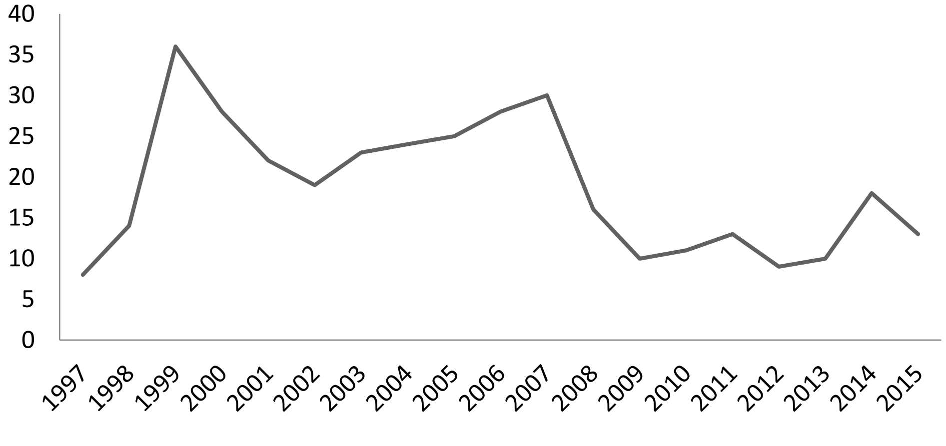
Figure 1.1 illustrates the overall number of acquisitions by UK companies in and outside the UK from 1997 to 2015 as reported by the Office for National Statistics (2016). It can be seen that there were sharp declines in the number of acquisitions by UK firms in crisis periods, i.e. 2000-2002 and 2007-2009.

Figure 1.1 Number of M&A deals by UK acquirers



The trend in the number of acquisitions voted by shareholders in the sample used in this thesis is given in Figure 1.2. The sample appears to be a good representation of the overall M&A activity in the UK. The number of deals voted by shareholders also decreases during the crisis periods. It can be seen that only a fraction of deals require acquirer firm shareholders' approval.

Figure 1.2 Number of M&A deals voted by UK acquirer shareholders



1.3. Outline of Chapters

The rest of the thesis is structured as three empirical and conclusion chapters. Chapter 2 examines the determinants of voting dissent on M&As and the impact of the recent financial crisis on the voting behaviour of shareholders. This chapter contributes to the existing literature in several ways. Unlike prior studies, which use pre-2008 data, the sample used in this study allows a pre- and post-crisis comparison. Findings indicate an increase in shareholder voting dissent on M&A resolutions following the financial crisis. Second, although other studies have considered shareholder voting on M&A deals (Burch, Morgan, and Wolf, 2004; Hsieh and Wang, 2008; Kamar, 2011; Henning, 2015; Ouyang, 2015; Iliev et al., 2015; Becht, Polo, and Rossi, 2016), to the best of my knowledge, this is the first attempt to use shareholder dissatisfaction with the management, as reflected in the level of *excess* director compensation and prior annual general meeting (AGM) DRR votes to predict the dissent on acquisition resolutions. Furthermore, unlike Becht, Polo, and Rossi (2016), who compare the announcement returns for deals requiring and not requiring approval in the UK, this study uses votes cast to directly measure shareholder sentiment.

Chapter 3 investigates the consequences of shareholder voting dissent on M&As. Prior research has analysed the impact of voting on acquirer firm voting day abnormal returns (Cai and Walkling, 2011; Henning, 2015) and post-completion firm performance (Cai, Garner, and Walkling, 2009; Henning, 2015; Ouyang, 2015) in the US context and found mixed evidence or insignificant relationships. It is argued that this is because shareholders are likely to vote against with the sole purpose of showing their dissatisfaction with a particular deal or the acquisition strategy of their managers. Therefore, dissent may be effective in monitoring the managers' acquisitions strategies rather than the performance of the firm. This chapter contributes to the literature by providing the first evidence on the relationship between the dissent on M&As and the market reaction to subsequent acquisitions.

Chapter 4 addresses the issue of corporate diversification in relation to shareholder voting. It is widely accepted that managers pursue diversification strategies to benefit themselves leading to shareholder value destruction (Morck, Shleifer, and Vishny, 1990; Graham, Lemmon, and Wolf, 2002). This observation is reinforced by another strand of literature which concludes that diversified firms trade at a discount relative to focused firms (Berger and Ofek, 1995; Lins and Servaes, 1999). The present study examines how shareholders evaluate the diversification strategies of their managers by voicing their opinion through voting, and assess the value implications of proposed acquisitions. The current research on shareholder voting in the US is limited to including a diversifying M&A deal dummy to explore how shareholders react to diversifying deals.

This chapter contributes to the literature in two important ways. First, it examines whether the extent of diversification and the level of diversification discount have an impact on voting dissent on M&As. Second, it analyses how shareholders in the UK vote on diversifying deals. Conclusions, implications and shortcomings of this thesis and suggestions for future research are presented in Chapter 5.

2. Determinants of Voting Dissent on M&As

2.1. Introduction

It is widely acknowledged that agent-managers are sometimes motivated by self-interest and thus do not always make decisions that maximise principal-shareholder wealth (Jensen and Meckling, 1976). This conflict of interest is intensified by a number of decisions made by managers of large publicly traded corporations, one of them being mergers and acquisitions (Morck, Shleifer, and Vishny, 1990). As it is among the largest and most significant corporate investment decisions, and is most readily observable (Masulis, Wang, and Xie, 2007), an extensive amount of academic research has been dedicated to M&A activity to address this issue.

Potential negative consequences of agency conflicts can be reduced by the use of various corporate governance mechanisms such as the board of directors (Fama and Jensen, 1983), equity ownership (Morck, Shleifer, and Vishny, 1988), and managerial incentives (Jensen and Murphy, 1990). Another important component of corporate governance is shareholder voting. It has been found that by engaging in activism through voting on management proposals, shareholders are able to exert more influence on a firm's decisions (Yermack, 2010). Therefore, shareholder voting on corporate decisions has also received growing attention in finance and corporate governance literature.

A number of recent studies have shown that shareholder voting has become an important tool in corporate governance protection. They have mostly addressed voting on CEO compensation (Stathopoulos and Voulgaris, 2016; Obermann and Velte, 2018), director elections (Cai, Garner, and Walkling, 2009; Ertimur, Ferri, and Oesch, 2018) and shareholder governance proposals such as poison pill repeal and board declassification (Gordon and Pound, 1993; Cuñat, Gine, and Guadalupe, 2012). However, voting on M&As, a 'game-ending' corporate decision of substantial importance (Bebchuk, 2005), has been largely neglected in current research, particularly outside the US. Kamar (2011) argues that if shareholder voting fails to serve its purpose in the context of M&As, it may fail elsewhere. Considering the importance of M&As to shareholders' value, it is surprising that little research has been carried out on shareholder voting regarding this corporate decision.

M&A deals subject to shareholder voting tend to be large and therefore, unlike the aforementioned decisions, concern proportionately large diversions of corporate resources. This makes acquisitions the most significant decision that managers make in allocating resources and their potential damage to the firm and its shareholders is also enormous. Moeller, Schlingemann, and Stulz (2005) find that the worst performing acquisitions resulted in extremely large announcement losses to shareholders. Although there were only few acquirers in their sample that had a large negative market reaction, they still resulted in a significant decrease of shareholder value on average, as the economic significance of these deals was argued to be greater than of thousands of others. They further suggest that this could be because of the failure of the firms' governance in that the board was not able to stop the management from making large mistakes.

It is important to understand whether shareholders' engagement in voting on M&As is beneficial and whether engaged shareholders could deter managers from value-destroying acquisitions by showing their dissent. The degree to which shareholder empowerment is beneficial to shareholders' interests is being determined as voting data become available for analysis (Iliev et al., 2015; Becht, Polo, and Rossi, 2016). This chapter investigates whether the votes cast on acquisition resolutions reflect firm and deal level characteristics in a systematic way consistent with shareholders making decisions on the merits of the case.

This chapter contributes to the growing literature on the determinants of shareholder voting in several ways. Unlike prior studies, which use pre-2008 data, the current sample allows a pre- and post-crisis comparison. It is found that there is an increase in shareholder voting dissent on M&A resolutions following the financial crisis. There are few studies that examine the determinants of shareholder voting on M&A resolutions (see Table 2.1). Burch, Morgan, and Wolf (2004) conclude that voting on M&As by acquirer shareholders has monitoring potential in the US despite the low level of voting dissent. Iliev et al. (2015) find a significant positive relationship between dissent by the US investors in non-US firms and M&A withdrawals. Becht, Polo, and Rossi (2016) study market response to deals that require and do not require shareholder approval in the UK.

Table 2.1 Summary of studies on the determinants of voting on M&As

Study	Sample	Dependent variables	Significant regressors	Sign	Sig.level
Burch, Morgan, and Wolf (2004)	Votes on 209 stock-for-stock US mergers 1990-2000	For/Total votes possible. For/(Turnout–Abstain). OLS regression	Announcement return Pre-voting return ROA Cash/Assets Same industry	+ + + - +	** ** * ** *
Hsieh and Wang (2008)	2205 M&A deals by US firms 1990-2005	1 if the deal requires approval, 0 otherwise. Logit regression	CAR(-250,-11) Cash/Assets Debt/Assets Ln(BV of Assets) % of friendly	- + + - +	*** *** *** *** ***
Kamar (2011)	2249 M&A deals by US firms 1995-2006	1 if the deal requires approval, 0 otherwise. Probit regression	Leverage Size Tender offer	+ + -	** *** **
Henning (2015)	Votes on 367 M&A deals at US firms 2003-2011	Against/(For+Against). (Against+Abstain)/(For+Against+Abstain). OLS regression, Tobit and Probit regressions	Announcement return Ln(Total Assets) Diversifying merger	- - +	** ** **
Ouyang (2015)	Votes on 148 M&A deals by US firms 2000-2006	For by outsiders/Total number of shares owned by outsiders. Tobit regression	Industry adjusted ROA	+	*
Iliev et al. (2015)	Votes by US investors in 7975 non-U.S. firms 2003-2009	For/Turnout. OLS regression	Log market cap Leverage	+ +	*** **

Note: Only variables that are closely related to the analysis and significant at the minimum level of 10% are reported. Only acquirer firm related variables are used in this study. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

This chapter is the first study that utilises the detailed information on the number of votes cast to directly measure shareholder dissent on UK acquisitions. A related paper, Becht, Polo, and Rossi (2016), documents that in the UK the average market reaction to announcements of deals that require voting is positive while the reaction to deals that do not require voting is negative. In fact, they find rare negative market reactions to announcements of deals that require shareholder approval in their sample. They argue that the prospect of a mandatory vote refrains managers from proposing 'bad' deals, i.e. it ensures that deals are completed at lower prices than they would have completed without the vote. If mandatory voting is a credible threat as the vote is triggered automatically by class tests of relative size (Becht, Polo, and Rossi, 2016), a threat of a negative vote presents a greater challenge for the management. Even if the observed level of dissent is low, this threat may have strong effects.

Managers therefore may be tempted to manage the vote if a deal is to be voted. They have two advantages: they can choose what issues to bring to a vote and influence votes once the issue is put to voting (Listokin, 2008). As mentioned earlier, it is implausible to avoid the vote unless an M&A deal is withdrawn. After the announcement, management actively promote the deal to shareholders to ensure a favourable outcome of the vote by winning their support. If there is a strong opposition they can withdraw the proposal (Becht, Polo, and Rossi, 2016).

Alternatively, they can take actions to influence votes, especially close ones. For example, in Hewlett Packard's acquisition of Compaq the former took 'extraordinary measures' to sway the vote of shares in Hewlett Packard held by Deutsche Bank which provoked contentious litigation (CNET, 2002). If management is behind in ensuring votes it can also adjourn a voting meeting to campaign further by contacting shareholders likely to vote management's way, and subsequently win the vote (Herzeca and Gallardo, 2012). Armstrong et al. (2013) argue that although management may be able to exert some control over the outcome, they cannot precisely control the outcome. The fact that some remuneration reports are rejected by the majority of shareholders, for example, suggests that managers cannot exercise precise control over the voting outcome.

In this study almost half of the deals receive negative market reaction, suggesting that not only 'good' deals are proposed, in contrast to Becht, Polo, and Rossi (2016) and there are no close votes as in Listokin (2008) to test for vote manipulation. While the evidence in Becht, Polo, and Rossi (2016) supports the notion that mandatory voting on M&A proposals imposes a binding constraint on the acquirers' management, it is silent on the variations in shareholder dissent and factors that may drive shareholders' voting decisions. By using the number of votes cast this work documents and explains the variations in shareholder dissent across deals and over time.

Shareholder voting against M&A proposals is explained with their dissatisfaction with the proposed acquisitions and with the management in general. Given that the market reaction to M&A announcements could provide valuation of the proposed deals and of acquirers as stand-alone (Grinblatt and Titman, 2002; Hietala, Kaplan, and Robinson, 2003) and reveal motivations behind the deals (Betzer, Doumet, and Goergen, 2015) it is argued that shareholders are more likely to dissent if the market announcement reaction is not in favour of the deal. The findings suggest that shareholder dissent on M&A resolutions decreases with the market announcement reactions during the period of study.

Voting against management initiated proposals is a governance mechanism for shareholders to express their concerns (Hillman et al., 2011) particularly where directors are perceived as inserting their power to extract excessive rents from shareholders (Fahlenbrach, 2008). It is proposed that shareholders are more likely to dissent if they believe that directors set their own rewards beyond purely market-determined levels. Shareholder discontent with the management is proxied with: i) the level of *excess* director compensation and ii) shareholder dissent on the DRRs prior to the M&A proposals. It is found that shareholder dissent on M&A resolutions increases with the level of excess director remuneration and prior dissent on DRRs. To the best of my knowledge, no prior study considers shareholder general satisfaction with the management or with the management compensation in the voting context. The rest of the chapter is structured as follows. The next section provides a brief review of the current literature and derivation of the hypotheses. This is followed by the description of data, methodology and analysis of empirical results and robustness tests. The final section concludes.

2.2. Literature and Hypothesis Development

2.2.1. The case for further shareholder empowerment

The primary justification for extending shareholder voice comes from agency theory, explicitly the problem of separation of control and ownership in modern corporations (Jensen and Meckling, 1976). Since Berle and Means (1932) it has been argued that diffuse share ownership in large public companies, certainly in the UK and US, leaves de facto control in the hands of the CEO or at least a small group of executive directors. In the absence of a binding constraint to maximise shareholder value, self-serving executives can divert corporate resources for their own benefit; whether by using their influence to inflate their rewards beyond market-clearing levels, or taking strategic decisions which enhance their power, prestige or other benefits at the shareholders' expense (Jensen, 1986; Stulz, 1990; Bebchuk and Fried, 2004). Ever since Baumol (1959) acquisitions have been viewed as potential source of gains for size-motivated management at the expense of shareholders.

Perhaps no other corporate decision has the potential to damage shareholder value as much as embarking on an unsuccessful acquisition (see Betzer, Doumet, and Goergen (2015) for a comprehensive review of studies on value implications of M&As). Furthermore, there is an abundant literature that indicates many acquisitions do just that (Ravenscraf and Scherer, 1987; Danbolt, 1995; Moeller, Schlingemann, and Stulz, 2005; Alexandridis, Mavrovitis, and Travlos, 2012). Empirical evidence further suggests that managerial motives may drive some bad acquisitions (Morck, Shleifer, and

Vishny, 1990), not least because managers may be rewarded for completing deals (Harford and Li, 2007; Girma, Thompson, and Wright, 2006) even where these ultimately prove unsuccessful.

Becht, Polo, and Rossi (2016) point out that in the case of M&As there is an additional justification for shareholder empowerment, namely that it acts as a check on decisions based on irrational overconfidence or hubris (Roll, 1986; Malmendier and Tate, 2008). Overconfident CEOs may over-estimate their own ability to generate gains from a merger and, in consequence, commit their firms to unsuitable acquisitions and/or be tempted to over-pay for the target. Subjecting the deals to shareholder approval may discourage risky deals or the payment of an extravagant bid premium.

Nonetheless the corporate form divides responsibilities between managers, who have the resources to collect and process detailed information, and shareholders who, freed from the need for detailed involvement, merely ratify major decisions (Fama and Jensen, 1983). This allows shareholders to have multiple investments and so enjoy the benefits of portfolio diversification. Subjecting corporate decisions to a shareholder ballot is potentially problematic:

First, it introduces information costs that shareholders, especially smaller shareholders, may be unwilling to incur, leading to low levels of active participation (Although increased institutional ownership and the growth of corporate governance consultancies, such as Manifest and Institutional Shareholder Services, may have mitigated this somewhat).

Second, some decisions, particularly those involving major acquisitions may be complex and difficult for shareholders, who may not have access to the independent sources of information about the firm and the deal, to evaluate. Webb, Beck, and McKinnon (2003, p. 68) argue that the process of gathering information may be *"incomplete, insufficient and suffer from asymmetry that can easily arise when investors are external to the company and have little way of knowing or substantiating whether the information supplied by managers is correct and true"*. Thus, in the presence of information asymmetry, even the perception of a conflict of interest may be unlikely as shareholders cannot distinguish self-serving from value-maximising decisions (Gomez-Mejia and Wiseman, 2007).

Third, making corporate decisions contingent on a subsequent shareholder vote inevitably creates uncertainty about outcomes and hence raises the costs of dealing with third parties.

Finally, voting against company resolutions on pay, acquisitions or other proposals is a double-edged sword for unconvinced shareholders. Large negative votes arguably undermine executive authority and potentially destabilise management to the detriment of shareholder value (Gregory-Smith and Main, 2014). Unconvinced shareholders with liquid positions may prefer exit, whilst the majority vote with management. Empirical literature on say-on-pay votes (Gregory-Smith, Thompson, and Wright, 2014) supports this as do the findings of Goergen and Renneboog (2001) that institutional investors tend to follow a passive strategy.

It can be seen therefore that there is an ambiguity in the case for extending the decision-making role of managers: on the one hand, it is clearly a potential check on managerial self-serving behaviour and risky decisions driven by executive over-confidence, on the other it may confer unwelcome costs on shareholders and create a process of poorly informed decision making. If the latter problems are sufficiently serious, shareholders may opt out of active participation, rendering their involvement ineffective. But even if passive acquiescence is the default position for shareholders facing decisions, their option of expressing dissent may remain a useful constraint.

2.2.2. Managerial quality and shareholder dissent

In the presence of separation of control and ownership in modern corporations, voting is a mechanism for shareholders to communicate their approval/disapproval of the firm's management and governance. Voting might help improve governance structures and enable shareholders to realise the value destroyed by poor corporate governance structures (Bebchuk, 2005). In the context of acquisition proposals, it is argued that both discontent with the proposed acquisitions and a general dissatisfaction with the firm's activities and performance affect the decision to vote against such proposals.

In deciding whether to vote for or against a proposed M&A, shareholders need information on the wealth effects of such proposal. Given it is difficult and costly for shareholders to acquire and/or verify such information, undecided shareholders might find information entailed in the market reaction to M&A announcements, which are readily available, useful. A negative market reaction to the M&A announcement indicates that unconvinced shareholders prefer to vote with their feet while a positive reaction reveals that the market is in favour of the deal.

The market reaction could also reveal information about the value of acquirers as stand-alone, i.e. a market re-assessment of the acquirer's value (Grinblatt and Titman, 2002; Hietala, Kaplan, and Robinson, 2003). Moreover, reaction to the announcement serves as an indirect feedback on the quality of the acquirer's management (Rau and Vermaelen, 1998). Betzer, Doumet, and Goergen (2015) document that deals with positive market reaction to announcements, either accompanied by positive or negative long-run accounting performance, appear to have shareholder value increasing motives whereas deals with negative market reaction to announcements are either motivated by acquirers' stock overvaluation, and/or agency/hubris problems where managers invest in value-destroying acquisitions. Thus, the market reaction could provide information about the value of the acquirer and whether the management pursues self-interest at the expense of shareholders. Therefore, it is suggested that shareholders are more likely to dissent if the market, as reflected in the acquirer firm announcement abnormal returns, is not in favour of the deal.

> Hypothesis 1: The level of dissent on M&A proposals decreases with the acquirer' abnormal announcement return.

Shareholders' willingness to support or oppose a proposal may also depend on their general (dis)satisfaction with the management and/or of the effectiveness of the firm's governance structures. Voting against management-initiated proposals expresses governance concerns (McCahery, Sautner, and Starks, 2016; Hillman et al., 2011) particularly over managerial entrenchment (Cai, Garner, and Walkling, 2009; Iliev et al., 2015). Excessive pay is often associated with weak governance structures where directors push their own rewards beyond purely market-determined levels (Fahlenbrach, 2008). Bebchuk and Fried (2003, 2006) argue that the management's ability to influence their pay not only imposes substantial costs on shareholders but also signals their power and the extent of their rent extraction.

Proposals put forward by boards that receive low dissent on executive remuneration proposals are less likely to face dissent than proposals by boards that face high dissent as low dissent on pay reflects shareholder confidence in the management (Gregory-Smith, Thompson, and Wright, 2014). High dissent on executive pay, on the other hand, is an expression of shareholders' outrage over executives' attempt to raise their compensation above the market-clearing levels (Bebchuk and Fried, 2003, 2006). Extant studies confirm a positive dissent-remuneration relationship and suggest that shareholder use say-on-pay to try to punish poor-performing managers (Conyon and Sadler, 2010; Gregory-Smith, Thompson, and Wright, 2014). It is argued that shareholders may consider signalling their discontent through votes on M&A proposals if they are unhappy with the excess rents captured by the management, particularly if they already express their view in a previous remuneration proposal.

> Hypothesis 2a: The level of dissent on M&A proposals increases with the level of excess director compensation in the acquirer.

Hypothesis 2b: The level of dissent on M&A proposals increases with the level of shareholder dissent on director remuneration reports in the acquirer.

2.3. Data and Sample

2.3.1. Data from 1997 to 2009

This section provides a detailed description of the data collection process of the sample of shareholder voting results of 362 EGMs which is used in three empirical chapters of this thesis. The data on voting results for the period from 1997 to 2009 were obtained from Manifest. The dataset consists of 80,534 resolutions offered at general meetings of UK publicly listed firms, and records company name, event date, resolution narrative, details of voting outcomes and other information. For 26,504 resolutions (33%) the details of voting outcomes are not provided. These were excluded leaving 54,030 observations with voting data. As there is no standard form of how resolutions are written, further filtering required much precision. Table 2.2 presents reasons and the number of observations excluded from the sample.

Table 2.2 Data filtering

Reasons for deletion	Before	Exclude	After
Resolutions with no voting results	80534	26504	54030
Resolution voting results by meeting type	AGM	50877	94.2%
	EGM	2854	5.3%
	Court	165	0.3%
	Class	134	0.2%
Resolutions not related to M&As	54030	53248	782
Resolutions on a scheme of arrangement at court meetings	782	165	617
Resolutions on a scheme of arrangement at target EGMs	617	143	474
Resolutions at class meetings	474	134	340
Resolutions on non-M&A transactions	340	54	286
Resolutions on approving an acquisition at target EGMs	286	11	275

Note: This table presents the reasons and the number of resolutions excluded from the original sample obtained from Manifest for the period 1997-2009.

Each firm has a number of resolutions per year. By the Companies Act (2006), publicly listed firms are required to hold an Annual General Meeting (AGM) where shareholders are asked to approve resolutions offered by the board of directors. There are, however, resolutions that require the approval of all shareholders and too urgent to wait until the next AGM. These are therefore voted at Extraordinary General Meetings (EGMs). Although acquisitions are most likely to be voted at EGMs which would allow excluding all resolutions voted at AGMs, every resolution in the dataset was carefully checked not to miss any acquisition related observation. It can be seen from Table 2.2 that almost 95% of the resolutions (50,877) were voted at AGMs, while EGMs were convened to approve 2854 resolutions (5.3%). There are 165 and 134 resolutions voted at court and class meetings, respectively.

First, 53,248 resolutions that are clearly not related to M&As such as resolutions to elect a director, to approve a director remuneration report, to declare final dividend, to re-appoint auditors, to approve a disposal and others were excluded. Second, 165 resolutions voted at court meetings are on approval of schemes of arrangement. A scheme of arrangement is a procedure used to reach an agreement for restructuring between a company and its shareholders and/or creditors. Once approved by a majority of shareholders and/or creditors representing more than 75% of the value in shares, this agreement binds all shareholders or creditors (Companies Act, 2006, Part 26).

This binding nature of schemes of arrangement has become the main advantage and reason for them to be used in M&As. In an ordinary M&A offer, acquirers directly propose to shareholders of target companies and seek to secure acceptances of shares by the target shareholders carrying more than 50% of voting rights. In contrast, a scheme of arrangement is proposed by target companies to its shareholders and has to be approved by a majority in number, representing 75% in the value of shares, of target shareholders attending and voting at the scheme meeting. Since it is convened by the court it is also called a court meeting. Unlike in offers, those shares already owned by acquirers are not part of the share class which is eligible to approve the scheme (Companies Act, 2006, Part 26).

Shareholders also approve resolutions associated with the implementation of schemes of arrangements and M&A deals at EGMs that usually take place immediately after the court meeting. This is confirmed by finding the results of EGMs on the same day with court meetings from the dataset. Data obtained from Thomson One also confirm that the companies where the voting took place were target firms. All 165 resolutions voted at court meetings and further 143 scheme related resolutions voted at EGMs of target companies were therefore excluded. 134 resolutions voted at class meetings were also excluded as they are not related to the approval of M&As. Finally, 340 resolution narratives kept for further analysis are given in the form of *'to approve the transaction'*, *'to approve the acquisition of X'* or *'to approve the merger with X'*. A reference to a transaction by a listed company includes all agreements entered into by a listed company (LR, 2015). Therefore, it is not clear whether it is an M&A deal or, for example, a disposal.

Moreover, the dataset does not specify the reason for why shareholder approval was required. Was it required because the deal was a reverse takeover, a Class 1 transaction or a related party transaction? The requirements of approval for these are found in Chapters 5.6, 10 and 11 of the UK Listing Rules and discussed in the following paragraphs (LR, 2015). Therefore, it was necessary to check announcement information, offer documents, circulars to shareholders and EGM statements for each deal in the sample. This was done by searching news in the Regulatory News Services and corresponding companies' websites. In some cases data was obtained by searching the Internet where most often information was found in business press releases.

These searches led to the following findings. First, it was found that 54 transactions are actually disposals, sales or buybacks of the company's own shares. These observations were deleted. It was also discovered that 11 M&A deals were approved by target company shareholders. These were votes on both approval of a deal and implementation of a scheme of arrangement as discussed above. Unlike in approving a scheme of arrangement, these resolutions were given only in the form of *'to approve the transaction'* or *'to approve the merger'*. These resolutions were also excluded from the sample as the focus is on voting by acquirer shareholders. The final sample consists of 275 resolutions on a merger or an acquisition approved by acquirer shareholders from 1997 to 2009. Deals were distinguished as approval of Class 1 acquisitions, reverse takeovers and related party acquisitions. Before explaining how this was done, brief review of the requirements of shareholder approval for these acquisitions will be given below. Full version of the requirements can be found in the UK Listing Rules.

1. To approve a Class 1 transaction

According to Chapter 10 ‘Significant transactions’ of the Listing Rules, shareholder approval is required when a company involves in a large transaction relative to its own size (LR, 2015). The comparison of size is made by using percentage ratios resulting from applying class test calculations to an acquisition. There are four class tests. The gross asset test – a ratio of the gross assets of the target and the acquirer. The profits test – a ratio of the profits (after deducting all charges except taxation) attributable to the assets of the target and the acquirer. The consideration test – a ratio of the consideration for the deal and the aggregate market value of all ordinary shares (excluding treasury shares) of the acquirer. The gross capital test – a ratio of the gross capital of the target and the acquirer. Using these ratios, transactions are classified as Class 1 and Class 2 transactions. Shareholder approval is required for a Class 1 acquisition, which is a transaction where at least one class test percentage ratio is 25% or more.

2. To approve a reverse takeover

Second, reverse takeovers also need to be approved by shareholders. Chapter 5 of the Listing Rules define a reverse takeover as a transaction where any class test percentage ratio is 100% or more; or which in substance results in a fundamental change[3] in the business or in a change in board or voting control of the issuer (LR, 2015). This does not mean that reverse takeovers are Class

3 The Financial Conduct Authority considers that the following factors are indicators of a fundamental change: (1) the extent to which the transaction will change the strategic direction or nature of its business; or (2) whether its business will be part of a different industry sector following the completion of the transaction; or (3) whether its business will deal with fundamentally different suppliers and end users (LR, 2015).

1 acquisitions. Circulars sent to shareholders explain the reason for why approval is required, i.e. the deal is a reverse takeover or a Class 1 acquisition. There is also a mandatory approval of reverse takeovers under Rule 14 of AIM Rules for Companies (AIM, 2016).

3. To approve a related party transaction

Third, acquirer firms announcing a related party acquisition are also required to obtain shareholder approval. According to Chapter 11 of the Listing Rules, a related party transaction is a transaction (any class test percentage ratio is above 5%) between a company and a related party, where the related party means a substantial shareholder or director of the company, or a person who may exercise significant influence[4] and an associate of these three. The related party cannot vote (LR, 2015). In short, the Listing Rules require all the larger Class 1 acquisitions and a substantial proportion of other deals, including reverse takeovers and related party transactions, to be approved by a binding shareholder vote.

In most cases, the reason for approval by shareholders is given in announcement or offer documents. Sometimes it is mentioned in circulars to shareholders and EGM statements. Companies do not always state the reason in the same way. There are two ways approval requirement is mentioned. These are categorised as follows.

- Reason clearly stated

4 In relation to a listed company, a person or entity which exercises significant influence over that listed company (LR, 2015).

Finding a reason for approval is straightforward when it is clearly stated. For Class 1 transactions, it is most commonly reported as *"Due to the size of this transaction, the merger/acquisition constitutes a Class 1 transaction and is therefore conditional upon receiving approval from shareholders"*. For reverse takeovers, *"the acquisition is classified as a 'reverse takeover' under the Listing Rules and as a result conditional, inter alia, on the approval of shareholders"*. Lastly, the requirement to approve a related party transaction is commonly given as *"…they are regarded as related parties under the Listing Rules of the UKLA. Therefore the acquisition requires the approval of shareholders"*.

- Reason not clearly stated or not given

In some cases, it is difficult to distinguish the difference because only size feature is reported as in *"due to its size, the acquisition is conditional upon receiving approval from shareholders"*. Although it is most likely to be a Class 1 acquisition, it still can be applied to all three categories. Note that a related party transaction also needs to be a transaction that belongs to either Class 2 or Class 1, to require shareholder approval. Sometimes, approval condition is simply given as *"the acquisition is subject to shareholder approval"*.

To make sure a correct category is assigned to acquisitions, terms and conditions, structure, and other relevant information regarding the deals were analysed further. Moreover, when matching with M&A data from Thomson One reverse takeovers were confirmed as the database provides information on reverse takeovers. Lastly, for few deals approval is required because it is either a Class 1 acquisition or a reverse takeover and also a related party acquisition. These deals are assumed to be Class 1 deals or reverse takeovers.

2.3.2. Data from 2009 to 2015

Data on voting for M&A deals that took place from 2009 to 2015 were hand collected. To do this, all M&A deals announced by UK listed firms between 2009 and 2015 were downloaded from Thomson One. Deals with missing financial, accounting data and deal characteristics were deleted. Finally, every deal was checked for the requirement of approval with the Regulatory News Services, company websites, and business press. When the approval was required the results of further 87 EGM meetings were collected. Approval results of 275 acquisitions from 1997 to 2009 were also manually checked with these sources.

It is required that for each M&A deal, data on company name, EGM date, resolution narrative, details of votes cast are available. Data on directors' remunerations resolutions were also obtained from Manifest for the period 1997-2009 and manually collected for the period 2009-2015. The final sample consists of 362 M&A resolutions voted at the EGM of the acquiring company shareholders, including 309 Class 1 acquisitions, 31 related party acquisitions, and 22 reverse takeovers[5]. In the sample the minimum

5 For few deals for which there is no data on the number of votes, there is only one deal blocked by shareholders at EGM. It is a Class 1 acquisition of Innicor Subsurface Technologies by Sondex plc announced on 21 September 2006. However, the deal was blocked because the board of directors of Sondex has determined to amend its recommendation and strongly advised that shareholders vote against the deal. As the company reported, this was because of the poor third quarter financial results of Innicor and certain other factors. In all other cases, managers'

transaction value is £3 million, there are 15 'remaining interest' deals and 177 cross-border deals.

Finally, voting data was matched with corresponding M&A data downloaded from Thomson One database. Thomson One contains data such as the names of the acquirer and target, transaction value, deal attitude, status of the target, acquirer and target SIC codes, etc. For companies with resolution narratives such as *'to approve the acquisition of X'* it is straightforward to find the corresponding M&A deal. On the other hand, finding an M&A counterpart for a company with a voting resolution narrative such as *'to approve the acquisition'* is challenging. This is because some firms may announce few deals in short periods of time. Therefore, announcement documents, circulars sent to shareholders prior voting and EGM statements were also checked manually. Financial and accounting data of bidders were downloaded from Datastream. Data on CEO compensation from 1999 to 2015 were collected from BoardEx. For firms from 1997 to 1999 the compensation data were collected manually from annual reports. Finally, manually collected annual reports were used to construct governance and shareholder ownership variables.

To explore if deals (requiring shareholder approval) that never reached an EGM and later were withdrawn were due to shareholder outrage, withdrawn deals from Thomson One were downloaded and examined using news items

recommendations are in favour of the proposed acquisitions. Although it is possible that companies do not disclose voting results because they are embarrassing (Gregory-Smith, 2009), there is no evidence to support this practice.

and company websites. There are twelve such deals but only one was terminated because of shareholder outrage[6]. Other deals were withdrawn for reasons such as not agreeing with the target on a revised offer (7), losing to a rival firm (3), and not securing valid acceptances of target shares (1).

2.4. Methodology

This study seeks to explain shareholder dissent (*Dissent*), measured as the number of votes cast 'against' as a percentage of total number of votes cast, using the generalised linear model (GLM) with a probit link due to the bounded nature of *Dissent* (Papke and Wooldridge, 1996). Manifest dataset reports voting outcomes in four categories: 'for', 'against', 'discretionary', and 'abstain'. According to the UK Corporate Governance Code, an 'abstain' vote is not a vote under English Law (FRC, 2016). Therefore abstain votes are not included in the total number of votes cast. It is important to note that *Dissent* is a proportion or a fraction and that it is defined on the unit interval, i.e. $0 \leq y_i \leq 1$. Due to the bounded nature of the dependent variable, careful thoughts need to be given to the estimation strategy.

Multiple linear regressions predict the expected value of an unknown quantity of the response variable as a linear combination of a set of observed values of explanatory variables. This implies that a constant change in an explanatory variable will lead to a constant change in the response variable. The

6 G4S plc, which announced a reverse takeover of ISS A/S on 17 October 2011, received negative market reaction of -21.6%/-10.4% as measured by AR/CAR(-1;1). Despite the negative returns, the board of directors decided to carry on with the deal. Later, they reported that after consulting with their shareholders to listen carefully to concerns regarding the acquisition and they concluded that it was inappropriate to proceed.

parameters of the regression are estimated using the method of ordinary least squares (OLS). This method minimises the sum of squared due to error (SSE) which is the difference between the actual values of the response variable and its predicted values by the model. The model needs to be linear in its parameters and this ensures that the error term (or the response variable) is normally distributed [$\mathrm{Dissent}_i \sim N(0, \delta^2)$] (Papke and Wooldridge, 1996).

As the data used in this research are cross-sectional, the error is also assumed to be an independent and identically distributed random variable with a zero mean $E[u_i] = 0$, constant variance $\mathrm{var}[u_i] = \delta^2$ and covariance $\mathrm{cov}[u_i, u_j] = 0$. Under these important assumptions, OLS is believed to provide best-linear, unbiased and efficient estimates of the parameters. These parameters are then interpreted as the extent of the impact of an explanatory variable on the response variable, *ceteris paribus*. The main limitation of the OLS regression in the context of bounded response variables is that its assumption of normality is violated. However, the linearity in parameters not in explanatory variables makes it possible to transform the response variable (Papke and Wooldridge, 1996).

In their seminal paper, Papke and Wooldridge (1996) suggest that bounded nature of the response variable does not allow the effect of an independent variable on the dependent variable to be constant. This is because for the effect to be constant throughout the range of independent variables the dependent variable has to be normally distributed. It may not be the case with *Dissent* as it has values only between 0 and 1. Therefore, OLS estimates would be inefficient as it can produce estimates, which may imply predictions outside its possible range; in this case higher than one and less than zero. They suggest that this issue can be overcome by allowing for the dependent variable that have arbitrary distributions, and for an arbitrary function of the response variable (the link function) to vary linearly with the predicted values.

GLM is a flexible generalisation of an ordinary linear regression that is used when the error/dependent variable's distribution is not normal. The outcome of the dependent variable is assumed to be generated from one of the distributions in the exponential family of distributions. Examples of the distributions are chi-squared, beta, gamma, Bernoulli, Poisson, etc. The predicted values from the model follow the same distribution as the response variable. In this case it is assumed that $\mathrm{Dissent_i} \sim \mathrm{Binomial(n, p)}$, so that $\mathrm{E[Dissent_i]} = \mu_i$, where $0 \leq \mu_i \leq 1$. This distribution belongs to the exponential family of Nelder and Wedderburn (1972). Then instead of modelling the expected value of the response variable, which is not normal, a one-to-one continuous differentiable transformation of the mean of the following form is used:

$$\eta_i = g(\mu_i) \tag{1}$$

This is called a link function (non-linear) as it links the linear prediction (explanatory variables which are linear) with the transformed mean. Linear prediction represents the systematic component of GLM and it is given in the following form:

$$\eta_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \ldots + \beta_n x_{in} \quad (2)$$

Note that only the expected value not the response variable itself is transformed. Various link functions can be chosen, depending on the assumed distribution of the y variable values (McCullagh and Nelder, 1989). Link functions can be in a form of identity, inverse, log, logit or probit. As the predicted value of the response variable is assumed to follow Binomial distribution, a probit link is used resulting in probit regressions of the following form:

$$\phi^{-1}(\mu_i) = \beta_1 x_{i1} + \beta_2 x_{i2} + \ldots + \beta_n x_{in} \quad (3)$$

In this case, the predicted parameter is one or more probabilities, i.e. real numbers in the range [0, 1]. The unknown parameters of the model are estimated using maximum likelihood estimation.

2.5. Independent Variables

To examine the impact of the market reaction to M&A announcements on dissent, *CAR(-1;1)* is measured as the 3-day cumulative abnormal returns around announcement date using the event-study methodology. Acquisition announcement days are collected from Thomson One and the share prices are from Datastream. *CAR(-1;1)* is the summation of abnormal returns over the event window of three days: the day before the announcement, the announcement day, and the day after the announcement. Abnormal returns are calculated based on the market model (Brown and Warner, 1985):

$$AR_{it} = R_{it} - E[R_{it}] \quad (4)$$

R_{it} is the actual return of firm i on day t, and $E[R_{it}]$ is the normal (expected) return of firm i on day t. The normal return is calculated using the market model. Traditional market model for calculating expected return assumes a constant and linear relationship between security and market return:

$$E[R_{it}] = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (5)$$

α_i is the market model constant for firm i, β_i is the systematic risk of firm i, and R_{mt} is the return on FTSE All Share price index on day t. OLS parameter estimates of α_i and β_i are obtained by regressing stock return on market return over 150 trading days in the estimation period from $t = -30$ to $t = -180$ relative to the announcement date $t = 0$. Event window and estimation period are chosen so that there is no overlap. This prevents normal performance model parameters α_i and β_i to be estimated from returns affected by the event. To study the influence of shareholders' overall (dis)satisfaction with the management on shareholder voting on M&A proposals, two proxies are used: i) excess compensation *Excess Total Comp* and *Excess Cash Comp* and ii) shareholder dissent on previous director remuneration reports *DissentDRR*.

Data on compensation from 1999 to 2015 were obtained from BoardEx. Annual reports were manually checked to confirm the accuracy of the data from BoardEx and no difference was found. For firms from 1997 to 1999 the data were collected manually from annual reports. It was not possible to obtain compensation data for six firms in the sample. *Excess Total Comp* is measured as the difference between observed and predicted CEO total compensation. The predicted value was obtained from the regression of CEO total compensation against its determinants together with year and industry controls as in Core, Holthausen, and Larcker (1999), Core, Guay, and Larcker (2008), and Feito-Ruiz and Renneboog (2017). CEO total compensation is the log of the sum of cash compensation and equity-linked compensation both measured in £000s at the fiscal year end prior to the announcement of M&As. *Excess Cash Comp* is measured in a similar fashion to *Excess Total Comp* using only the cash element of CEO compensation.

To study the influence of shareholders' overall (dis)satisfaction with the management on shareholder voting on M&A proposals, *DissentDRR* is measured as the number of votes 'against' as a percentage of total votes cast on DRRs prior to the proposal. For example, the acquisition of Wilson Bowden plc by Barratt Developments plc announced on 5 February 2007 was voted upon at the EGM held on 27 March 2007. The results of the most recent AGM, which was held on 28 November 2006 to approve the remuneration report for the year ended 30 June 2006 were obtained. There is no data on *DissentDRR* for some of the deals prior to 2003 because approval of remuneration reports only became mandatory for firms incorporated under the UK company law from 2003 (Department of Trade and Industry, 2002).

Several firm characteristics are used as control variables as they might affect shareholder dissent. These variables are measured in £000s at the last fiscal year-end prior to the announcement and obtained from Datastream. Shareholder dissent might increase with *Firm Size*, measured as the natural logarithm of book value of sales, because management entrenchment in larger firms may be more severe (Masulis, Wang, and Xie, 2007) and therefore deals by these firms may be deemed value destroying. Indeed, Moeller, Schlingemann, and Stulz (2004) find a negative relationship between firm size and announcement abnormal returns. They further find that larger firms pay higher premiums and make acquisitions that produce negative dollar synergies and explain this as the evidence of managerial hubris. However, higher shareholder dissatisfaction could be the result of more engagement between shareholders and management in larger companies, especially following the onset of the financial crisis (FRC, 2013).

ROA, *Tobin's q*, cash reserves and leverage scaled by total assets (*Cash/TA* and *Leverage*) are also controlled. Better performing firms with higher *ROA* are less likely receive dissent from shareholders. Ex-ante share price-based performance measures such as *Tobin's q* are found to be well correlated with ex post performance, demonstrating predictive validity (Haleblian, Kim, and Rajagopalan, 2006). If market expectations of future performance are incorporated, forward-looking market performance measures can be used to better proxy managerial ability. Better managerial ability is likely to attract less dissent. The ratio of cash to total assets (*Cash/TA*) is included as firms with more cash are likely to waste the cash available on M&As (Jensen, 1986). Thus, it is expected that cash/asset will be positively related to dissent. According to Masulis, Wang, and Xie (2007), higher levels of leverage reduce future cash flow and limit managers' discretion. Finally, deal characteristics including relative deal size, measured as the ratio of the deal size and bidder's total asset (*Rel.Size*), friendly (*Friendly*), cross-border (*Cross-border*), diversifying (*Diversifying*), and cash-deal (*Cash-payment*) are also included as controls.

It is recognised that the estimation process may suffer from an endogeneity problem which, if present, could confound the results and yield biased and inconsistent estimates. Endogeneity may occur in the empirical analysis due to omitted variables that determine shareholder dissent on M&A resolutions and at the same time are correlated with the market reaction to deal announcements and/or shareholder general (dis) satisfaction with the management. One may argue that shareholders of firms possessing a strong corporate governance system that discourages their management from the pursuit of value-destroying acquisitions are less likely to dissent on an M&A resolution that the management puts forward and, moreover, the market will react more favourably to such deal. Strong corporate governance could also discourage the management from paying themselves excessively and therefore lower shareholder dissent on remuneration resolutions.

To address this endogeneity concern, several variables that are standard in the governance literature are controlled. These include the share ownership of the board (*BoardOwn*) and of the largest shareholder who is not a board member (*OwnConc*), the number of directors on the board (*Board Size*), the percentage of non-executive directors (*Non-Exec*), the number of female directors (*Gender*) and CEO age (*CEO Age*). These variables are constructed manually from annual reports. Definition for all variables is in Appendix A.

2.6. Empirical Results

2.6.1. Shareholder voting on M&As and executive pay

Panel A of Table 2.3 presents the yearly distribution of M&A deals voted by acquirer shareholders, the average dissent on such deals, and the average AGM dissent on the DRRs prior to voting on M&A deals. The numbers of M&A and DRR approvals differ because approval of M&As is required for companies listed on the London Stock Exchange regardless the country of incorporation while approval of the DRRs is only required for firms incorporated in the UK.

On average, the level of dissent on M&A deals is low throughout the entire period, especially compared to the level of dissent on DRRs (0.76% compared to 5.25%). In their study on voting dissent in the UK, Conyon and Sadler (2010) also find that say-on-pay proposals attract more dissent than other votes. This appears to be norm as reported in the literature on shareholder voting. A growing volume of say-on-pay evaluations suggests that the overwhelming number of executive pay resolutions are approved, usually with the percentage of dissenting shareholders in single figures (Conyon and Sadler, 2010; Ferri and Maber, 2013; Gregory-Smith, Thompson, and Wright, 2014). Overturned resolutions or those with significant levels of dissent are typically restricted to particularly egregious or controversial decisions[7].

7 Royal Bank of Scotland shareholders have overwhelmingly rejected (90.42% against) the bank's remuneration report because of £703,000 pension payment to outgoing CEO Fred Goodwin alongside the bank's £40 bn. loss. It is the lowest vote in favour of a remuneration report in the UK corporate history, according to Manifest, a voting adviser (Financial Times, 2009). See Gregory-Smith, Thompson, and Wright (2014) for more examples.

Table 2.3 Sample distribution

Panel A: Number of deals and average dissent by year

Year	M&A (n=362)	Dissent on M&As (%)	DRR (n=200)	Dissent on DRRs (%)
1997	7	0.04	-	-
1998	14	0.53	-	-
1999	37	0.75	1	0.77
2000	27	0.52	1	0.13
2001	22	1.12	-	-
2002	20	0.98	5	4.15
2003	25	0.40	14	3.60
2004	25	0.21	25	5.81
2005	25	0.61	23	5.15
2006	28	0.59	25	7.21
2007	30	0.58	26	2.80
2008	16	0.33	14	1.77
2009	11	2.17	6	4.62
2010	10	1.34	6	5.98
2011	14	1.43	12	8.24
2012	10	0.50	8	4.39
2013	10	0.41	8	12.11
2014	19	2.13	17	4.45
2015	12	0.39	9	7.40
Average	19	0.76	12.5	5.25
Median	-	0.05	-	2.22
Std.Dev	-	3.65	-	8.61

Panel B: Average dissent before and after crisis

Resolution	Pre-crisis (1997-2008)	Post-crisis (2009-2015)	t-statistics
M&A (n=276/86)	0.60	1.30	t = -2.452***
DRR (n=134/66)	4.58	6.62	t = -1.665**

Panel C: Average dissent by industry

Industry	Dissent on M&As (%)	Industry	Dissent on M&As (%)
Telecommunications	1.84	Nondurables	0.65
Utilities	1.42	Bus. Equipment	0.34
Chemicals	1.16	Healthcare	0.28
Money	1.09	Manufacturing	0.27
Other	1.04	Shops	0.21
Energy	0.90	Durables	0.06

Note: Panel A presents the yearly distribution of the number of M&A deals voted by acquirer shareholders and the level of dissent in percentage terms. It also reports dissent on the DRRs in the AGM prior to voting on M&A deals. Dissent is the ratio of number of votes 'against' divided by number of 'turnout' votes. Panel B reports the average dissent on M&A deals and DRRs in the pre- and post-crisis periods. Panel C reports the average dissent on M&A deals across Fama-French 12 industry groups. The average dissent ratios in the pre- and post-crisis periods in Panel B are compared using a one-tailed t-test. *, ** and *** denote that the post-crisis mean dissent is larger than the pre-crisis dissent at statistical significance of 10%, 5% and 1%, respectively.

Several factors contribute to the lower level of dissent on M&As compared to executive pay. First, intense public interest in 'fat cat bosses' pay' and the UK government's effort on curbing executive pay and narrowing the growing wage gap between bosses and workers (Financial Times, 2017a, 2017b) have encouraged higher dissent for DRR compared to M&A resolutions. Second, shareholders may be more reluctant to revolt when voting on M&As because the voting is binding, which subsequently could be more detrimental to firm value. Voting on DRRs, on the other hand, is non-binding[8] and could be an outlet for shareholders to display their discontent publicly.

The resolution that received the highest level of dissent, 19.7%, is the related party acquisition of Prodeco Businesses by Xstrata from Glencore announced on 29 January 2009. Eight deals received significant shareholder backlash, i.e. more than 10% dissent. Although no deal is blocked by shareholder dissent, twenty three deals (6% of the deals) received relatively high dissent, i.e. greater than 5%[9].

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8 Approval of director remuneration reports became biding for UK listed firms from 1 October 2013 (Gregory-Smith and Main, 2014).

9 According to Manifest (2009), "*dissent level of greater than 5% should be cause for concern for a company and 10% would constitute what the press would be apt to call a shareholder backlash*". The deal with the highest dissent (19.7%) is the related party acquisition of Prodeco Businesses by Xstrata from Glencore announced on 29 January 2009. Since Glencore was a substantial shareholder of Xstrata only independent shareholders were allowed to vote. Shareholders revolted against a preferential treatment given to Glencore in the form of a call option to buy the business back after one year and voted against the deal (The Guardian, 2009). The second deal with the highest dissent (17.6%) is a Class 1 acquisition of the Trafford Centre Group owned by Peel Holdings by CSC Group announced on 25 November 2010. Simon Property Group and a group of investors thought that an all-share deal with Peel Holdings, which is controlled by tycoon John Whittaker, would give him too much control in the company after completion (The Telegraph, 2011). Nonetheless, the two deals were approved.

The low level of dissent could be due to the dissatisfied shareholders voting with their feet, i.e. selling their shares after the announcements, rather than with their hands (Parrino, Sias, and Starks, 2003). This seems consistent with the dominant view since the times of Berle and Means (1932) that shareholders are not interested in the day-to-day affairs of the company and that direct shareholder action in large firms with access to liquid stock markets is characterised by the exit of shareholders from the company by selling their shares. Christoffersen et al. (2007) find that in the US and UK shareholders, who are against proposals, sell their shares before the meeting instead of voting 'against'. Bethel, Hu, and Wang (2009) document a market for voting rights between the announcement and record date and find no relationship between announcement date trading and shareholder voting. As a result, shareholders with positive views about the deal will be the ones casting their vote at EGMs.

Panel A also shows that there is a sharp increase in both dissent on M&As and DRRs following the dot.com bubble and the financial crisis. Panel B compares the mean dissent on M&A deals and DRRs before and after the financial crisis. The results of the difference in the means test suggest that shareholder dissatisfaction towards management, as proxied by the average M&A and DRR dissent, in the post-crisis period is significantly larger than in the pre-crisis period. This is consistent with the proposition that the degree of discretion that shareholders leave to managers depends on the formers' perception of the business environment (Gregory-Smith, Thompson, and Wright, 2014). Financial markets witnessed an angry reaction to corporate scandals during the crisis (Yermack, 2010). This has been followed by regulatory reforms, including those on M&A activities, intended to protect shareholders' interests. For example, the UK Stewardship Code was introduced in 2010 with the purpose of encouraging good governance practice by institutional investors (FRC, 2010a). It was later reported that the level of engagement between investors and boards of UK listed companies has increased (FRC, 2013). Engaging with the board to establish a dialogue may be seen as a precursor to more 'aggressive activist' strategies (Roberts, 2014). Panel C of Table 2.3 presents the level of voting dissent on M&As across industries. Firms in telecommunications and consumer durable industries received the highest and lowest level of dissent on M&As, respectively.

Table 2.4 reports the dissent for completed and uncompleted deals (Panel A) and for deals with different time lapse between the deal announcements and the dates of the EGMs where the voting took place (Panel B). It can be seen in Panel A that a very small fraction of deals were not completed (13 out of 362 announcements) and they have higher level of dissent on both M&As and DRRs (although statistically insignificant). The reasons for withdrawal are: losing to a rival firm (4); rejection by the target firm (3); issues with the competition committee (3), not reaching acceptance level of the offer (2); and the firm being acquired itself (1).

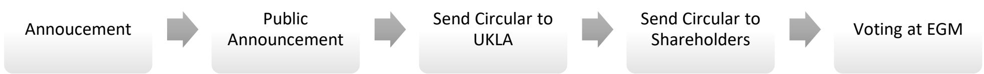
Table 2.4 Dissent by completion status and time to voting

Panel A: Average dissent by acquisition completion status (362 deals)			
Resolution	Completed	Not completed	
M&A	0.748	1.135	
(Number of deals)	(347)	(15)	
DRR	5.125	8.040	
(Number of deals)	(191)	(9)	
Panel B: Average dissent by the interval between announcement and EGM (362 deals)			
Resolution	< 1 month	1 to 3 months	> 3 months
M&A	0.521	0.963**	1.108**
(Number of deals)	(175)	(150)	(37)
DRR	5.211	5.109	6.012
(Number of deals)	(85)	(92)	(23)

Note: Panels A and B present the average dissent by acquisition completion status and the interval between M&A announcement and EGM date, respectively. Differences in means in both panels are tested by a one-tailed t-test. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Figure 2.1 illustrates an indicative timeline of the process between the initial announcement of the deal and shareholder voting meeting. This timeline is created based on the requirements in the City Code on Takeovers and Mergers (‘City Code’), Companies Act 2006, Listing Rules and on the findings in the process of analysing the actual data.

Figure 2.1 Detailed deal timeline prior voting



Under the Rule 1a of the City Code (2016), the process of the announcement of an offer begins with the acquirer management making an offer to the target firm board and its advisers. Rule 24.1a further states that the acquirer must send an offer document to shareholders in the target company within the next 28 days. Hence, there is a maximum of four weeks before the actual announcement of a deal to the public.

Although secrecy of information before the public announcement is a fundamental principle of the City Code Rule 2.1, this interval may create some space for rumour and speculation. Because of this, some inconsistency is found in announcement dates in the sample. Thomson One reports response to press speculation and the announcement of intention as the public announcement date. For this reason, there are intervals between announcement and EGMs that are too long. Announcement date for 40 firms (11%) in the sample are therefore manually changed.

It is expected that acquisitions that do not require approval are likely to proceed shortly after the announcement, while acquisitions requiring approval will have to go through different arrangements. At the public announcement, the acquirer discloses terms of the offer, all conditions to which the offer is subject, the acquirer's rationale for proposing the offer, and other matters (Rule 2.7 of the City Code).

One of the conditions that is of interest is the approval of acquisitions by acquirer firm shareholders. After the public announcement, the acquirer submits a draft of a circular together with required documents to the UK Listing Authority (UKLA), a part of Financial Conduct Authority. This needs to be done at least 10 clear business days before the publication of the circular (Section 13.2.5 of the Listing Rules). The circular can either be approved or amended in which case it needs to be resubmitted with required amendments. Once the circular is approved, a company must send a circular to its shareholders with the notice of a meeting and a proxy form as soon as practicable (Section 13.2.10 of the Listing Rules). In the circular, the acquirer aims to convince shareholders about the merits of executing the acquisition. Finally, at the general meeting, shareholders cast their vote.

In Panel B of Table 2.4 it can be seen that for nearly half of the deals (175 out of 362 announcements) the EGMs took place within one month from the deal announcement dates. These deals have higher level of shareholder approval than deals that took longer from the announcement date to the EGM, indicating that shareholders become more dissatisfied if it takes longer for a firm to organise the EGM to vote on the M&A resolution. The average level of dissent in deals that take longer than three months for the voting to take place is about twice as much compared to deals where the voting take place in less than one month from the announcement dates (0.52% compared to 1.10%).

2.6.2. Market reaction to M&A announcements and dissent

Table 2.5 reports the M&A abnormal announcement returns for bidders, measured as the difference between the realised return and the expected return using the standard event study methodology. The sample is reduced to 350 because of insufficient share price data around the announcements for 12 deals. This is mostly the case for reverse takeovers. According to the section 5.6.8 of the Listing Rules, when there is insufficient information about the proposed reverse takeover, i.e. the acquirer is not able to assess its financial position and inform the market, Financial Conduct Authority has the power to suspend or cancel the listing.

Table 2.5 Cumulative abnormal returns for acquirers

Panel A. Average abnormal returns

Return	Mean	Std.Dev	Min	Median	Max	t-statistics
AR (0)	0.015	0.069	-0.199	0.007	0.334	4.215***
CAR (-1; 1)	0.022	0.085	-0.294	0.019	0.340	4.901***
CAR (-2; 2)	0.024	0.093	-0.454	0.017	0.469	4.860***
CAR (-3; 3)	0.026	0.103	-0.411	0.016	0.548	4.722***

Panel B. Returns before and after crisis

Return	Pre-crisis(n=265)	Post-crisis(n=85)	t-statistics
AR (0)	0.012	0.027	-1.743**
CAR (-1; 1)	0.020	0.029	-0.816
CAR (-2; 2)	0.021	0.036	-1.306*
CAR (-3; 3)	0.022	0.038	-1.201

Note: Panel A reports abnormal returns for acquirers associated with the announcement of M&A deals. Panel B compares the difference in the means of abnormal returns before and after crisis. Significance is tested using a two-tailed t-test for the hypothesis that abnormal returns are different from zero in Panel A and a one-tailed t-test that the post crisis average abnormal returns are higher than the pre-crisis returns in Panel B. *, ** and *** denote statistical significance of 10%, 5% and 1%, respectively.

Panel A shows that, on average, the market reactions to the M&A announcements are positive and statistically significant. The mean abnormal return (AR) on the announcement day is 0.015%. Furthermore, the cumulative abnormal returns (CARs) are positive in all three event windows, suggesting that the sample of acquisitions that require shareholder approval M&A deals, on average, create value for shareholders. Panel B compares the abnormal announcement returns in the pre- and post-crisis periods. The market reactions are statistically and significantly higher in the post-crisis period than before and during crisis.

Results of the probit regressions that explain cross-sectional variations in shareholder dissent are presented in Table 2.6. Due to missing values in some control variables the number of observations is reduced to 338. Models (1) to (4) are estimated with the full sample while models (5) to (8) are estimated with the sample of Class 1 acquisitions only. Coefficients in the regressions are first obtained using GLM and then the marginal effect (ME) of each independent variable is calculated using average marginal effects (AME) to make it easier to understand the results (Williams, 2012).

Table 2.6 Determinants of dissent on M&A resolutions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CAR (-1; 1)	-0.042***	-0.034**	-0.041**	-0.033**	-0.035**	-0.032**	-0.036**	-0.032**
	(0.015)	*(0.015)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*
Firm Size	0.002**	0.002**	0.002**	0.002**	0.001*	0.002**	0.001	0.001*
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Diversifying	0.005*	0.005*	0.005**	0.005**	0.005**	0.005*	0.005**	0.005**
	(0.002)	*(0.003)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.002)*
Cash-payment	-0.004*	-0.005*	-0.004*	-0.005*	-0.004*	-0.005**	-0.004*	-0.006**
	(0.002)	*(0.002)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*
BoardOwn	-0.000*	-0.000*	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
OwnConc	0.000	0.000	0.000	-0.000	-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 Size	0.012**	0.012**	0.013**	0.013**	0.014***	0.012**	0.014***	0.011**
	(0.005)	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*
Non-Exec	0.007	0.007	0.008	0.007	0.005	0.007	0.005	0.006
	(0.006)	*(0.007)*	*(0.007)*	*(0.006)*	*(0.006)*	*(0.008)*	*(0.006)*	*(0.006)*
Gender	-0.005***	-0.005***	-0.005***	-0.005***	-0.006***	-0.004***	-0.005***	-0.004**
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
CEO Age	0.014	0.013	0.014	0.013	0.022**	0.019**	0.022**	0.020**
	(0.009)	*(0.010)*	*(0.009)*	*(0.010)*	*(0.010)*	*(0.010)*	*(0.009)*	*(0.009)*
ROA			0.005	0.005			0.005	0.003
			(0.005)	*(0.006)*			*(0.005)*	*(0.005)*
Tobin's q			-0.001	-0.002			-0.001	-0.001
			(0.001)	*(0.001)*			*(0.001)*	*(0.000)*
Cash/TA			0.006	0.008			0.005	0.006
			(0.009)	*(0.010)*			*(0.008)*	*(0.009)*
Leverage			0.003	0.002			0.000	0.001
			(0.006)	*(0.007)*			*(0.006)*	*(0.007)*
Rel.Size			0.000	0.000			0.000	0.000
			(0.001)	*(0.000)*			*(0.001)*	*(0.000)*
Friendly			0.001	0.002			0.001	-0.000
			(0.003)	*(0.003)*			*(0.003)*	*(0.003)*
Cross-border			0.001	0.001			0.002	0.003
			(0.002)	*(0.003)*			*(0.003)*	*(0.003)*
Post-crisis		0.010***		0.009***		0.009***		0.008**
		(0.003)		*(0.003)*		*(0.003)*		*(0.004)*
Year dummies	Yes	No	Yes	No	Yes	No	Yes	No
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	338	338	334	334	298	298	295	295
R-squared	0.328	0.243	0.349	0.282	0.345	0.253	0.376	0.313

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. The sample used in Models (1) to (4) includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. The sample used in Models (5) to (8) includes 302 Class 1 acquisitions. Marginal effects are reported. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

In line with other studies, this work uses a three day *CAR(-1;1)*. In all models the marginal effect of *CAR(-1;1)* is negative and statistically significant. Thus, shareholders seem to take into account the market evaluation of the deal. This result indicates that the higher the market evaluation of a deal the lower the shareholder dissent on the deal resolution, which provides strong support for Hypothesis 1. Furthermore, the magnitude of the coefficients on

CAR(-1;1) shows that the market reaction to deal announcements is the most important factor explaining shareholder dissent. This finding is consistent with the results of Cai, Garner, and Walkling (2009) and Gordon and Pound (1993) as well as Burch, Morgan, and Wolf (2004) and Henning (2015) for the case of M&As. Results of regressions (not reported for brevity) with *CAR(-2;2)* and *CAR(-3;3)* are similar suggesting robustness of the relationship.

Deals by large firms and diversifying deals are associated with higher shareholder dissent. This is consistent with the findings reported previously that these deals generally are value destroying (Travlos, 1987; Morck, Shleifer, and Vishny, 1990; Moeller, Schlingemann, and Stulz, 2004) and that shareholders are more likely to oppose the deals when managers enlarge firm scope at the expenses of shareholders (Berger and Ofek, 1995; Rajan, Servaes, and Zingales, 2000; Ataullah et al., 2014)[10]. Deals with all cash payments receive less dissent compared to deals that are financed with equity. Dissent could also be higher for deals that are financed by equity than by cash as the former result in the dilution of ownership (Mitchell, Pulvino, and Stafford, 2004). Bethel and Gillan (2002), for example, find that shareholders do not support management proposals that lead to higher dilution of ownership. A dummy variable *Post-crisis* is introduced in models (2), (4), (6) and (8) to control for the effect of the 2007-2008 financial crisis. The marginal

10 There is however evidence in the extant literature which contradicts the argument that diversification is always value destroying (see e.g. Ataullah et al. 2014). The relationship between diversification and shareholder dissent will be analysed in Chapter 4 of this thesis.

effect of *Post-crisis* is positive and statistically significant in all specifications. This suggests that shareholder dissent is higher in the post-crisis period, which is consistent with the results reported in Table 2.3. Lastly, shareholder dissent is positively related to *Board Size* and *CEO Age* and negatively related to the number of female directors (*Gender*) and the share ownership of the directors (*BoardOwn*).

2.6.3. Shareholder dissatisfaction and dissent on M&A proposals

This study next examines if shareholder dissatisfaction towards the management, as proxied by excess CEO compensation (*Excess Total Comp* and *Excess Cash Comp*) and dissent on DRRs (*DissentDRR*), influences voting on M&A resolutions. First, the analysis of normal total compensation is presented. Total compensation (*Total Comp*) is equal to the sum of cash compensation (*Cash Comp*) and equity-linked compensation *(Equity Comp)* both measured in £000s at the fiscal year end prior to the announcement of M&A. *Cash Comp* includes base salary, bonus, pension and other payments (e.g. benefits). *Equity Comp* includes the value of stock options and long-term incentives plans granted in a given year. The average *Total Comp* is £1271k and *Cash Comp* is £775k. These are similar to the findings from the sample of UK acquirers used in Feito-Ruiz and Renneboog (2017).

Table 2.7 presents average CEO compensation by the level of dissent on M&As and dissent on DRRs. A deal is considered highly dissented if it receives higher than the mean and median dissent level. It can be seen that highly dissented CEOs were paid more in the year prior to voting.

Table 2.7 CEO compensation by dissent on M&As and dissent on DRRs

Panel A. Dissent on M&As				
	Median		Mean	
Dissent	High (n=178)	Low (n=178)	High (n=52)	Low (n=304)
Total Comp	1507	1035***	1895	1164***
Cash Comp	896	655***	1109	718***
Panel B. Dissent on DRRs				
	Median		Mean	
Dissent	High (n=100)	Low (n=100)	High (n=58)	Low (n=142)
Total Comp	2126	1109***	2263	1354***
Cash Comp	1253	686***	1307	832***

Note: Panels A and B present average CEO total and cash compensation by the level of dissent on M&As and dissent on DRRs, respectively. Differences in means in both panels are tested by a two-tailed t-test. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 2.8 Determinants of dissent on M&A resolutions: The impact of compensation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total Comp	0.003**	0.002**	0.003**	0.002**				
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*				
Cash Comp					0.002*	0.002*	0.003*	0.002
					(0.001)	*(0.001)*	*(0.001)*	*(0.001)*
CAR (-1; 1)	-0.040***	-0.030*	-0.040**	-0.031*	-0.040**	-0.031*	-0.039**	-0.031*
	(0.015)	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.016)*
Firm Size	0.001	0.001	0.001	0.001	0.001*	0.001*	0.001	0.001*
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Diversifying	0.005**	0.005*	0.005**	0.005**	0.005*	0.005*	0.004**	0.005**
	(0.002)	*(0.003)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.002)*
Cash-payment	-0.004*	-0.005*	-0.004*	-0.005*	-0.004*	-0.005*	-0.004*	-0.005*
	(0.002)	*(0.003)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*
BoardOwn	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
OwnConc	0.000	0.000	0.000	0.000	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 Size	0.011**	0.012**	0.012**	0.013**	0.011**	0.012**	0.012**	0.013**
	(0.005)	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*
Non-Exec	0.010	0.008	0.011	0.009	0.009	0.007	0.011	0.009
	(0.007)	*(0.007)*	*(0.007)*	*(0.006)*	*(0.007)*	*(0.007)*	*(0.007)*	*(0.006)*
Gender	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.001)*	*(0.002)*	*(0.002)*	*(0.002)*
CEO Age	0.018*	0.016*	0.017*	0.015	0.017*	0.015	0.016*	0.014
	(0.010)	*(0.010)*	*(0.009)*	*(0.010)*	*(0.010)*	*(0.010)*	*(0.009)*	*(0.010)*
ROA			0.004	0.004			0.004	0.004
			(0.005)	*(0.006)*			*(0.005)*	*(0.006)*
Tobin's q			-0.001	-0.002*			-0.001	-0.002*
			(0.001)	*(0.001)*			*(0.001)*	*(0.001)*
Cash/TA			0.003	0.004			0.004	0.006
			(0.008)	*(0.009)*			*(0.009)*	*(0.009)*
Leverage			0.004	0.003			0.004	0.004
			(0.007)	*(0.007)*			*(0.007)*	*(0.007)*
Rel.Size			0.000	0.000			0.000	0.000
			(0.001)	*(0.000)*			*(0.001)*	*(0.000)*
Friendly			0.000	0.001			0.001	0.002
			(0.003)	*(0.003)*			*(0.003)*	*(0.003)*
Cross-border			0.000	0.001			0.000	0.001
			(0.002)	*(0.003)*			*(0.002)*	*(0.003)*
Post-crisis		0.009***		0.008**		0.009***		0.008***
		(0.003)		*(0.003)*		*(0.003)*		*(0.003)*
Year dummies	Yes	No	Yes	No	Yes	No	Yes	No
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	338	338	334	334	338	338	334	334
R-squared	0.358	0.268	0.381	0.304	0.358	0.269	0.384	0.296

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. The sample used in all models includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

In Table 2.8 the log of *Total Comp* and *Cash Comp* are added as additional explanatory variables in the main regressions. The results suggest that higher CEO compensation leads to higher dissent on M&As. To obtain excess compensation *Total Comp* and *Cash Comp* were regressed against their economic (*Firm Size*, *Book to Market*, *Free Cash Flow*, *ROA*), governance (*Board Size*, *Exec*, *CEO Tenure*, *CEO Age*) and ownership (*BoardOwn*, *OwnConc*) determinants together with year and industry controls. Excess compensation is the difference between actually observed compensation and expected compensation predicted by the regression, i.e. it is the residual term of the regression. Table 2.9 reports excess CEO compensation of acquirers. Excess compensation in firms with higher than median (mean) dissent on M&A and DRR proposals is higher than that of acquirers with lower dissent but the difference is statistically significant for DRRs only.

Table 2.9 Excess CEO compensation by dissent on M&A and dissent on DRR

Panel A. Dissent on M&As				
	Median		Mean	
Dissent	High (n=178)	Low (n=178)	High (n=52)	Low (n=304)
Excess Total Comp	20	-20	103	-17
Excess Cash Comp	15	-15	70	-12
Panel B. Dissent on DRRs				
	Median		Mean	
Dissent	High (n=100)	Low (n=100)	High (n=58)	Low (n=142)
Excess Total Comp	209	-209***	327	-132***
Excess Cash Comp	107	-107**	134	-54*

Note: Panel A and B present average excess CEO total and cash compensation by the level of dissent on M&As and dissent on DRRs, respectively. Differences in means in both panels are tested by a two-tailed t-test. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Tables 2.10 and 2.11 present the results of the probit regressions where log of excess compensation (*Excess Total Comp* and *Excess Cash Comp*) and prior AGM *DissentDRR* are included, respectively. In Table 2.11 the sample size is reduced when *DissentDRR* is included because the approval of DRRs became mandatory only from 2003 and only for firms incorporated in the UK. The marginal effect of both excess compensation and *DissentDRR* is positive and statistically significant almost in all models. This suggests that unhappy shareholders are willing to seize another opportunity to voice their governance concern about the management, particularly about entrenchment in the form of excess compensation at EGMs. Overall, the results provide supporting evidence for hypotheses 2a and 2b.

Table 2.10 Determinants of dissent on M&A resolutions: The impact of excess compensation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Excess Total Comp	0.003**	0.003**	0.003**	0.003*				
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*				
Excess Cash Comp					0.002*	0.003*	0.003*	0.003
					(0.001)	*(0.002)*	*(0.001)*	*(0.002)*
CAR (-1; 1)	-0.040***	-0.031**	-0.039**	-0.032**	-0.040**	-0.031**	-0.040**	-0.032**
	(0.015)	*(0.015)*	*(0.016)*	*(0.016)*	*(0.016)*	*(0.015)*	*(0.016)*	*(0.016)*
Firm Size	0.002***	0.002**	0.002**	0.002**	0.002***	0.002***	0.002**	0.002**
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Diversifying	0.005**	0.005*	0.005**	0.005**	0.005*	0.005*	0.004**	0.004**
	(0.002)	*(0.003)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.002)*
Cash-payment	-0.004*	-0.005*	-0.004*	-0.005*	-0.004*	-0.005*	-0.004*	-0.005*
	(0.002)	*(0.003)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*
BoardOwn	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
OwnConc	0.000	0.000	0.000	-0.000	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 Size	0.013***	0.013***	0.014***	0.014***	0.013***	0.013**	0.014***	0.014***
	(0.005)	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*
Non-Exec	0.009	0.008	0.010	0.009	0.009	0.008	0.010	0.009
	(0.007)	*(0.007)*	*(0.007)*	*(0.007)*	*(0.006)*	*(0.007)*	*(0.007)*	*(0.007)*
Gender	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
CEO Age	0.014	0.012	0.013	0.011	0.014	0.013	0.013	0.012
	(0.009)	*(0.010)*	*(0.009)*	*(0.009)*	*(0.009)*	*(0.010)*	*(0.009)*	*(0.010)*
ROA			0.004	0.005			0.005	0.005
			(0.005)	*(0.006)*			*(0.005)*	*(0.006)*
Tobin's q			-0.001	-0.002*			-0.001	-0.002*
			(0.001)	*(0.001)*			*(0.001)*	*(0.001)*
Cash/TA			0.003	0.004			0.004	0.006
			(0.009)	*(0.009)*			*(0.009)*	*(0.009)*
Leverage			0.004	0.003			0.004	0.004
			(0.007)	*(0.007)*			*(0.007)*	*(0.007)*
Rel.Size			0.000	0.000			0.000	0.000
			(0.001)	*(0.000)*			*(0.001)*	*(0.000)*
Friendly			0.000	0.001			0.001	0.002
			(0.003)	*(0.003)*			*(0.003)*	*(0.003)*
Cross-border			0.000	0.001			0.000	0.001
			(0.002)	*(0.003)*			*(0.002)*	*(0.003)*
Post-crisis		0.010***		0.009***		0.010***		0.009***
		(0.003)		(0.003)		(0.003)		(0.003)
Year dummies	Yes	No	Yes	No	Yes	No	Yes	No
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	338	338	334	334	338	338	334	334
R-squared	0.358	0.268	0.380	0.310	0.357	0.276	0.380	0.319

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. The sample used in all models includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 2.11 Determinants of dissent on M&A resolutions: The impact of dissent on DRRs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
DissentDRR	0.045**	0.024	0.042***	0.024	0.057***	0.052***	0.058***	0.061***
	(0.019)	*(0.020)*	*(0.016)*	*(0.019)*	*(0.015)*	*(0.017)*	*(0.014)*	*(0.017)*
CAR (-1; 1)	-0.030	-0.030	-0.025	-0.024	-0.003	-0.006	-0.002	-0.003
	(0.024)	*(0.024)*	*(0.023)*	*(0.023)*	*(0.017)*	*(0.020)*	*(0.016)*	*(0.017)*
Firm Size	0.004***	0.004***	0.004***	0.004***	0.002**	0.003***	0.003***	0.003***
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Diversifying	0.009***	0.009***	0.008***	0.009***	0.008***	0.008***	0.007**	0.006**
	(0.003)	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.002)*
Cash-payment	-0.007**	-0.007**	-0.006**	-0.006**	-0.007**	-0.009***	-0.007**	-0.009***
	(0.003)	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*
BoardOwn	-0.000	-0.000	-0.000	-0.000	0.000	0.000	0.000	0.000
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
OwnConc	0.000	-0.000	0.000	-0.000	-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 Size	0.009	0.008	0.009	0.009	0.015**	0.012**	0.013**	0.010*
	(0.006)	*(0.006)*	*(0.007)*	*(0.007)*	*(0.006)*	*(0.005)*	*(0.006)*	*(0.006)*
Non-Exec	0.015	0.015*	0.011	0.012	0.025***	0.029***	0.019**	0.020***
	(0.009)	*(0.008)*	*(0.009)*	*(0.008)*	*(0.009)*	*(0.010)*	*(0.009)*	*(0.007)*
Gender	-0.007***	-0.007***	-0.006***	-0.007***	-0.006***	-0.005***	-0.005**	-0.004**
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
CEO Age	0.010	0.008	0.010	0.010	0.015	0.013	0.014	0.012
	(0.013)	*(0.013)*	*(0.012)*	*(0.012)*	*(0.011)*	*(0.011)*	*(0.009)*	*(0.009)*
ROA			0.001	-0.001			-0.001	-0.002
			(0.005)	*(0.005)*			*(0.004)*	*(0.004)*
Tobin's q			-0.001	0.000			-0.000	0.000
			(0.001)	*(0.001)*			*(0.001)*	*(0.001)*
Cash/TA			0.017	0.014			0.007	0.009
			(0.012)	*(0.010)*			*(0.010)*	*(0.009)*
Leverage			0.011	0.007			0.006	0.002
			(0.008)	*(0.007)*			*(0.005)*	*(0.006)*
Rel.Size			0.002	0.003			0.000	0.002
			(0.003)	*(0.003)*			*(0.003)*	*(0.002)*
Friendly			-0.006*	-0.005			-0.003	-0.004
			(0.004)	*(0.004)*			*(0.002)*	*(0.003)*
Cross-border			0.001	0.002			0.003	0.006**
			(0.003)	*(0.004)*			*(0.003)*	*(0.003)*
Post-crisis		0.012***		0.013***		0.007**		0.006**
		(0.004)		*(0.004)*		*(0.003)*		*(0.003)*
Year dummies	Yes	No	Yes	No	Yes	No	Yes	No
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	192	192	190	190	167	167	165	165
R-squared	0.621	0.547	0.683	0.589	0.769	0.675	0.812	0.783

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. The sample used in Models (1) to (4) includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. The sample used in Models (5) to (8) includes 302 Class 1 acquisitions. Marginal effects are reported. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

2.7. Robustness Tests

A battery of robustness check is carried out to ensure that the reported results are not subject to the selected method of constructing the sample or variables. To address the concern that the results may be subject to measurement error in measuring shareholder dissent, dissent is measured in two alternative ways. First, *Dissent2* is calculated as the number of votes cast 'against' as a percentage of the total number of votes that could be cast based on voting rights. Data for observations from 1997 to 2009 were obtained from Manifest. Data for deals from 2009 to 2015 were manually collected from Regulatory News Services[11]. For the few firms from 1997 to 2015 for which there are no data on the total number of voting rights the number of ordinary shares were collected from annual reports, assuming 'one share one vote' as standard, and used it as the total number of votes that could be cast.

Second, a dummy variable *High Dissent* is created. It is equal to 1 when *Dissent* used in the original regressions is higher than the mean value of *Dissent*, 0 otherwise. The median *Dissent* is alternatively used to distinguish between highly and low dissented deals and the results (not reported for brevity) do not differ. The results using these measures of dissent are reported in Table 2.12. Overall, the main results in Table 2.6 are found to be robust to different measures of shareholder dissent.

11 From 2007, under Chapter 5 of Disclosure Guidance and Transparency Rules (DTR) sourcebook at the end of each calendar month during which an increase or decrease has occurred, firms are required to disclose the total number of voting rights in respect of each share class (DTR, 2017).

Table 2.12 Determinants of dissent on M&A resolutions: Alternative measures of dissent

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CAR (-1; 1)	-0.021**	-0.017*	-0.853***	-0.742***	-0.019**	-0.017*	-0.957***	-0.825***
	(0.009)	*(0.009)*	*(0.223)*	*(0.226)*	*(0.009)*	*(0.009)*	*(0.251)*	*(0.213)*
Firm Size	0.001**	0.001**	0.033**	0.030*	0.001	0.001*	0.015	0.017
	(0.000)	*(0.000)*	*(0.015)*	*(0.015)*	*(0.000)*	*(0.000)*	*(0.015)*	*(0.015)*
Diversifying	0.003**	0.003*	0.056	0.048	0.003**	0.003**	0.042	0.037
	(0.001)	*(0.001)*	*(0.035)*	*(0.036)*	*(0.001)*	*(0.001)*	*(0.040)*	*(0.038)*
Cash-payment	-0.003*	-0.003**	-0.054*	-0.065*	-0.003*	-0.004**	-0.073*	-0.078**
	(0.002)	*(0.002)*	*(0.032)*	*(0.036)*	*(0.002)*	*(0.002)*	*(0.037)*	*(0.037)*
BoardOwn	-0.000*	-0.000	-0.002	-0.002	-0.000	-0.000	-0.006*	-0.007
	(0.000)	*(0.000)*	*(0.002)*	*(0.002)*	*(0.000)*	*(0.000)*	*(0.004)*	*(0.005)*
OwnConc	-0.000	-0.000	0.000	-0.000	-0.000	-0.000	-0.004*	-0.004*
	(0.000)	*(0.000)*	*(0.001)*	*(0.002)*	*(0.000)*	*(0.000)*	*(0.002)*	*(0.002)*
Board Size	0.008**	0.007**	0.232***	0.220***	0.008**	0.006*	0.239**	0.204**
	(0.003)	*(0.003)*	*(0.086)*	*(0.085)*	*(0.003)*	*(0.003)*	*(0.096)*	*(0.091)*
Non-Exec	0.004	0.005	0.238*	0.238*	0.002	0.004	0.205	0.227
	(0.004)	*(0.004)*	*(0.128)*	*(0.128)*	*(0.004)*	*(0.004)*	*(0.135)*	*(0.146)*
Gender	-0.003***	-0.003***	-0.055**	-0.050*	-0.003***	-0.002**	-0.062**	-0.053*
	(0.001)	*(0.001)*	*(0.026)*	*(0.027)*	*(0.001)*	*(0.001)*	*(0.032)*	*(0.028)*
CEO Age	0.009	0.007	0.109	0.125	0.013**	0.012**	0.407***	0.331**
	(0.006)	*(0.006)*	*(0.127)*	*(0.122)*	*(0.006)*	*(0.006)*	*(0.138)*	*(0.136)*
ROA	0.003	0.002	0.045	0.055	0.002	0.001	0.077	0.056
	(0.003)	*(0.003)*	*(0.068)*	*(0.072)*	*(0.003)*	*(0.003)*	*(0.080)*	*(0.083)*
Tobin's q	-0.001	-0.001	-0.008	-0.013	-0.000	-0.000	-0.011	-0.010
	(0.001)	*(0.001)*	*(0.008)*	*(0.008)*	*(0.000)*	*(0.000)*	*(0.007)*	*(0.006)*
Cash/TA	0.007	0.007	-0.025	-0.004	0.005	0.005	0.023	0.033
	(0.006)	*(0.006)*	*(0.135)*	*(0.151)*	*(0.005)*	*(0.005)*	*(0.130)*	*(0.151)*
Leverage	0.002	0.001	-0.048	-0.016	0.001	0.000	-0.067	-0.015
	(0.004)	*(0.004)*	*(0.092)*	*(0.084)*	*(0.004)*	*(0.005)*	*(0.098)*	*(0.085)*
Rel.Size	0.000	0.000	-0.005	-0.002	0.000	0.000	-0.023	-0.013
	(0.000)	*(0.000)*	*(0.025)*	*(0.011)*	*(0.000)*	*(0.000)*	*(0.034)*	*(0.029)*
Friendly	0.001	0.001	-0.068	-0.051	0.000	-0.000	0.045	0.014
	(0.002)	*(0.002)*	*(0.051)*	*(0.054)*	*(0.002)*	*(0.002)*	*(0.058)*	*(0.057)*
Cross-border	0.000	0.001	0.010	0.021	0.001	0.002	0.039	0.059
	(0.002)	*(0.002)*	*(0.040)*	*(0.041)*	*(0.002)*	*(0.002)*	*(0.043)*	*(0.042)*
Post-crisis		0.006**		0.063		0.006**		0.059
		(0.002)		*(0.045)*		*(0.003)*		*(0.048)*
Year dummies	Yes	No	Yes	No	Yes	No	Yes	No
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	329	329	334	334	290	290	295	295
R-squared	0.346	0.277	0.341	0.283	0.414	0.339	0.387	0.341

Note: This table presents the results of probit regressions with two alternatives measures of dissent on M&As. The dependent variable in (1), (2), (5) and (6) is *Dissent2* measured as the number of votes 'against' as a percentage of the total number of votes that can be cast. The dependent variable in (3), (4), (7) and (8) is a dummy variable *High Dissent* equal to 1 when dissent is higher than mean *Dissent*, 0 otherwise. The sample used in Models (1) to (4) includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. The sample used in Models (5) to (8) includes 302 Class 1 acquisitions. Marginal effects are reported. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Since dissent on DRRs is potentially a function of some characteristics already included in the regression, both voting decisions may be determined by the same factors. Similar to Cai, Garner, and Walkling (2009), a two-stage regression analysis is used to address the potential problem of endogeneity. First, *DissentDRR* is regressed against all firm-specific variables in Table 2.11. The residuals from this regression are obtained (*Resid.DRR*) and used as an independent variable in the second stage of the regression. Results reported in Table 2.13 are similar to results in Table 2.11 where *DissentDRR* is used.

Table 2.13 Dissent on DRRs and M&As: Two stage regression

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Resid.DRR	0.041**	0.032	0.039**	0.032	0.053***	0.060***	0.053***	0.071***
	(0.018)	*(0.021)*	*(0.015)*	*(0.019)*	*(0.016)*	*(0.019)*	*(0.013)*	*(0.018)*
CAR (-1; 1)	-0.029	-0.030	-0.023	-0.024	-0.001	-0.007	0.002	-0.003
	(0.022)	*(0.022)*	*(0.022)*	*(0.022)*	*(0.015)*	*(0.018)*	*(0.015)*	*(0.016)*
Firm Size	0.004***	0.004***	0.004***	0.004***	0.002**	0.003***	0.002***	0.003***
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Diversifying	0.008**	0.008***	0.008***	0.008***	0.007***	0.007**	0.005**	0.004*
	(0.003)	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.002)*
Cash-payment	-0.005*	-0.006**	-0.004	-0.005*	-0.005*	-0.008***	-0.005*	-0.008**
	(0.003)	*(0.003)*	*(0.002)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*
BoardOwn	-0.000	-0.000	-0.000	-0.000	0.000	0.000	0.000	0.000
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
OwnConc	0.000	-0.000	-0.000	-0.000	-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 Size	0.007	0.007	0.009	0.009	0.013**	0.010**	0.012**	0.008
	(0.006)	*(0.006)*	*(0.007)*	*(0.006)*	*(0.005)*	*(0.005)*	*(0.006)*	*(0.006)*
Non-Exec	0.015*	0.015*	0.012	0.012	0.024***	0.026***	0.018**	0.018**
	(0.009)	*(0.009)*	*(0.009)*	*(0.008)*	*(0.009)*	*(0.010)*	*(0.009)*	*(0.007)*
Gender	-0.006***	-0.006***	-0.005***	-0.006***	-0.005***	-0.004***	-0.004**	-0.003**
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.001)*	*(0.002)*	*(0.002)*	*(0.001)*
CEO Age	0.011	0.008	0.011	0.009	0.016	0.013	0.016*	0.012
	(0.012)	*(0.012)*	*(0.012)*	*(0.011)*	*(0.010)*	*(0.011)*	*(0.009)*	*(0.009)*
ROA			0.001	-0.001			-0.000	-0.001
			(0.005)	*(0.005)*			*(0.004)*	*(0.004)*
Tobin's q			-0.001	-0.000			-0.001	-0.000
			(0.001)	*(0.001)*			*(0.001)*	*(0.001)*
Cash/TA			0.021**	0.015			0.013	0.009
			(0.010)	*(0.010)*			*(0.009)*	*(0.008)*
Leverage			0.012	0.007			0.007	0.004
			(0.008)	*(0.007)*			*(0.005)*	*(0.006)*
Rel.Size			0.001	0.003			-0.001	0.001
			(0.003)	*(0.003)*			*(0.002)*	*(0.002)*
Friendly			-0.007*	-0.006*			-0.004*	-0.004
			(0.004)	*(0.003)*			*(0.002)*	*(0.003)*
Cross-border			0.001	0.002			0.003	0.006**
			(0.003)	*(0.004)*			*(0.003)*	*(0.003)*
Post-crisis		0.011***		0.012***		0.008***		0.007**
		(0.004)		*(0.004)*		*(0.003)*		*(0.003)*
Year dummies	Yes	No	Yes	No	Yes	No	Yes	No
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	187	187	185	185	163	163	161	161
R-squared	0.592	0.522	0.680	0.577	0.749	0.657	0.808	0.779

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. The sample used in Models (1) to (4) includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. The sample used in Models (5) to (8) includes 302 Class 1 acquisitions. Marginal effects are reported. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

2.8. Conclusion

Findings presented in this chapter are initial steps in our effort to understand what information shareholders in the UK take into account when casting votes on M&A resolutions. It is found that shareholder dissent decreases with abnormal stock returns at the announcement, suggesting that if the market sentiment to the deal is positive then shareholders are less likely to vote against the deal. It is also found that shareholders already dissatisfied with their management, measured by the level of CEO excess compensation and dissent on prior director remuneration reports, will cast more votes against the M&A proposals. Shareholders also support acquisitions financed though cash, i.e. they are against equity-financed deals that will lead to ownership dilution. Shareholder dissent is higher in diversifying M&As and increases with bidder size. This is consistent with the evidence that (at least some) shareholders consider diversification to be a value-destroying strategy.

Although these findings suggest that on average shareholders have been reluctant to vote against acquisitions, it seems that at least some shareholders care about certain firm and deal characteristics with their opinions reflected in the way they vote. Finally, a significant increase in dissent on M&As in the post-crisis period is observed. This could be because of investors' outrage during the crisis and subsequent changes in regulations on M&A activities and corporate governance around the world (e.g. Stewardship Code in the UK) which have led to some developments in shareholder and investor activism in the post-crisis period. In the UK, it has been argued that activism has gone beyond pure executive remuneration issues (Roberts, 2014).

However, the presence of a significant relationship between the explanatory variables and dissent votes does not fully address the potential impact of the vote (Cai, Garner, and Walkling, 2009). Therefore, Chapter 3 will examine the effectiveness of dissent voting by analysing the post-voting consequences of shareholder voting on M&As.

3. Consequences of Voting Dissent on M&As

3.1. Introduction

This chapter focuses on the consequences of voting dissent on M&As. Given the ongoing debate on shareholder empowerment and its effects on corporate policies, it is natural to ask whether the outcomes of shareholder voting exercise a predictable impact on future corporate behaviour consistent with the projected disciplinary role of shareholders. In the context of M&As, previous studies have mostly focused on the impact of the monitoring role of the board of directors on the performance of M&As. Shareholders' interests as owners are represented by the board of directors. As decisions made by managers are not always shareholder value maximising, boards by definition could withhold approval and insist on change (Adams and Ferreira, 2007). These studies examine board characteristics such as tenure (Kim, Mauldin, and Patro, 2014), gender (Levi, Li, and Zhang, 2014), friendliness (Schmidt, 2015), experience (Field and Mkrtchyan, 2017) and their impact on M&A performance.

In addition to being represented by the board of directors, shareholders are able to exert direct influence by voting on specific firm decisions such as M&As that exceed the powers of directors. These votes may potentially discipline self-interested or overconfident executives more effectively than the board (Becht, Polo, and Rossi, 2016). If dissent votes serve as votes of no confidence, this could be reflective of the quality of the board of directors. For example, highly dissented chief executives could be seen a sign of the board's failure to fulfil its main duty of monitoring (Alissa, 2015).

While shareholder voting on various corporate decisions is emerging as an important governance mechanism, there is a lack of empirical evidence on consequences of such voting, especially in the context of M&As. For voting to be effective the votes cast should have a performance or governance related outcome (Iliev et. al., 2015). Therefore, it is important to understand whether votes cast on M&As have any relationship with post-voting performance or governance characteristics. Using a sample of 362 M&A acquisitions approved by shareholders of UK publicly listed firms, this chapter provides evidence on the impact of voting dissent on voting day and post-M&A abnormal returns and market reaction to the announcements of subsequent M&As.

This chapter contributes to the growing strand of literature that evaluates the impact of shareholder voting. It is the first study to provide empirical evidence on the consequences of voting dissent on M&As by examining its impact on further acquisitions' performance. Pressure from shareholders in the form of dissent voting could discipline managers by forcing them to make more efficient and value enhancing decisions (Brunarski, Campbell, and Harman, 2015). Fischer et al. (2009) document that firms facing lower vote approval on director elections are more likely to have fewer and better market-reaction acquisitions. This is because poorly perceived directors are likely to have limited cash positions. Moreover, disapproval expressed in director elections is followed by immediate action to avoid further embarrassment because of its reputational damage (Grundfest 1993). Dissent in director elections as opposed to dissent in M&As is likely to have more reputational damage as in the latter shareholders vote on the deal proposed by directors not the directors directly. The results in this study suggest that higher shareholder dissent predicts lower abnormal returns around the announcement of subsequent deals. This indicates that shareholder dissent on M&As does not discipline managers to engage in better deals. Rather it serves as a source of information about the firm's acquisition strategy and management ability for shareholders and prospective investors to use in their investment decisions.

This chapter is also the first study that examines the impact of voting dissent on M&As on the market reaction to the announcement of voting results and on post-M&A abnormal returns in the UK context. It is found that markets react more (negatively) to voting outcomes with higher dissent and weak evidence on the relationship between dissent and post-acquisition abnormal returns. The rest of the work is structured as follows. The next section provides a brief review of the current literature and derivation of the hypotheses. This is followed by the description of sample, variables and analysis of empirical results and robustness tests. The final section will serve as the conclusion.

3.2. Literature Review and Hypotheses

Assessing effectiveness of voting requires an examination whether it has any performance or governance related impact (Iliev et. al., 2015). Gregory-Smith (2009) argues that shareholders may want to vote on a proposal even if they know that their votes have negative or no impact on their financial wealth. In shareholders' view, non-financial incentives such as removing certain directors from the board or arranging better remuneration packages could be seen as more important outcomes of voting than financial returns. Studies on shareholder voting do not find any direct relationship between voting and firm performance. They tend to focus on the impact of voting on specific outcomes such as director turnover (Cai, Garner, and Walkling, 2009), executive pay (Gregory-Smith, Thompson, and Wright, 2014), M&A deal completion (Hsieh and Wang, 2008), duration (Kamar, 2011) and withdrawal (Iliev et al., 2015).

Karpoff (2001) reviews the early literature on activism through shareholder proposals and finds that it has governance related outcomes that do not translate into improvement in firm performance. Cai, Garner, and Walkling (2009) find that voting dissent in director elections does not have any impact on firm performance but leads to an increase in the number of CEO turnovers. Studies of say-on-pay surveyed in Obermann and Velte (2018) find that higher dissent leads to less excess compensation and governance outcomes such as increased compensation reporting and intensified investor relations. These studies focus on the market reaction to voting outcomes but not the direct impact of voting on firm performance.

Table 3.1 provides a summary of studies that analyse the consequences of voting on M&As. Some have examined the relationship between announcement abnormal returns and the requirement of shareholder voting (dummy variable as an independent variable) and find contrasting evidence (Hsieh and Wang, 2008 – negative; Kamar, 2011 – no relationship; Becht, Polo, and Rossi, 2016 – positive). Deals requiring shareholder approval have better post-M&A returns (Hsieh and Wang, 2008), a lower probability (Hsieh and Wang, 2008) and longer time to completion (Kamar, 2011), while voting dissent is negatively related to post-M&A long-term abnormal returns (Henning, 2015; Ouyang, 2015) and deal withdrawal (Iliev et al., 2015).

3.2.1. Market reaction to voting dissent

Challenging a major acquisition risks undermining the entire corporate strategy to the costs of the same shareholders (Gregory-Smith and Main, 2014). By dissenting, shareholders signal their concerns with the proposed deal and/or the acquisition strategy of the management. Therefore, shareholders who vote against an acquisition risk the possibility of an adverse market reaction to their votes. Henning (2015) suggests that if shareholders have concerns about a forthcoming deal but are not in a position to block it, one would expect to observe a negative market reaction following the meeting, although she finds the opposite. Few studies test the effect of passing a resolution on the voting date abnormal returns. For example, Cuñat, Gine, and Guadalupe (2015) compare the abnormal returns associated with say-on-pay proposals that pass and the ones that fail and find that returns of firms that pass is 2.41% higher than for firms that do not pass such proposals. The first hypothesis is that:

> Hypothesis 1: There is a negative relationship between dissent and voting day abnormal returns.

Table 3.1 Summary of studies on the consequences of voting on M&As

Study	Sample	Dependent variables	Independent variables	Sign	Sig.level
Hsieh and Wang (2008)	2205 deals by U.S. firms 1990-2005	Announcement day CAR (-2;2)	Voting required deal dummy	-	***/**
		Post M&A CARs (0;1) in years	Stock deal dummy (voting required)	-/+	
			Mixed deal dummy (voting required)	+	***/*
		Post M&A CARs (0;2) in years	Stock deal dummy (voting required)	-	
			Mixed deal dummy (voting required)	+	***/**
		Yearly change in ROA	Stock deal dummy (voting required)	+	**/*
			Mixed deal dummy (voting required)	-/+	
		Completed deal dummy	Voting required deal dummy	-	**/*
Kamar (2011)	2249 deals by U.S. firms 1995-2006	Announcement day CAR (-1;1)	Voting required deal dummy	-/+	
		Deal premiums	Voting required deal dummy	-	
		Completed deal dummy	Voting required deal dummy	-/+	
		Deal duration	Voting required deal dummy	+	***
Henning (2015)	Voting on 367 M&A at U.S. firms 2003-2011	Voting day CARs (0;1)	Dissent = Against/(For + Against)	+	***
		Post M&A BHAR (0;2) in years	Dissent = Against/(For + Against)	-	**
		Post M&A BHAR (0;5) in years	Dissent = Against/(For + Against)	-	*
Ouyang (2015)	148 deals by U.S. firms 2000-2006	Excess Return (0; 3) in years (Calendar Portfolio Approach)	High Voting Portfolio (High Approval Rate)	+	***
Iliev et al. (2015)	Votes by U.S. investors in 7975 non-U.S. firms 2003-2009	Withdrawn deal dummy	Votes for M&A (%)	-	***
Becht, Polo, and Rossi (2016)	1702 deals by U.K. firms 1992-2010	Announcement day CAR (-1;1)	Class 1 M&A dummy	+	***

Note: This table provides summary of studies that examine the consequences of voting on M&As. + and – indicate the sign of the relationship between independent and dependent variables. *, ** and *** represent statistical significance of the relationships at 10%, 5% and 1%, respectively.

3.2.2. Dissent and M&A performance

Studies on director elections and executive pay surveyed in Yermack (2010) and Obermann and Velte (2018), respectively, find that meaningful dissenting votes have led to changes in boards of directors, compensation, and other governance characteristics. Fischer et al. (2009) document that directors facing reputational damage because of low approval votes in director elections are more likely to have fewer and better market-reaction acquisitions. Even if voting against an M&A proposal may not bring the outcome (blocking a deal) that dissident shareholders desire, such voting can be expressive and consequential to subsequent proposals (Sauerwald, Van Oosterhout, and Van Essen, 2016). Thus, higher dissent on previous M&A proposals may impede managers from engaging in value-destructing deals, thus leading to better deals being proposed and consequently higher market reaction to deal announcements. This is in line with Masulis, Wang, and Xie (2007)'s finding that managers facing more pressure from external corporate governance mechanisms such as the market for corporate control tend to make better acquisition decisions and Iliev et al. (2015)'s argument that managers listen to shareholders' dissent.

However, it is up to the directors to decide whether to ignore or react to voting dissent (Obermann and Velte, 2018). Evidence in the literature suggests that boards respond selectively to shareholder pressure (Alissa, 2015) and a certain level of dissent must be met before managers consider substantial changes (Obermann and Velte, 2018), i.e. the higher the voting dissent, the more pressure is exercised. Given the low average level of voting dissent and the limited number of cases where voting has altered the outcome the disciplining role of shareholder voting is questioned (Conyon and Sadler, 2010; Iliev et al., 2015). Shareholders and prospective investors may not receive subsequent deals favourably if shareholders do not trust their management. Given that shareholder disapproval expressed via voting on M&A deals sends signal to the market questioning the management's ability to identify and negotiate value-creating deals, external financiers are likely to be reluctant to accept subsequent acquisitions. These two competing effects may not be mutually exclusive and thus the net impact of previous dissent on subsequent M&As is ultimately an empirical question. Hence, two competing hypotheses are proposed:

> Hypothesis 2a*:* Higher dissent on the previous M&A proposal leads to higher acquirer's announcement return on subsequent M&A deals.
>
> Hypothesis 2b*:* Higher dissent on the previous M&A proposal leads to lower acquirer's announcement return on subsequent M&A deals.

If shareholders' opinion is based on their evaluation of the deal's quality and its wealth effect, then one may also expect dissent to be negatively related to post-acquisition abnormal returns (Ouyang, 2015). Moreover, dissent is likely to reveal issues that cannot to be solved in near future. It is also an indication of the market expectation of poorer future performance (Gregory-Smith, 2009). Therefore, it is expected that dissent will have a negative relationship with post-M&A abnormal returns:

> Hypothesis 2c: The bidders' post acquisition abnormal returns decrease with the level of dissent on M&A deals.

3.3. Sample and Variables

This chapter uses a sample of 362 M&A deals approved at EGMs of UK publicly listed firms from 1997 to 2015. The sources and data collection process are described in detail in Chapter 2. Event study methodology and ordinary least squares (OLS) regressions are used to examine the impact of dissent on M&As, if any, on the voting day and post-acquisition abnormal returns as well as on the market reaction to the following M&A announcements.

Studies on value implications of acquisitions have examined various variables to understand what determines M&A performance. Thus, these factors are controlled in the regressions as they could potentially influence performance. Evidence suggests that acquiring firms differ from their industry counterparts in terms size and pre-acquisition performance (Powell and Stark, 2005). It is more likely that larger firms will have more resources to spend on acquisitions. Moreover, firms that are doing well are likely to be the ones that acquire. *Firm Size* and pre-bid performance measured by return on assets *ROA* are controlled. The cumulative abnormal returns *CAR(-1;1)* around the announcement of M&As are also included as a control variable.

Tuch and O'Sullivan (2007) review the literature and find some bid characteristics to be significant determinants of M&A performance. Therefore, a set of dummy variable controls such as *Cash-payment*, *Diversifying*, *Foreign*, *Friendly*, and *Public* are used. Table 3.2 provides descriptive statistics. Not surprisingly, the mean voting day *ARs* are not statistically significant from zero unlike announcement *CAR(-1;1)*.

Table 3.2 Descriptive statistics

	Mean	St. Dev.	Min	Max
Dissent	0.007	0.023	0	0.196
Voting day ARs	0.001	0.028	-0.124	0.334
1-month AARs	0.011	0.084	-0.316	0.695
3-month AARs	0.009	0. 055	-0.224	0.278
1-month CARs	0.022	0.168	-0.633	1.390
3-month CARs	0.038	0.222	-0.897	1.112
1-month BHARs	0.024	0.179	-0.541	1.826
3-month BHARs	0.042	0.224	-0.690	1.348
CAR (-1;1)	0.022	0.084	-0.294	0.340
ROA	0.041	0.272	-0.484	0.524
Firm Size	12.88	1.847	6.098	17.58
Cash-payment	0.370	0.483	0	1
Diversifying	0.624	0.484	0	1
Foreign	0.488	0.500	0	1
Friendly	0.936	0.244	0	1
Public	0.646	0.478	0	1

Note: This table provides descriptive statistics for the variables used in regressions. It shows the mean, the standard deviation, the minimum and the maximum values of the variables. The variable description is given in Appendix A.

3.4. Empirical Results

3.4.1. Market reaction to dissent on M&As

For the case of shareholders' proposals that are voted at annual general meetings, Karpoff, Malatesta, and Walkling (1996) find that voting results become available within hours, or at most a day or two, of the meeting. For almost all EGMs in the current sample, voting outcomes are reported immediately following the meeting. Therefore, only announcement day returns are used. Abnormal returns (*ARs)* are calculated using the event study methodology based on market model. In standard market model, α and β parameters needed to calculate *ARs* are obtained by using stock and market return during estimation period before the event. The event of interest is voting meeting (EGM).

For more than half of the observations, the interval between the announcements of M&As and EGMs is more than one month. Mean and median interval is 60 and 40 days, respectively. This means that the calculation of voting day *ARs* would require using an estimation period that includes the announcement. Therefore, to avoid including significant changes in prices due to the announcement of M&As and reduce the likelihood of less meaningful market parameter estimates, the estimation period of 150 days (-180; -30) before the announcement is used. Table 3.3 presents the results of the regression of voting day *ARs* on *Dissent* and control variables.

Table 3.3 Dissent and EGM day abnormal returns

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dissent	-0.097**	-0.088*	-0.094**	-0.082*	-0.088**	-0.054	-0.085*	-0.046
	(0.033)	*(0.046)*	*(0.039)*	*(0.048)*	*(0.043)*	*(0.056)*	*(0.044)*	*(0.059)*
CAR (-1;1)		-0.019		-0.026		-0.027		-0.036
		(0.023)		*(0.024)*		*(0.024)*		*(0.026)*
ROA		-0.039		-0.041		-0.037		-0.040
		(0.035)		*(0.037)*		*(0.037)*		*(0.040)*
Firm Size		-0.001		-0.001		-0.001		-0.001
		(0.001)		*(0.001)*		*(0.001)*		*(0.001)*
Cash-payment		0.000		0.001		0.002		0.002
		(0.003)		*(0.003)*		*(0.004)*		*(0.004)*
Diversifying		-0.001		-0.002		-0.003		-0.003
		(0.003)		*(0.003)*		*(0.003)*		*(0.004)*
Foreign		-0.002		-0.003		-0.003		-0.004
		(0.003)		*(0.003)*		*(0.003)*		*(0.003)*
Friendly		0.003		0.002		0.005		0.004
		(0.004)		*(0.004)*		*(0.005)*		*(0.005)*
Public		-0.008		-0.009		-0.009		-0.010
		(0.006)		*(0.006)*		*(0.006)*		*(0.007)*
Constant	0.002	0.014	-0.000	0.018	0.001	0.019	0.001	0.024
	(0.004)	*(0.020)*	*(0.003)*	*(0.022)*	*(0.003)*	*(0.020)*	*(0.003)*	*(0.022)*
Observations	362	342	340	331	330	313	309	302
R-squared	0.029	0.062	0.031	0.068	0.030	0.076	0.032	0.083

Note: This table presents the results of OLS regressions with voting day abnormal returns (*ARs*) as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample used in Models (1) and (2) includes 362 Class 1 acquisitions, reverse takeovers and related party transactions. The sample used in Models (3) and (4) includes 340 Class 1 acquisitions and related party transactions. The sample used in Models (5) and (6) includes 330 Class 1 acquisitions and reverse takeovers. The sample used in Models (7) and (8) includes 309 Class 1 acquisitions. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Regression results suggest that *Dissent* and voting day *ARs* are highly correlated with a negative sign. One unit increase in *Dissent* is likely to lead, *ceteris paribus*, to an average of -0.08 units decrease in *ARs*. This significance holds when control variables are introduced. The control variables are not significant as expected. These findings are consistent with the results of other studies (Cai and Walkling, 2011; Henning, 2015) and support Hypothesis 1. Although significance of the relationship between *ARs* and *Dissent* decreases as reverse takeovers and related party acquisitions are excluded from the sample, the findings suggest that the markets overall react negatively to voting against an M&A resolution.

It is important to distinguish between actual dissent expressed by shareholders through voting and anticipated dissent when interpreting this relationship. When calculating *ARs* event study approach assumes that the event, releasing the results (dissent votes) of EGM, is unanticipated and has not been factored in the share price (Brown and Warner, 1985). Studies use a discontinuity analysis to deal with the presence of prior expectations in event study for the case of close-call proposals (e.g. Cai and Walkling, 2011; Cuñat, Gine, and Guadalupe, 2012).

Cuñat, Gine, and Guadalupe (2012) find that for close-call votes, passing a resolution is equivalent to an independent random event. The vote therefore contains new information and the market incorporates the outcome of the vote when the company releases results. For non-close votes, shareholders use all available information to form an expectation of the probability that the proposal will pass as the voting day approaches. Share prices are therefore likely to incorporate this expectation before the vote. Following Cuñat, Gine, and Guadalupe (2012) and Henning (2015), here it is assumed that the voting meeting outcome might not be fully anticipated in all cases.

3.4.2. *Dissent and market reaction to subsequent M&As*

M&A deals announced by the same acquirers within a year after the 362 general meetings are downloaded from Thomson One. Panel A of Table 3.4 presents the number of M&A announcements one year after the voting.

Table 3.4 M&As announced following EGMs

Panel A. Number of M&As within one year after EGM	
Number of M&As	Year 1 after EGM
1	170
2	83
3	37
4	21
5	12
6	7
7	4
8	3
9	3
10	1
Overall	341

Panel B. Market reaction to post-vote M&A announcements				
	Median		Mean	
Dissent	High	Low	High	Low
CAR (-1; 1)	0.003	0.014**	-0.002	0.011*
CAR (-2; 2)	0.004	0.017**	0.002	0.012
CAR (-3; 3)	0.003	0.019**	-0.001	0.013*

Note: This table presents statistics of subsequent M&As following voting on M&A resolutions. Panel A shows the number of M&A deals announced in one year after the voting. Panel B compares the average market reactions to the subsequent M&A deals of low and highly dissented acquirers. *, ** and *** denote statistical significance of 10%, 5% and 1%, respectively.

About half of the M&A deals are followed by the announcement of at least another deal and 23% of the deals are followed by two or more deals within one year after voting. A sample of 253 first and second deals announced in the year following the voting of the original 362 deals is constructed. This sample is then divided into two sub-samples, high- and low-dissented acquisitions based on the median and mean of the dissent on the original M&As. The average market reaction, measured as *CAR(-1;1)*, to these deals and the results for the difference in the means/medians test are presented in

Panel B of Table 3.4. The results suggest that acquirers who receive lower dissent in the original deals experience statistically significantly higher abnormal announcement returns for their subsequent M&A proposals. Regressions results of the impact of dissent on the original deals on the announcement returns of subsequent M&As are reported in Table 3.5. Sample size is reduced from 253 to 239 due to missing values in independent variables. The negative and mostly statistically significant coefficient of *Dissent* suggests that firms with higher dissent experience lower announcement abnormal returns on subsequent M&As.

Table 3.5 Dissent and market reaction to subsequent M&A deals

	(1)	(2)	(3)	(4)
Dissent	-0.133	-0.244**	-0.251*	-0.334**
	(0.101)	*(0.114)*	*(0.136)*	*(0.129)*
CAR (-1;1)	-0.004	-0.024	0.004	-0.024
	(0.052)	*(0.039)*	*(0.060)*	*(0.043)*
ROA	0.057	0.033	0.058	0.049
	(0.053)	*(0.052)*	*(0.053)*	*(0.051)*
Firm Size	-0.003	-0.001	-0.000	0.001
	(0.003)	*(0.002)*	*(0.003)*	*(0.002)*
Cash-payment	0.009	0.014*	0.019	0.019**
	(0.011)	*(0.008)*	*(0.013)*	*(0.008)*
Diversifying	0.007	0.007	0.010	0.009
	(0.010)	*(0.008)*	*(0.011)*	*(0.008)*
Foreign	0.001	-0.002	0.005	0.002
	(0.010)	*(0.008)*	*(0.010)*	*(0.008)*
Friendly	0.003	-0.019	-0.023	-0.035**
	(0.017)	*(0.016)*	*(0.016)*	*(0.017)*
Public	-0.003	-0.004	-0.005	-0.004
	(0.010)	*(0.008)*	*(0.011)*	*(0.009)*
Constant	0.034	0.039	0.029	0.025
	(0.042)	*(0.030)*	*(0.040)*	*(0.030)*
Observations	161	239	145	213
R-squared	0.138	0.114	0.186	0.162

Note: This table presents the results of OLS regressions with *CAR (-1; 1)* as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) and (2) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while in (3) and (4) are on a sample of only Class 1 acquisitions. Regressions (1) and (3) use the first M&A within a year following the voting. Regressions (2) and (4) use first and second M&A within a year following the voting. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

This is consistent with the non-parametric results in Table 3.4 and supports Hypothesis 2b. Investors' perceptions of the managers' acquisition abilities reflected in the votes cast are associated with the following acquisition announcements at least during the next year after voting. When standard errors are adjusted for industry clustering the coefficients remain similar (Cai and Walkling, 2011). It is also found that acquisitions financed by cash result in higher announcement returns. There is no indication of a statistical relationship between other firm and deal characteristics and abnormal announcement returns.

3.4.3. Dissent and post-M&A abnormal returns

The results of the regressions of post-M&A abnormal returns on *Dissent* are presented next. Deals become effective at a determined completion date following the shareholder meeting. Months are used as the unit of time for share returns. Thus, monthly *ARs* are calculated for different event windows from 1 to 24 months starting from the first day of the next month after the formal completion of M&As. For periods longer than a month, the monthly abnormal returns are averaged or summed to obtain *AARs* and *CARs*. These two measures are a common approach to examining post-acquisition long-term returns (Fama, 1998).

Table 3.6 presents the impact of *Dissent* on *AARs*. The coefficient estimates of *Dissent* are negative. Significance is found only in Class 1 acquisitions sample and when the dependent variable is 1 and 3 months *AARs*. There is no strong evidence that shareholders' dissent leads to better performance. Rather it appears that significant relationship between dissent and short-term (1 and

3 months) returns is the prolongation of the effect found on regressing voting day *ARs* on *Dissent*. Thus, there is a lack of causal impact on performance beyond the short-term market reaction. The exercise is repeated by measuring post-acquisition abnormal returns using *CARs*. Table 3.7 presents similar results to the findings in Table 3.6. In both tables, larger companies appear to have lower returns while foreign acquisitions experience greater abnormal returns after completion of a deal. The remaining control variables are largely insignificant.

Table 3.6 Impact of dissent on post-M&A average abnormal returns

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Dissent	-0.070	-0.013	-0.011	-0.009	0.020	-0.399**	-0.173*	-0.091	-0.064	-0.027
	(0.276)	*(0.152)*	*(0.099)*	*(0.081)*	*(0.069)*	*(0.178)*	*(0.100)*	*(0.074)*	*(0.057)*	*(0.053)*
CAR (-1; 1)	-0.056	-0.026	-0.054*	-0.025	0.022	-0.052	-0.011	-0.033	-0.013	0.025
	(0.062)	*(0.038)*	*(0.030)*	*(0.021)*	*(0.016)*	*(0.066)*	*(0.041)*	*(0.032)*	*(0.023)*	*(0.017)*
ROA	0.022	-0.011	-0.062*	-0.036*	-0.003	0.027	-0.008	-0.062*	-0.022	-0.005
	(0.074)	*(0.059)*	*(0.036)*	*(0.020)*	*(0.017)*	*(0.076)*	*(0.061)*	*(0.038)*	*(0.019)*	*(0.016)*
Firm Size	-0.003	-0.002	-0.003**	-0.002*	-0.001	-0.003	-0.002	-0.004*	-0.002**	-0.002***
	(0.004)	*(0.002)*	*(0.002)*	*(0.001)*	*(0.001)*	*(0.004)*	*(0.002)*	*(0.002)*	*(0.001)*	*(0.001)*
Cash-payment	0.012	0.003	0.004	0.004	0.002	0.017	0.005	0.006	0.006	0.003
	(0.013)	*(0.007)*	*(0.005)*	*(0.003)*	*(0.003)*	*(0.015)*	*(0.008)*	*(0.006)*	*(0.004)*	*(0.003)*
Diversifying	-0.004	0.006	0.003	-0.001	0.003	-0.003	0.005	0.002	-0.003	0.001
	(0.010)	*(0.006)*	*(0.005)*	*(0.004)*	*(0.003)*	*(0.011)*	*(0.007)*	*(0.005)*	*(0.004)*	*(0.003)*
Foreign	0.016*	0.013**	0.015***	0.007**	0.001	0.012	0.012*	0.016***	0.008**	0.002
	(0.009)	*(0.006)*	*(0.004)*	*(0.003)*	*(0.003)*	*(0.010)*	*(0.007)*	*(0.005)*	*(0.003)*	*(0.003)*
Friendly	0.017	0.011	0.004	-0.008	-0.005	0.009	0.013	0.004	-0.014**	-0.005
	(0.016)	*(0.013)*	*(0.010)*	*(0.006)*	*(0.005)*	*(0.020)*	*(0.015)*	*(0.012)*	*(0.007)*	*(0.006)*
Public	-0.003	-0.005	0.003	0.000	0.002	-0.006	-0.005	0.005	0.002	0.004
	(0.009)	*(0.006)*	*(0.005)*	*(0.004)*	*(0.003)*	*(0.010)*	*(0.006)*	*(0.005)*	*(0.004)*	*(0.003)*
Constant	0.010	-0.002	0.030	0.027	0.020	0.035	0.027	0.058*	0.058***	0.041***
	(0.056)	*(0.033)*	*(0.028)*	*(0.019)*	*(0.014)*	*(0.057)*	*(0.034)*	*(0.031)*	*(0.018)*	*(0.013)*
Observations	339	336	334	325	294	301	299	297	291	263
R-squared	0.080	0.116	0.180	0.215	0.153	0.086	0.121	0.185	0.218	0.201

Note: This table presents the results of OLS regressions with post-acquisition average abnormal returns (*AARs*) as the dependent variable. The dependent variable in specifications (1 and 6), (2 and 7), (3 and 8), (4 and 9) and (5 and 10) are 1, 3, 6, 12 and 24 month *AARs*, respectively. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) to (5) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while from (6) and (10) are on a sample of only Class 1 acquisitions. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 3.7 Impact of dissent on post-M&A cumulative abnormal returns

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Dissent	-0.139	-0.051	-0.073	-0.130	0.510	-0.800**	-0.699*	-0.647	-0.864	-0.670
	(0.554)	*(0.608)*	*(0.689)*	*(1.045)*	*(1.713)*	*(0.355)*	*(0.399)*	*(0.518)*	*(0.746)*	*(1.331)*
CAR (-1; 1)	-0.108	-0.098	-0.377*	-0.341	0.561	-0.104	-0.044	-0.237	-0.178	0.632
	(0.124)	*(0.152)*	*(0.207)*	*(0.272)*	*(0.405)*	*(0.131)*	*(0.165)*	*(0.221)*	*(0.296)*	*(0.423)*
ROA	0.046	-0.041	-0.435*	-0.470*	-0.070	0.054	-0.037	-0.442*	-0.309	-0.121
	(0.147)	*(0.234)*	*(0.254)*	*(0.260)*	*(0.426)*	*(0.152)*	*(0.243)*	*(0.261)*	*(0.244)*	*(0.392)*
Firm Size	-0.006	-0.007	-0.024**	-0.025*	-0.026	-0.006	-0.008	-0.025*	-0.031**	-0.053***
	(0.007)	*(0.008)*	*(0.011)*	*(0.013)*	*(0.021)*	*(0.008)*	*(0.009)*	*(0.013)*	*(0.015)*	*(0.020)*
Cash-payment	0.023	0.011	0.028	0.053	0.059	0.034	0.018	0.042	0.071	0.078
	(0.026)	*(0.028)*	*(0.036)*	*(0.045)*	*(0.076)*	*(0.029)*	*(0.031)*	*(0.039)*	*(0.048)*	*(0.070)*
Diversifying	-0.008	0.025	0.022	-0.009	0.081	-0.005	0.022	0.018	-0.027	0.018
	(0.020)	*(0.025)*	*(0.034)*	*(0.046)*	*(0.074)*	*(0.021)*	*(0.027)*	*(0.037)*	*(0.048)*	*(0.068)*
Foreign	0.032*	0.052**	0.107***	0.095**	0.025	0.024	0.048*	0.109***	0.101**	0.048
	(0.018)	*(0.025)*	*(0.031)*	*(0.043)*	*(0.068)*	*(0.020)*	*(0.026)*	*(0.033)*	*(0.044)*	*(0.065)*
Friendly	0.033	0.044	0.026	-0.104	-0.127	0.017	0.051	0.031	-0.185**	-0.130
	(0.033)	*(0.051)*	*(0.070)*	*(0.083)*	*(0.137)*	*(0.040)*	*(0.060)*	*(0.082)*	*(0.087)*	*(0.154)*
Public	-0.005	-0.018	0.020	0.002	0.053	-0.011	-0.020	0.036	0.029	0.112
	(0.018)	*(0.024)*	*(0.035)*	*(0.046)*	*(0.075)*	*(0.019)*	*(0.026)*	*(0.038)*	*(0.047)*	*(0.069)*
Constant	0.044	0.018	0.214	0.265	0.503	0.062	0.063	0.321	0.484*	1.036***
	(0.105)	*(0.123)*	*(0.181)*	*(0.223)*	*(0.341)*	*(0.116)*	*(0.139)*	*(0.210)*	*(0.250)*	*(0.327)*
Observations	339	336	334	325	294	301	299	297	291	263
R-squared	0.079	0.115	0.180	0.213	0.153	0.086	0.120	0.183	0.206	0.201

Note: This table presents the results of OLS regressions with post-acquisition average abnormal returns (*CARs*) as the dependent variable. The dependent variable in specifications (1 and 6), (2 and 7), (3 and 8), (4 and 9) and (5 and 10) are 1, 3, 6, 12 and 24 month *CARs*, respectively. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) to (5) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while from (6) and (10) are on a sample of only Class 1 acquisitions. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

3.5. Robustness Tests

To test the results of regressions for robustness, alternative measures of the dependent and the main independent variables are used. To test the impact of shareholder dissent on market perceptions of subsequent M&A deals, the dependent variable *CAR(-1;1)* is first replaced with announcement day *ARs*. The results of the regressions given in Table 3.8 are consistent with the main findings in Table 3.5.

Table 3.8 Dissent and market reaction to subsequent M&As: Alternative measure of ARs

	(1)	(2)	(3)	(4)
Dissent	-0.242**	-0.203**	-0.299**	-0.253**
	(0.111)	*(0.092)*	*(0.122)*	*(0.116)*
CAR (-1; 1)	-0.026	-0.024	-0.031	-0.031
	(0.029)	*(0.025)*	*(0.032)*	*(0.027)*
ROA	-0.023	-0.014	-0.017	-0.007
	(0.034)	*(0.031)*	*(0.034)*	*(0.031)*
Firm Size	0.001	0.000	0.002	0.001
	(0.001)	*(0.001)*	*(0.002)*	*(0.001)*
Cash-payment	0.001	0.001	0.004	0.004
	(0.006)	*(0.005)*	*(0.006)*	*(0.006)*
Diversifying	-0.002	-0.004	-0.002	-0.004
	(0.006)	*(0.005)*	*(0.007)*	*(0.006)*
Foreign	-0.008	-0.009	-0.006	-0.007
	(0.006)	*(0.006)*	*(0.007)*	*(0.006)*
Friendly	-0.023	-0.019	-0.030*	-0.025
	(0.014)	*(0.014)*	*(0.017)*	*(0.017)*
Public	0.004	0.004	0.004	0.003
	(0.006)	*(0.005)*	*(0.006)*	*(0.005)*
Constant	0.024	0.019	0.007	0.011
	(0.021)	*(0.019)*	*(0.022)*	*(0.019)*
Observations	161	239	145	213
R-squared	0.140	0.136	0.164	0.151

Note: This table presents the results of OLS regressions with *ARs* as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) and (2) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while in (3) and (4) are on a sample of only Class 1 acquisitions. Regressions (1) and (3) use the first M&A within a year following the voting. Regressions (2) and (4) use first and second M&A within a year following the voting. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Second, *Dissent2* is measured as the number of votes cast 'against' as a percentage of the total number of votes that could be cast. The results are reported in Table 3.9. The impact of *Dissent2* on *CAR(-1;1)* is stronger and more significant than the impact of *Dissent* reported in Table 3.5.

Table 3.9 Dissent and market reaction to subsequent M&As: Alternative measure of dissent

	(1)	(2)	(3)	(4)
Dissent2	-0.369*	-0.362**	-0.485**	-0.468**
	(0.193)	*(0.167)*	*(0.192)*	*(0.181)*
CAR (-1; 1)	-0.018	-0.021	-0.016	-0.027
	(0.039)	*(0.033)*	*(0.043)*	*(0.037)*
ROA	0.034	0.029	0.050	0.047
	(0.051)	*(0.049)*	*(0.050)*	*(0.049)*
Firm Size	-0.002	-0.002	0.001	-0.000
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*
Cash-payment	0.016*	0.015**	0.022**	0.020**
	(0.008)	*(0.007)*	*(0.009)*	*(0.008)*
Diversifying	0.009	0.004	0.011	0.006
	(0.008)	*(0.007)*	*(0.008)*	*(0.007)*
Foreign	-0.003	-0.006	0.001	-0.003
	(0.008)	*(0.007)*	*(0.008)*	*(0.007)*
Friendly	-0.020	-0.019	-0.038**	-0.035**
	(0.016)	*(0.015)*	*(0.017)*	*(0.016)*
Public	-0.004	-0.005	-0.004	-0.007
	(0.008)	*(0.007)*	*(0.009)*	*(0.008)*
Constant	0.044	0.050*	0.031	0.045*
	(0.030)	*(0.027)*	*(0.030)*	*(0.027)*
Observations	161	239	145	213
R-squared	0.117	0.120	0.170	0.159

Note: This table presents the results of OLS regressions with *CAR(-1;1)* as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) and (2) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while in (3) and (4) are on a sample of only Class 1 acquisitions. Regressions (1) and (3) use the first M&A within a year following the voting. Regressions (2) and (4) use first and second M&A within a year following the voting. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

In Chapter 2, it was found that *Dissent* is determined by variables such as *CAR(-1;1)*, *Firm Size*, *Cash-payment*, *Diversifying* which are included in the main regressions along with *Dissent* as independent variables in this chapter. Therefore, a regression model of *Dissent* on *CAR(-1;1)*, *Firm Size*, *Cash-*

payment, *Diversifying* along with year and industry dummies is estimated and the residuals from this model are used as the main independent variable. Tables 3.10 reports the results of these regressions which provide further evidence of the robustness of the main findings.

Table 3.10 Dissent and market reaction to subsequent M&As: Two stage regression

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CAR (-1; 1)	-0.039*		-0.043**		-0.015		-0.020	
	(0.022)		*(0.018)*		*(0.016)*		*(0.014)*	
Firm Size	0.003***		0.004***		0.003***		0.003***	
	(0.000)		*(0.000)*		*(0.000)*		*(0.000)*	
Cash-payment	-0.004		-0.004		-0.008***		-0.009***	
	(0.003)		*(0.003)*		*(0.003)*		*(0.002)*	
Diversifying	0.004*		0.004**		0.006**		0.006***	
	(0.002)		*(0.002)*		*(0.002)*		*(0.002)*	
DissentRes		-0.233*		-0.213**		-0.285*		-0.254*
		(0.121)		*(0.101)*		*(0.151)*		*(0.142)*
CAR (-1; 1)		-0.013		-0.015		-0.019		-0.028
		(0.037)		*(0.032)*		*(0.043)*		*(0.037)*
ROA		0.036		0.031		0.052		0.049
		(0.051)		*(0.049)*		*(0.051)*		*(0.049)*
Firm Size		-0.002		-0.003		-0.000		-0.001
		(0.002)		*(0.001)*		*(0.002)*		*(0.001)*
Cash-payment		0.014*		0.014*		0.020**		0.019**
		(0.008)		*(0.007)*		*(0.008)*		*(0.007)*
Diversifying		0.007		0.002		0.009		0.003
		(0.007)		*(0.006)*		*(0.008)*		*(0.007)*
Foreign		-0.002		-0.005		0.003		-0.003
		(0.007)		*(0.007)*		*(0.007)*		*(0.007)*
Friendly		-0.018		-0.017		-0.034**		-0.031*
		(0.016)		*(0.014)*		*(0.017)*		*(0.016)*
Public		-0.004		-0.005		-0.004		-0.007
		(0.008)		*(0.006)*		*(0.008)*		*(0.008)*
Constant	-0.036***	0.051*	-0.040***	0.056**	-0.036***	0.038	-0.037***	0.050*
	(0.012)	*(0.028)*	*(0.011)*	*(0 .027)*	*(0.001)*	*(0.031)*	*(0.000)*	*(0.027)*
Observations	161	161	239	239	145	145	213	213
R-squared	0.289	0.113	0.337	0.116	0.222	0.159	0.242	0.148

Note: This table presents the results of two-stage regressions. The dependent variable in specifications (1), (3), (5) and (7) is *Dissent* on original acquisitions. The dependent variable in specifications (2), (4), (6) and (8) is the announcement *CAR(-1;1)* of subsequent acquisitions. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) to (4) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while from (5) to (8) are on a sample of only Class 1 acquisitions. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

To test the impact of voting on post-M&A performance reported in Tables 3.6 and 3.7 for robustness, an alternative measure for abnormal returns is used. Since shareholders invest in assets and hold them for a certain period, they do not earn abnormal returns each day. Therefore, Barber and Lyon (1997) propose the use of buy-and-hold abnormal returns (*BHARs)* instead of *CARs* to measure returns closer to actual investment experience. The difference between the two is simply how abnormal returns are aggregated. *BHARs* are defined as the difference between the realised buy-and-hold return and the expected (or normal) buy-and-hold return over the same period. The results given in Table 3.11 are similar to the findings in Tables 3.6 and 3.7. The only significant relationship is found between dissent and 1-month *BHARs* using a sample of Class 1 acquisitions.

3.6. Conclusion

This chapter has examined the consequences of shareholder voting dissent on M&As. The following empirical results were found. First, dissent on M&As is negatively correlated with the voting day abnormal returns. Second, even though the level and the variation of voting dissent is small, it was found that higher dissent votes for M&A resolutions significantly impact abnormal announcement returns for subsequent acquisitions. This finding is robust to alternative measures of dissent and abnormal returns as well as to a two-stage regression approach. There is no evidence that managers learn how to identify better deals because of pressure in the form of dissent. Instead, market investors seem to take into account dissent expressed by shareholders on

Table 3.11 Impact of dissent on post-M&A buy-and-hold ARs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Dissent	-0.001	0.143	0.215	0.736	0.809	-0.770**	-0.658	-0.752	-1.103	-1.767
	(0.998)	*(0.842)*	*(0.826)*	*(0.684)*	*(0.784)*	*(0.034)*	*(0.103)*	*(0.200)*	*(0.166)*	*(0.183)*
CAR (-1; 1)	-0.145	-0.130	-0.368	-0.259	0.437	-0.136	-0.058	-0.167	-0.012	0.643
	(0.308)	*(0.417)*	*(0.132)*	*(0.402)*	*(0.365)*	*(0.362)*	*(0.732)*	*(0.525)*	*(0.971)*	*(0.143)*
ROA	0.010	-0.067	-0.565*	-0.536*	-0.424	0.015	-0.059	-0.562	-0.329	-0.012
	(0.950)	*(0.777)*	*(0.091)*	*(0.099)*	*(0.580)*	*(0.928)*	*(0.808)*	*(0.105)*	*(0.236)*	*(0.980)*
Firm Size	-0.007	-0.009	-0.030**	-0.021	-0.041	-0.007	-0.011	-0.033**	-0.029*	-0.068***
	(0.401)	*(0.230)*	*(0.028)*	*(0.181)*	*(0.109)*	*(0.425)*	*(0.228)*	*(0.041)*	*(0.094)*	*(0.005)*
Cash-payment	0.029	0.010	0.026	0.014	0.035	0.041	0.016	0.040	0.027	0.030
	(0.350)	*(0.716)*	*(0.524)*	*(0.783)*	*(0.694)*	*(0.247)*	*(0.595)*	*(0.374)*	*(0.621)*	*(0.730)*
Diversifying	-0.004	0.019	0.001	0.029	0.190	0.000	0.015	-0.002	0.003	0.067
	(0.873)	*(0.462)*	*(0.989)*	*(0.616)*	*(0.162)*	*(0.996)*	*(0.589)*	*(0.971)*	*(0.951)*	*(0.422)*
Foreign	0.030	0.057**	0.113***	0.082	0.020	0.022	0.054**	0.113***	0.109**	0.122
	(0.109)	*(0.017)*	*(0.001)*	*(0.109)*	*(0.858)*	*(0.290)*	*(0.036)*	*(0.002)*	*(0.024)*	*(0.115)*
Friendly	0.034	0.037	0.019	-0.068	-0.002	0.018	0.034	0.013	-0.165*	-0.114
	(0.297)	*(0.394)*	*(0.748)*	*(0.484)*	*(0.994)*	*(0.644)*	*(0.468)*	*(0.852)*	*(0.085)*	*(0.538)*
Public	-0.003	-0.014	0.035	-0.012	-0.039	-0.007	-0.014	0.055	0.046	0.113
	(0.857)	*(0.554)*	*(0.352)*	*(0.838)*	*(0.757)*	*(0.709)*	*(0.570)*	*(0.164)*	*(0.360)*	*(0.171)*
Constant	0.059	0.054	0.322	0.186	0.616	0.081	0.121	0.451*	0.421	1.257***
	(0.606)	*(0.678)*	*(0.145)*	*(0.478)*	*(0.175)*	*(0.521)*	*(0.394)*	*(0.074)*	*(0.141)*	*(0.003)*
Observations	339	336	334	325	294	301	299	297	291	263
R-squared	0.077	0.129	0.175	0.168	0.144	0.083	0.133	0.182	0.173	0.194

Note: This table presents the results of OLS regressions with post-acquisition buy-and-hold abnormal returns (*BHARs*) as the dependent variable. The dependent variable in specifications (1 and 6), (2 and 7), (3 and 8), (4 and 9) and (5 and 10) are 1, 3, 6, 12 and 24 month BHARs, respectively. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Regressions in specifications (1) to (5) are based on a sample of all deals including Class 1 acquisitions, reverse takeover and related party transactions, while from (6) and (10) are on a sample of only Class 1 acquisitions. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

approving deals in their evaluation of subsequent deals. Lastly, higher levels of dissent votes appear to have little impact on the post-acquisition abnormal returns.

It is important to note that significant relationships found in this chapter do not necessarily mean that voting dissent directly causes negative market reaction to the announcement of subsequent deals. It is rather perceptions of managerial quality, reflected in voting outcomes, which are associated with subsequent acquisitions (Fischer et al., 2009). Although the findings overall suggest that voting is effective in that it has statistically significant consequences on M&A performance, it may have relatively modest economic significance (Yermack, 2010). It is argued that if the regulations aimed at encouraging shareholder activism through voting, such as those discussed in Chapter 1, are perceived optimistically by investors (Cai, Garner, and Walkling, 2009) and voting was informed (Myners, 2001) it could lead to an increase in their belief in the voting process. This may consequently lead to the development of a culture of informed voting and more meaningful changes in the economic impact of votes.

4. Shareholder Voting and Corporate Diversification

4.1. Introduction

This chapter is motivated by the findings of recent research on shareholder voting on M&A decisions and its role as a governance mechanism on one hand and by the extensive literature on corporate diversification and its firm value implications on the other hand. It examines how shareholders voice their opinion on diversification strategies of their managers and assess the value implications of proposed acquisitions through voting. It is an extension of the analysis on the determinants of voting dissent in Chapter 2, where a significant relationship between a diversifying M&A dummy and dissent is found. This chapter uses a range of firm and deal level diversification variables and further investigates whether the attitude of shareholders towards firm level diversification is revealed in their votes on M&A deals.

Diversification and governance are two important sources of company value (Hoechle et al., 2012). Theories such as market power, resource based and agency theory have been developed to explain why firms diversify (Montgomery, 1994). Empirical research in the area of economics and finance has largely relied on the agency view. It suggests that in perfect capital markets there is no financial value to diversification as shareholders can easily diversify their own portfolios. Thus, diversification is rather a manifestation of the problem of separation of ownership and control (Jensen and Meckling, 1976). In most US and UK companies, ownership is distributed across a large number of diverse shareholders, while control is concentrated around the CEO or a small group of executive directors (Berle and Means, 1932). As a result, powerful managers use diversification to pursue their own interest at the expense of shareholders (Amihud and Lev, 1981).

However, shareholders want to be assured of obtaining return on their invested capital and that diversification does not reduce the value of their investment. Corporate governance provides this assurance and penalises managers who diversify inappropriately (Shleifer and Vishny, 1997). Failure of corporate governance mechanisms, on the other hand, leads to an increase of value-destroying diversification (Maksimovic and Phillips, 2008).

A substantial body of diversification literature has examined how corporate governance mechanisms can be used to align the interests of shareholders and managers, and control self-interested managerial behaviour to reduce the effect of the agency problem. The examples of such governance mechanisms are managerial and shareholder ownership (May, 1995; Denis, Denis, and Sarin, 1997), executive compensation (Rose and Shepard, 1997; Anderson et al., 2000) and board of directors (Anderson et al., 2000; Chen, Dyball, and Wright, 2009). Although the evidence provided is not conclusive, it has been suggested that these mechanisms may limit managers' tendencies to diversify (Denis, Denis, and Sarin, 1997).

This study investigates the overlooked relationship between diversification and shareholder voting as a corporate governance mechanism. It seeks to fill in this gap in the literature by answering the research question whether votes cast on M&As reflect shareholders' attitude towards diversification. The current research on shareholder voting in the US is limited to including only a diversifying M&A deal dummy to explore how shareholders react to diversifying deals (Burch, Morgan, and Wolf, 2004; Henning, 2015). This chapter contributes to the literature in two important ways. It does this through being the first study to examine whether the level of firm diversification and diversification discount have any impact on voting dissent. It also presents first evidence on how shareholders in the UK vote on diversifying deals. The rest of the chapter is structured as follows. The next section provides a brief review of the current literature and derivation of the hypotheses. This is followed by the description of data, variables and analysis of empirical results and robustness tests. The final section concludes.

4.2. Literature Review and Hypothesis Development

4.2.1. Diversification and corporate governance

As mentioned above, various theories have been developed to explain reasons for why firms pursue diversification strategy and benefits and costs associated with it. Market power view suggests that the main benefit of diversification for a firm is gaining conglomerate power (Hill, 1985). This power improves performance by reducing competition and is obtained in three ways. First, internal capital markets within a diversified firm can be used for cross-subsidization whereby excess profits of one segment are used to undercut rivals in another segment through predatory pricing. Second, diversified firms often facing each other in similar segments decide to compete less with each other because of mutual forbearance. Third, large diversified firms engage in reciprocal buying to drive smaller rivals out of the market (Montgomery, 1994).

Resource based view of diversification is based on the idea that if diversified firms have excess resources in one segment that are transferable into other segments, they should be utilised in those segments to generate more profit given lower production costs because of economies of scope. Because of their organisational form diversified firms can significantly benefit from such economies of scope as it is more difficult to obtain them in external capital markets (Teece, 1980, 1982). In addition to market power and resource based views, diversification can be value enhancing because of benefits such as growth opportunities (Guth, 1980), tax benefits (Auerbach and Reishus, 1988), debt coinsurance (Lewellen, 1971; Shleifer and Vishny, 1992), etc.

Although there are some findings of a positive relationship between diversification and firm value based on these views, majority of empirical evidence support the agency theory. Unlike market power and resource based views, the agency theory is not consistent with profit maximisation (Montgomery, 1994). This negative relationship between diversification and firm value is more apparent from studies on M&As based on event study methodology which conclude that, on average, acquirer firms experience negative abnormal returns around the announcement of diversifying deals (Morck, Shleifer, and Vishny, 1990).

According to the agency theory, managers may want to diversify to pursue their own interest in the following ways. By diversifying they can increase the size of the firm they run. Running a larger business means that managers will have more power, prestige and compensation (Jensen, 1986; Jensen and Murphy, 1990; Stulz, 1990). Similarly, managers entrench themselves by diversifying into areas where their knowledge and skills are crucial so that shareholders cannot replace them without substantial costs (Shleifer and Vishny, 1989). They can also be motivated by promising career benefits as employment prospects are likely to increase with the experience of running a complex diversified firm (Gibbons and Murphy, 1992). In other words, there is less employment risk. The risk of managers' personal portfolios will also decrease with the lower risk of the firm associated with diversification (Amihud and Lev, 1981).

Managers pursuing shareholder wealth maximisation may also use diversification when they are hyper-confident about their ability to manage a complex diversified firm. These managers are likely to make decisions based on irrational overconfidence or hubris (Roll, 1986). Because of managerial incentives and hubris, managers tend to overinvest in value destroying projects, leading firms to become too large and over diversified. Moreover, already diversified firms face further agency costs because of their organisational form (Fauver, Houston, and Naranjo, 2003). Therefore, diversified firms experience a decrease in their value and trade at a discount to compare to its single segment counterparts.

Lang and Stulz (1994) and Berger and Ofek (1995) find that diversified firms trade at a diversification discount. They compare the values of segments of diversified firms with the values of single segments firms in the corresponding industries and find that diversified firms trade at a discount of approximately 15%. They further explain this as a value destroying consequence of diversification. A large body of research has confirmed their findings using samples based on different periods and countries (Lins and Servaes, 1999, 2002; Fauver, Houston, and Naranjo, 2003; Hoechle et al., 2012).

Jiraporn et al. (2006) investigate the relationship between the level of diversification and the diversification discount and the strength of shareholder rights. They find that managers exploit weak shareholder rights and pursue value destroying diversification. Thus, weak rights lead to more diversification and higher discount. Iliev et al. (2015) finds that poor shareholder protection leads to fewer votes cast for an M&A deal. Given these findings, a natural question arises whether there is any relationship between firm level diversification and diversification discount and shareholder voting on M&As?

Voting on M&As is one of the ways shareholders can voice their opinion not only about a specific diversifying deal but about the diversification strategy of the management in general. The relationship between diversification and shareholder voting has not been examined as much as for other governance mechanisms. In the US context, Burch, Morgan, and Wolf (2004), Ouyang (2015), and Henning (2015) find a positive relationship between same-industry deals dummy and voting approval. However, in all three cases, the relationship is statistically insignificant. To provide more evidence on the relationship between diversification and shareholder voting, this chapter seeks to test the following hypotheses.

4.2.2. Deal level diversification and shareholder dissent

As diversifying M&As may represent a change in the firm's boundaries, the effects of such deals can be particularly important for a firm's long-term growth (Hornstein and Nguyen, 2014). Therefore, shareholders will be more rigorous in accessing and approving diversifying deals. Bidding firms in diversifying acquisitions tend to gain lower returns (Morck, Shleifer, and Vishny, 1990). Managers, however, still continue to make large and risky diversifying acquisitions, even if it hurts shareholders, as the number of diversifying deals is increasing worldwide (Aggarwal and Baxamusa, 2013; Hornstein and Nguyen, 2014). Therefore, shareholders are likely to be skeptical about diversifying acquisitions and their consequences for shareholder wealth. Becht, Polo, and Rossi (2016) find that by showing dissent in voting, shareholders would be willing to stop managers from value-destroying acquisitions. If diversifying acquisitions are thought to be value decreasing, shareholders are most likely to dissent. Thus, the first hypothesis is that:

> Hypothesis 1a: The level of dissent is higher for diversifying acquisitions.

It is also expected that shareholders generally dissatisfied with the management (measured by dissent on director remuneration reports at previous annual general meeting) are more likely to be upset about a diversifying acquisition. In other words, if shareholders do not trust management, they are likely to be particularly concerned about a diversifying M&A. Similarly, shareholders of already diversified firms dissatisfied with diversification in general are likely to show more dissent on further diversification. Thus it is expected that:

> Hypothesis 1b: The positive link between dissent and diversifying deals is stronger when shareholders are dissatisfied with the management.

> Hypothesis 1c: The positive link between dissent and diversifying deals is stronger when the acquirer firm is already diversified.

4.2.3. Firm level diversification and shareholder dissent

Major acquisitions may be complex and difficult for shareholders to evaluate as they may not have access to the independent sources of information about the deal and the impact of it on the acquirer (Webb, Beck and McKinnon, 2003). Thus shareholder voting on acquisitions, diversifying deals in particular, may reflect investors' knowledge of the particular deal vs market sentiment about diversification in general (Hornstein and Nguyen, 2014). If excess value provides longer-term perspective on the impact of corporate diversification on market valuation, then one could expect voting outcomes on M&A deals to be related to the excess value and the extent of corporate diversification of the acquirer firm. Shareholders may not like the firm to be diversified because it is cheaper for them to do it in the markets (Martin and Sayrak, 2003). Therefore, the expectation is that there will be more dissent if the acquirer is diversified/more diversified. Furthermore, shareholders will know when a firm is trading at a discount and will show their dissatisfaction. Therefore, the prediction is that:

> Hypothesis 2a: The level of dissent increases with the level of diversification.
>
> Hypothesis 2b: The level of dissent increases with the level of diversification discount.

4.3. Data and Methodology

4.3.1. Data sources

This chapter uses the same sample of voting results of 362 EGMs and corresponding M&A deals from 1997 to 2015 used in previous chapters. Data on voting for M&As and DRRs from 1997 to 2009 were obtained from Manifest and manually collected from 2009 to 2015. Data on M&A deal characteristics were obtained from Thomson One. Financial and accounting data of bidders are from Datastream. Finally, manually collected annual reports were used to construct governance and shareholding ownership variables (see Chapter 2 for a more detailed description of data collection of voting outcomes and M&A deals).

Diversification variables are constructed using data from Datastream. In the existing literature, corporate diversification is commonly measured using SIC codes and segment level data (Martin and Sayrak, 2003). Datastream provides segment level data for reported segments. For example, a firm reports that it operates in three different segments (three different 4-digit SIC codes) and provides accounting items for each segment. Segment SIC codes and corresponding segment level sales, assets, operating income at the financial fiscal year end before the announcement of M&As were downloaded. The analysis is based on segment sales as there are significantly more missing values for assets and operating income than for sales. Moreover, use of sales is advantageous as it gives an indication of the importance of each segment in terms of current period operating results (Martin and Sayrak, 2003).

The sample size decreases from 362 to 322 as forty firms are excluded due to missing values in segment data. Some firms report segments with the same SIC code. These segments and corresponding accounting data are combined to avoid a potential problem of defining a firm diversified when it is actually single segment. Firms may also report non-operating segments. Following Glaser and Muller (2010), a segment is defined as non-operating if segment SIC code is 9999 (non-classifiable establishments) and segment sales are 0 or negative. Non-operating segments are disregarded when classifying firms as diversified or not. The sample size further decreases to 182 deals as firms with no data for *DissentDRR*, which was found to be a significant determinant of voting *Dissent* on M&As in Chapter 2, were excluded.

For the sample period of 1997-2015 there were three accounting standards for segmental reporting in the UK: the Statement of Standard Accounting Practice 25 (SSAP 25) from 1997 to 2004, the International Accounting Standard revised (IAS 14R) from 2005 to 2008, and the International Financial Reporting Standard (IFRS 8) from 2009 to 2015. These three differ in the principle of segment identification, measurement of segment information, and the amount of accounting data to be disclosed for each segment (Aleksanyan and Danbolt, 2015). To avoid a potential distortion of diversification measures used in this analysis due to the different segmental reporting requirements, reported segment data for all firms used in the regressions are analysed.

Following Aleksanyan and Danbolt (2015), the number of segments reported under three different standards (SSAP25 from 2002 to 2004, IAS 14R from 2006 to 2008, IFRS 8 from 2010 to 2012) is counted. Segments in 2005 and 2009 are excluded as they are considered to be transition years when companies reported under different standards. It is found that the average number of segments reported under the three standards are 2.08, 2.03 and 1.95, respectively. Although there is a decrease in the number of segments reported, as found in Aleksanyan and Danbolt (2015), it is not significant. Moreover, when the number of segments reported every year from 1997 to 2015 for each firm is counted, there is no consistent evidence that there were more or less segments as a result of the change in accounting standards. A dummy variable approach will also be used to address this issue in the findings section.

4.3.2. Measures of diversification

- Diversified acquirer dummy

A dummy variable *Diversified Firm* is equal to one if the firm operates in more than one business segment based on four-digit SIC code. However, measuring diversification by counting the number of SIC codes has its limitations. This measure weights segments equally and does take into account the distribution of each segment in the overall value of the firm (Berry, 1971).

- Entropy measure

The advantage of *Entropy* measure of diversification is that it takes into account 1) the number of industry segments the firm operates in and more importantly 2) the distribution of the firms' sales across the segments. Entropy measure E for firm i is calculated as follows:

$$E = \sum_{i=1}^{n} P_i \ln 1/P_i$$

where P_i is the share of sales of the i industry segment and it is summed across n number of industry segments the firm operates in. The weight for each segment is the logarithm of the inverse of its share in a segment. The larger the Entropy measure, the more diversified the firm is. Single segment firms have Entropy measure of 0 (Jacquemin and Berry, 1979).

- Excess value

As mentioned earlier, Lang and Stulz (1994) and Berger and Ofek (1995) find that diversified firms trade below their imputed value. The imputed value of a diversified firm is the weighted average value of stand-alone firms in the same industries as the segments of the diversified firm. Some of the more recent studies that have successfully used this method to examine the value of diversification are Laeven and Levine (2007), Schmid and Walter (2009), Hoechle et al. (2012), Ataullah et al. (2014), and Kuppuswamy and Villalonga (2016).

In order to calculate excess value segment level data for all UK publicly listed firms between 1997 and 2015 are downloaded from Datastream. Duplicate observations and firms with no segment level data are excluded. Again, when the same segment (SIG) is reported more than once they are combined into one and the corresponding sales are added. Finally, all firms that have more than one operating segment at four/three/two-digit SIC code (diversified firms) are excluded, leaving only single segment firms with segment SIC codes and sales which allowing to calculate excess value.

Following Berger and Ofek (1995), sales of each segment of a diversified firm is multiplied by its corresponding industry median market-to-sales ratio. To do this at least five single segment firms in each industry is required. When there are less than five single segment firms in an industry at four-digit SIC code level, three-digit SIC is used. If there are less than five firms at three-digit SIC level, two-digit SIC is used. Applying this algorithm, imputed value for 45% of all segments are calculated based on four-digit, 16.5% on three-digit and 38.5% on two-digit industries. These are similar to what Berger and Ofek (1995) use in their paper: 44.6%, 25.4% and 30%, respectively. To calculate the industry median ratio firm value, measured by total capital (market value of equity plus book value of total debt), is divided by sales for all single segment firms in the corresponding industry and the median value is obtained. Summing the results of all segments, the imputed value of a diversified firm is calculated. This can be given as follows:

$$\mathrm{V_{imp}} = \sum_{\mathrm{i}=1}^{\mathrm{n}} \mathrm{sales_i} * \mathrm{Indmedian_i}(\frac{\mathrm{V}}{\mathrm{sales}})$$

where sales_i is the sales of segment i, V is firm value. $\text{Indmedian}_i(\frac{V}{\text{sales}})$ is the median ratio of firm value to sales of all one-segment firms in the segment i's industry, and n is the number of segments of the diversified firm. Finally, to determine whether diversified firms trade at a discount or a premium the log of the ratio of the actual market value (market value of equity plus book value of total debt) to the imputed market value is computed. This measure is called the excess value:

$$\text{Excess Value} = \ln \frac{V_{\text{actual}}}{V_{\text{imputed}}}$$

A diversified firm is believed to trade at a discount if the actual value is lower than imputed value; otherwise, there is a premium. In other words, negative excess value represents discount, while positive value implies that a firm trades at a premium.

- Control variables

The market reaction to the announcement of M&A deal, measured by *CAR(-1;1)*, and shareholders' overall dissatisfaction with the management, measured by *DissentDRR*, that have been found to influence voting *Dissent* on M&As in Chapter 2 are used as control variables. There is no data on *DissentDRR* for some of the deals prior to 2003 because approval of remuneration reports only became mandatory for firms incorporated under the UK company law from 2003 (Department of Trade and Industry, 2002). The following variables are also controlled in the regressions: *Firm Size*, *Cash-payment*, *ROA*, *Tobin's q*, *Cash/TA*, *Leverage*, *Rel.Size*, *Friendly*, *Cross-border*, *BoardOwn*, *OwnConc*, *Board Size*, *Non-Exec*, *Gender* and *CEO Age*. Description of all variables are given in Appendix A. *Dissent2* is also reported as alternative measure for the dependent variable *Dissent* and *Number of Segments* and *Herfindahl* as alternative independent variables for diversification. These are used in robustness tests section. This chapter seeks to test the relationship between diversification variables and the dependent variable *Dissent*, using the GLM model with probit link due to the bounded nature of Dissent (Papke and Wooldridge, 1996).

4.4. Empirical Results

4.4.1. Univariate analysis

Table 4.1 compares acquirer firm and deal characteristics between single-segment and diversified firms using a two tailed t-test. Dissent on both M&As and DRRs is larger for diversified firms but the difference is statistically insignificant. Low level of significance (10 %) is found when one-tailed test is used to test whether dissent on M&As is larger for diversified firms than for single segment firms. Diversified firms in the sample have three segments on average. Mean *Entropy* and *Herfindahl* measures for diversified firms are 0.703 and 0.588, respectively. Ataullah et al. (2014) find similar levels of diversification for a large sample of UK firms. The mean *Excess Value* is -0.028 for single segments firms and -0.103 for diversified firms. This indicates that diversified firms in the sample trade at a discount of approximately 10%, while the *Excess Value* for single segment firms is close to zero. This is consistent with Berger and Ofek (1995) and the findings in the UK context (Lins and Servaes, 1999). Diversified firms are larger and hold less cash, which is in line with the theory. Large firms are more likely to be well diversified and have many segments (Hund, Monk, and Tice, 2010). Diversified firms possess much less cash than focused ones because they are diversified in investment opportunities (Duchin, 2010). If *Tobin's q* incorporates the capitalised value of the benefits from diversification (Lang and Stulz, 1994), then there is strong evidence that diversified firms are valued less than single segment firms in the sample as *Tobin's q* is significantly lower for the former.

Table 4.1 Descriptive statistics

	Single segment acquirers (n=77)	Multi segment acquirers (n=105)
Firm variables		
Dissent	0.005	0.011
DissentDRR	0.049	0.058
Entropy	0	0.703***
Excess Value	-0.028	-0.103
Herfindahl	1	0.588***
Number of Segments	1	2.876***
CAR(-1;1)	0.019	0.021
Firm Size	13.16	14.05***
ROA	0.042	0.046
Tobin's q	1.985	1.502***
Cash/TA	0.169	0.073***
Leverage	0.193	0.225
BoardOwn	5.743	4.021
OwnConc	15.82	13.79
Board Size	2.055	2.168**
Non-Exec	0.613	0.595
Gender	0.597	0.562
CEO Age	3.896	3.942**
Deal variables		
Diversifyingat4	0.519	0.352**
Diversifyingat3	0.649	0.457***
Diversifyingat2	0.740	0.590**
Cash-payment	0.389	0.438
Rel.Size	0.533	0.557
Friendly	0.935	0.905
Cross-border	0.584	0.543

Note: This table compares means of firm and deal-level variables for single segment (focused) and multi-segment (diversified) firms. Differences in means are tested by a two-tailed t-test. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Diversified firms have larger boards (by one director) and older CEOs (by two years) on average. Yermack (1996) argues that monitoring benefits of larger boards are outweighed by higher costs of slower decision making and lower level of frank discussions about managerial performance. He finds strong evidence of less effectiveness of larger boards. Finding larger boards in diversified firms is consistent with an agency motive for diversification (Anderson et al., 2000). Berry et al. (2006) find that CEOs of product diversified firms are older by more than a year and more educated than the CEOs of single segments firms, supporting the findings. Lastly, diversified firms tend to make fewer diversifying acquisitions than single segment firms. *Diversifyingat4, Diversifyingat3* and *Diversifyingat2* are dummy variables equal to 1 if acquirer and target firms have different SIC codes at 4, 3 and 2 digits respectively, and 0 otherwise. Diversified firms are likely to be monitored more than single segment firms. Stronger outside monitoring reduces the likelihood of further diversification (Hornstein and Nguyen, 2014).

4.4.2. Diversification and dissent

Table 4.2 presents the results of regressions using two alternative measures of corporate diversification: *Diversified Firm* dummy and *Entropy* measure. The sample size decreases to 175 due to missing values in control variables. The dependent variable *Dissent* is measured as the ratio of votes cast against and total number of votes cast. GLM model with probit link is used (see Chapter 2 of this thesis for detailed discussion of the dependent variable and the methodology). Not including these variables in the regressions in Chapter 2 is likely to create omitted variable problem. However, the results in Chapters 2 and Chapter 4 presented in this section provide similar signs and coefficients for the relationship between control variables and *Dissent* when regressions both with and without diversification variables are used.

Models (1), (2) and (3) report results of regression with *Diversified Firm* and *Diversifying* acquisition dummy variables at four, three and two digit SIC code levels, respectively. These dummy variables take the value of one if the acquirer and target firms share the same SIC codes. Models (4), (5) and (6) report the regressions with *Entropy* as the measure of the extent of diversification. Hypothesis 1a is supported by finding a significantly strong impact of diversifying M&A deals on *Dissent* in all model specifications. Shareholders seem to be unhappy with managers announcing a diversifying deal. Furthermore, the evidence presented supports Hypothesis 2a of a positive relationship between dissent and the extent of diversification. Shareholders of diversified firms cast more against votes on M&A deals. It is also found that deals announced by more diversified (higher *Entropy*) firms receive higher voting dissent. Finally, coefficients on other independent variables used in these regressions are consistent with the findings in Chapter 2, even after using different sample size.

Table 4.2 Impact of diversification on dissent on M&As

	(1)	(2)	(3)	(4)	(5)	(6)
Diversified Firm	0.006**	0.007**	0.007**			
	(0.003)	*(0.003)*	*(0.003)*			
Entropy				0.005**	0.006*	0.005*
				(0.003)	*(0.003)*	*(0.003)*
Diversifyingat4	0.009***			0.011***		
	(0.003)			*(0.003)*		
Diversifyingat3		0.010***			0.011***	
		(0.003)			*(0.004)*	
Diversifyingat2			0.007**			0.008**
			(0.003)			*(0.003)*
DissentDRR	0.038***	0.034**	0.038***	0.036***	0.031**	0.035**
	(0.013)	*(0.014)*	*(0.013)*	*(0.014)*	*(0.015)*	*(0.014)*
CAR (-1; 1)	-0.026	-0.024	-0.028	-0.022	-0.021	-0.026
	(0.018)	*(0.017)*	*(0.018)*	*(0.019)*	*(0.018)*	*(0.019)*
Firm Size	0.003***	0.003***	0.003***	0.004***	0.003***	0.003***
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Cash-payment	-0.005*	-0.004*	-0.005**	-0.005**	-0.005*	-0.006**
	(0.002)	*(0.002)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	175	175	175	175	175	175
R-squared	0.724	0.715	0.689	0.709	0.688	0.656

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 175 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

To address the concern of potential distortion of segment data mentioned earlier, three dummy variables are used to capture the effect of different segmental reporting standards instead of individual year dummies as in Vasilescu and Millo (2016): Dummy1 equal to one if the financial year end is between 1997 and 2005, zero otherwise; Dummy2 equal to one if the financial year end is between 2006 and 2009, zero otherwise; and Dummy3 equal to one if the financial year end is between 2010 and 2015, zero otherwise. Results remain similar to the findings in Table 4.2.

4.4.3. *Excess value and dissent*

Table 4.3 reports the results of the regressions to test whether there is less *Excess Value* (more diversification discount) when a firm is diversified. *Excess Value* is used as the dependent variable in OLS regression. The same independent variables are used as in Berger and Ofek (1995): *Diversified Firm* dummy variable, *Log of total assets*, *CAPEX/Sales* and *EBIT/Sales*.

Three dummy variables *Diversified Firm* at four, three and two-digit SIC code level are used in the regressions. Diversification is categorised as related when a firm diversifies within the same two-digit SIC code. Hence, diversification is unrelated when a firm reports segments different at two-digit SIC code level. It has been argued that unrelated diversification decreases firm value to compare to related diversification (Rumelt, 1974). The relationship between *Diversified Firm* and *Excess Value* is significantly negative when *Diversified Firm* is defined at three and two-digit SIC code, while it is not significant when it is diversified at four-digit SIC code. This is consistent with Berger and Ofek (1995) and Lins and Servaes (1999) who also find that diversification at two-digit level leads to more discount.

Table 4.3 Determinants of excess value

	(1)	(2)	(3)
Diversifiedat4	-0.049		
	(0.142)		
Diversifiedat3		-0.285**	
		(0.131)	
Diversifiedat2			-0.282**
			(0.136)
Log of total assets	-0.006	0.016	0.014
	(0.034)	*(0.034)*	*(0.034)*
CAPEX/Sales	0.375***	0.347***	0.335***
	(0.092)	*(0.091)*	*(0.092)*
EBIT/Sales	-0.008	-0.014	-0.027
	(0.138)	*(0.133)*	*(0.135)*
Constant	-0.991	-1.153*	-1.210*
	(0.628)	*(0.635)*	*(0.633)*
N	173	173	173
R-squared	0.097	0.111	0.110

Note: This table presents the results of OLS regressions with *Excess Value* as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 173 Class 1 acquisitions, reverse takeovers and related party transactions. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

In Table 4.4, *Excess Value* is used as the main independent variable to explain *Dissent* on M&As. Note that *Excess Value1* is used for the sample of both single segment and diversified firms and *Excess Value2* is used for the sample of diversified firms only. Models (1), (2) and (3) report results of regression for the sample of both diversified and single segment firms (n=173). Excess value can also be calculated for single segment firms. The calculation is the same as for diversified firms but the imputed value is simply the median capital-to-sales ratio for all single segment firms in the industry (Fauver, Houston, and Naranjo, 2003). Models (4), (5) and (6) report results for diversified firms only (n=101) where similar results are found but the coefficients are twice larger. The coefficients for this variable are significantly negative. This is consistent with Hypothesis 2b. There is a positive relationship between diversification discount and shareholder dissent on M&As. In other words, firms that trade at a larger premium (less discount) receive less against votes.

Table 4.4 Impact of excess value on dissent on M&As

	(1)	(2)	(3)	(4)	(5)	(6)
Excess Value1	-0.003***	-0.003**	-0.003**			
	(0.001)	*(0.001)*	*(0.001)*			
Excess Value2				-0.005**	-0.004*	-0.005
				(0.002)	*(0.002)*	*(0.003)*
Diversifyingat4	0.009***			0.015***		
	(0.003)			*(0.004)*		
Diversifyingat3		0.009***			0.012***	
		(0.003)			*(0.004)*	
Diversifyingat2			0.006**			0.013**
			(0.003)			*(0.006)*
DissentDRR	0.043***	0.042***	0.043***	0.043**	0.039*	0.054**
	(0.013)	*(0.014)*	*(0.014)*	*(0.019)*	*(0.020)*	*(0.022)*
CAR (-1; 1)	-0.029	-0.025	-0.029	-0.064***	-0.064**	-0.072***
	(0.018)	*(0.018)*	*(0.019)*	*(0.022)*	*(0.025)*	*(0.028)*
Firm Size	0.004***	0.004***	0.004***	0.000	-0.000	-0.002
	(0.001)	*(0.001)*	*(0.001)*	*(0.002)*	*(0.002)*	*(0.002)*
Cash-payment	-0.006**	-0.005*	-0.006**	-0.010**	-0.010**	-0.017**
	(0.002)	*(0.003)*	*(0.003)*	*(0.005)*	*(0.005)*	*(0.007)*
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	173	173	173	101	101	101
R-squared	0.700	0.685	0.659	0.812	0.800	0.839

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 173 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 4.5 (specifications 2 to 5) presents the results of the regression using the interaction between *Diversifying* and *DissentDRR*. As suggested earlier, *DissentDRR* is the measure of the shareholders' view of the management. The expectation is that shareholder generally dissatisfied with the management (measured by dissent on DRRs) are more likely to be upset about a diversifying acquisition. In other words, if shareholders trust managers, they may be happier to go ahead with a deal. If shareholders do not trust management, they will be particularly concerned about a diversifying M&A.

Table 4.5 Diversification and dissent on M&As: Interaction terms

	(1)	(2)	(3)	(4)	(5)
*Diversifying*HighDissentDRR*		0.011**	0.011**	0.013***	0.024***
		(0.005)	*(0.005)*	*(0.005)*	*(0.006)*
*Diversifying*Diversified*	0.012***				
	(0.004)				
Diversified Firm	-0.001	0.005**			
	(0.003)	*(0.003)*			
Entropy			0.004		
			(0.003)		
ExcessValue (All firms)				-0.004***	
				(0.001)	
ExcessValue (onlyDiver)					-0.006***
					(0.002)
Diversifying	0.001	0.006**	0.007***	0.005**	0.008**
	(0.004)	*(0.002)*	*(0.003)*	*(0.003)*	*(0.003)*
DissentDRR	0.038***	0.006	0.004	0.006	-0.039
	(0.011)	*(0.021)*	*(0.021)*	*(0.019)*	*(0.025)*
CAR (-1; 1)	-0.028*	-0.022	-0.019	-0.024	-0.027
	(0.017)	*(0.017)*	*(0.018)*	*(0.017)*	*(0.021)*
Firm Size	0.003***	0.003***	0.003***	0.004***	-0.000
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.002)*
Cash-payment	-0.005**	-0.004*	-0.005**	-0.005**	-0.008*
	(0.002)	*(0.002)*	*(0.003)*	*(0.002)*	*(0.004)*
Controls	Yes	Yes	Yes	Yes	Yes
N	175	175	175	173	101
R-squared	0.731	0.752	0.740	0.758	0.842

Note: This table presents the results of probit regressions with *Dissent on M&As* as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 175 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

It is assumed that shareholders will be satisfied/dissatisfied with the management if the dissent is above/below a certain threshold. The mean dissent on DRRs is used as a threshold. *HighDissentDRR* dummy variable is set to 1 if the dissent is above the mean dissent on DRRs, 0 otherwise. *Diversifying* and *HighDissentDRR* dummy variables are then interacted to create *Diversifying*HighDissentDRR* variable. The regression results suggest that shareholders not satisfied with management will be even more against a diversifying deal. The effect is stronger and more significant at higher levels of *DissentDRR*. This supports Hypothesis 1b.

Similarly, *Diversifying*Diversified* dummy variable is created by multiplying *Diversifying* and *Diversified Firm* variables. There is a significant positive (specification 1) relationship between the interaction term and *Dissent* on M&A. Dissent on diversifying deals seem to increase when the firm is already diversified (the coefficients are higher for *Diversifying* in Table 4.5 than in Table 4.2). Hence, there is evidence to support Hypothesis 1c.

4.5. Robustness Tests

To test findings for robustness, the main regressions are run with an alternative measure of dissent. *Dissent2* is measured as the number of votes cast 'against' as a percentage of the total number of votes that could be cast based on voting rights. The results in Tables 4.6 and 4.7 are not different from the main findings presented in Tables 4.2 and 4.4.

Table 4.6 Impact of diversification on dissent on M&As: Alternative measure of dissent

	(1)	(2)	(3)	(4)	(5)	(6)
Diversified Firm	0.004**	0.004**	0.005**			
	(0.002)	*(0.002)*	*(0.002)*			
Entropy				0.003*	0.003*	0.003*
				(0.002)	*(0.002)*	*(0.002)*
Diversifyingat4	0.006***			0.007***		
	(0.002)			*(0.002)*		
Diversifyingat3		0.007***			0.007***	
		(0.002)			*(0.002)*	
Diversifyingat2			0.005**			0.005**
			(0.002)			*(0.002)*
DissentDRR	0.027***	0.024***	0.026***	0.027***	0.024***	0.025***
	(0.008)	*(0.008)*	*(0.008)*	*(0.008)*	*(0.009)*	*(0.009)*
CAR (-1; 1)	-0.012	-0.011	-0.013	-0.010	-0.009	-0.012
	(0.011)	*(0.010)*	*(0.011)*	*(0.012)*	*(0.011)*	*(0.012)*
Firm Size	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.001)*	*(0.001)*
Cash-payment	-0.003*	-0.002	-0.003*	-0.003*	-0.002	-0.003**
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	175	175	175	175	175	175
R-squared	0.728	0.721	0.694	0.702	0.685	0.651

Note: This table presents the results of probit regressions with *Dissent2* on M&As as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 175 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 4.7 Impact of excess value on dissent on M&As: Alternative measure of dissent

	(1)	(2)	(3)	(4)	(5)	(6)
Excess Value1	-0.002***	-0.002***	-0.002**			
	(0.001)	*(0.001)*	*(0.001)*			
Excess Value2				-0.003**	-0.002*	-0.003
				(0.001)	*(0.001)*	*(0.002)*
Diversifyingat4	0.006***			0.010***		
	(0.002)			*(0.002)*		
Diversifyingat3		0.006***			0.008***	
		(0.002)			*(0.003)*	
Diversifyingat2			0.004**			0.009**
			(0.002)			*(0.004)*
DissentDRR	0.030***	0.029***	0.029***	0.027**	0.024**	0.033***
	(0.008)	(0.008)	(0.009)	(0.011)	(0.012)	(0.013)
CAR (-1; 1)	-0.013	-0.011	-0.014	-0.028**	-0.026*	-0.030*
	(0.011)	(0.011)	(0.011)	(0.013)	(0.015)	(0.017)
Firm Size	0.002***	0.002***	0.002***	0.000	0.000	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Cash-payment	-0.003**	-0.003	-0.004**	-0.005*	-0.005*	-0.008*
	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.004)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	173	173	173	101	101	101
R-squared	0.717	0.706	0.674	0.825	0.814	0.851

Note: This table presents the results of probit regressions with *Dissent2* on M&As as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 175 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Furthermore, two alternatives measures of diversification are used as in Comment and Jarrell (1995). First, *Diversified Firm* dummy is replaced with *Number of Segments* count variable. Second, instead of *Entropy* measure *Herfindahl* index is used. *Herfindahl* is a measure of concentration and has widely been used in diversification literature. The difference between *Entropy* and *Herfindahl* measures is in the calculation of the weight for each segment of a diversified firm.

$$H = \sum_{i=1}^{n} P_i P_i$$

In the formula, share of each firm is weighted by itself, while in calculating *Entropy* the weight for each segment is the logarithm of the inverse of its share in a segment. The range of *Herfindahl* index is 0 to 1. The larger the *Herfindahl* index, the more concentrated the firm is, i.e. less diversified. *Herfindahl* index of a single segment firm is 1. Table 4.8 presents the results of regressions. Firms with a higher number of segments tend to cast more against votes. More concentrated or less diversified (lower *Herfindahl*) firms receive lower dissent. These are also consistent with the main results.

Table 4.8 Impact of number of segments and Herfindahl on dissent

	(1)	(2)	(3)	(4)	(5)	(6)
Number of Segments	0.002**	0.002*	0.002*			
	(0.001)	*(0.001)*	*(0.001)*			
Herfindahl				-0.009*	-0.010*	-0.009*
				(0.005)	*(0.005)*	*(0.005)*
Diversifyingat4	0.011***			0.010***		
	(0.003)			*(0.003)*		
Diversifyingat3		0.011***			0.011***	
		(0.004)			*(0.003)*	
Diversifyingat2			0.008**			0.008**
			(0.004)			*(0.003)*
DissentDRR	0.034**	0.030**	0.033**	0.037***	0.032**	0.036**
	(0.014)	*(0.015)*	*(0.014)*	*(0.014)*	*(0.015)*	*(0.014)*
CAR (-1; 1)	-0.019	-0.018	-0.022	-0.023	-0.022	-0.026
	(0.019)	*(0.018)*	*(0.019)*	*(0.019)*	*(0.018)*	*(0.019)*
Firm Size	0.003***	0.003***	0.003***	0.004***	0.004***	0.003***
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Cash-payment	-0.005**	-0.005*	-0.006**	-0.005**	-0.005*	-0.006**
	(0.003)	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	175	175	175	175	175	175
R-squared	0.711	0.688	0.663	0.707	0.688	0.656

Note: This table presents the results of probit regressions with *Dissent* on M&As as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. The sample includes 175 Class 1 acquisitions, reverse takeovers and related party transactions. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

4.6. Conclusion

This chapter has presented an empirical analysis of the relationship between corporate diversification and shareholder voting dissent on M&As from 1997 to 2015 in the UK context. The vast majority of studies find that corporate diversification destroys shareholder value. Different corporate governance mechanisms have been studied to explain why this happens. This chapter extends the findings of the two previous chapters on the determinants and consequences of shareholder voting as one form of corporate governance mechanism by relating it to diversification. It seeks to examine whether votes on M&A resolutions reflect shareholders' attitude towards diversification. Findings in this chapter suggest that acquirer firm shareholders indeed view corporate diversification through M&As as a value destroying strategy.

The results indicate that corporate diversification measures used in the analyses are related to voting dissent. First, it was found that shareholders oppose to diversifying deals and that this opposition increases when shareholders are not satisfied with their management and their firm is already diversified. Second, diversified firms and firms with more business segments receive higher voting dissent. The extent of diversification is found to be a significant determinant of dissent. More diversified/concentrated firms receive more/less dissent. Finally, it was found that diversified firms trade at a discount, and that there is a negative relationship between excess value and dissent on M&As.

Although corporate diversification has been extensively studied from different perspectives with regards to corporate governance, to the best of my knowledge, there are no studies on the relationship between diversification and shareholder activism, especially in the form of shareholder voting. It has been reported that since 2015, the end of the sample period used in this study, shares of European diversified firms have significantly underperformed shares of focused firms. This has encouraged more shareholder activism which is now playing an increasingly greater role in the de-conglomeration debate and becoming an important factor in M&As (Financial Times, 2018). Given that shareholders would prefer firms to be focused in this environment and activists call for restructuring by selling whole divisions, it would be interesting to understand how shareholders vote on disposals, especially when they are used to refocus, as opposed to M&A deals. This is certainly an interesting area for future research.

5. Conclusion

5.1. Summary of Findings

The aim of this thesis has been to contribute to the debate on shareholder activism by examining the role of shareholder voting on corporate decisions. In particular, it has sought to provide empirical evidence on the determinants and consequences of shareholder voting on M&As in the UK context. It has also examined the role of shareholder voting in diversification decisions of managers. Although deals are never rejected by acquirer shareholders and the average level of voting dissent is low, dissent is found to be determined by certain firm and deal characteristics and have significant consequences.

There are two possible reasons for the lack of research on voting on M&As. First, it was found that only a small fraction of deals is required to be approved by shareholders, at least in the UK. Second, voting data on such deals are not widely available. Due to certain difficulties of data collection (e.g. understanding resolution descriptions) discussed in Chapter 2, even voting outcomes of EGMs from 1997 to 2009 provided by Manifest had to be manually checked. All deals announced by UK publicly listed firms from 2009 to 2015 were manually checked for the requirement of shareholder approval and voting outcomes when approval is required. This has provided what is believed to be the most comprehensive coverage of M&A deals put to voting by UK publicly listed firms from 1997 to 2015.

Using this sample, analysis in Chapter 2 has found that voting dissent is negatively related to M&A announcement abnormal returns and cash method of payment, and positively related to general shareholder dissatisfaction with management and firm size. Dissent is also higher for diversifying deals and deals announced in the post-crisis period. These results are robust to alternative measures of dissent and to controlling for other firm, deal, and governance characteristics, as well as to addressing the potential issue of endogeneity with regards to voting dissent on director remuneration report. To complement these results and address the potential impact of voting, Chapter 3 has examined the consequences of voting dissent. It was found that dissent leads to negative market reaction to the outcomes of EGMs. Higher dissent also leads to lower abnormal returns around the announcement of subsequent M&A deals. Taken together, the results from these two chapters suggest that despite the low levels of dissent, some shareholders seem to take information on firm and deal characteristics into account when casting their vote. Voting is also effective in that it has performance related consequences.

Chapter 4 builds on the finding of a significant relationship between diversifying deals and voting dissent in Chapter 2. It was found that shareholders' attitude towards diversification is reflected in their votes on M&As. More against votes are cast on deals by diversified and more diversified firms, and firms trading at diversification discount. Shareholders of both focused and diversified firms are dissatisfied with diversifying deals. This dissatisfaction with M&A deals is stronger when the firm is already diversified and shareholders are not generally happy with the management.

5.2. Implications and Suggestions for Future Research

This study is an early attempt to document how shareholders in the UK vote on M&A when given the mandate to do so. Given the recent developments in the regulations of a mandatory requirement of shareholder approval of significant M&A deals around the world, especially in the post-crisis period, this research may be of interest to practitioners and policy makers. They may wish to use the findings in this thesis for understanding the determinants and consequences of shareholder voting on M&As in order to develop evidence based policies.

However, the differences in the requirement for shareholder approval in the UK (relative size) and US (method of payment) make the findings in this thesis not fully generalisable and comparable to the US based studies. The evidence that it is implausible to avoid this requirement in the UK (Becht, Polo, and Rossi, 2016) and that managers in the US use cash to bypass voting (Li, Liu, and Wu, 2018), suggests that different deals will be put to shareholder voting. Generalisability of findings is also problematic because of the differences in governance systems.

Companies in both countries are characterised by dispersed shareholder ownership and concentrated director control, and the corporate laws are based on the same idea that shareholders do not have the power to order managers (Berle and Means, 1932). However, the extent of shareholders' power is determined differently by the corporate codes and shareholders in the UK enjoy different rights to US shareholders. For example, they have the power to bring to a vote a special resolution to amend articles of association, while in the US shareholders can only vote on the changes proposed by the board. They can also replace all directors at any time with a majority vote at a special meeting called for this purpose under a mandatory feature of UK law (Bebchuk, 2005). Lastly, shareholders in the UK now enjoy the benefits of binding votes on director pay introduced in 2013 (Gregory-Smith and Main, 2014). Thus, there are significant differences in the extent of shareholder intervention in corporate decisions. With regards to M&As, shareholder voting requirements are similar between the UK and Hong Kong and between the US and Canada. With the regulations introduced and data becoming available, future research could focus on shareholder voting on M&As across countries other than the UK and US, and make appropriate comparisons.

This study has examined the determinants and consequences of shareholder voting but has made no attempt to distinguish between the types of shareholders. Are institutional shareholders different to private shareholders in their voting patterns? It has been found that the level of turnout of small individual shareholders at general meetings has increased over the years (Lafarre, 2017). A growing body of research also suggests numerous benefits of more active engagement of individual investors (Balp, 2018). It was not possible to distinguish between individual and institutional shareholder votes. Now, data on institutional voting is at best patchy as disclosure of voting outcomes by institutional investors is voluntary. However, the Companies Act 2006 empowers the UK government to introduce regulations that would allow more disclosure of institutional voting outcomes. From 2002 to 2008, the number of institutions publicly disclosing their votes increased from two to twenty-four (FRC, 2010b). Currently, under the voluntary disclosure institutional investors are reluctant to disclose publicly how they vote because such information is confidential or should be shared only with the client (Financial Times, 2012). This problem could persist even if the government uses its power to introduce mandatory disclosure if the voluntary regime fails to improve disclosure. If disclosure becomes mandatory and more data becomes available in the public domain, further insights into the whole voting on M&A process should be achievable. Encouragement of shareholder activism is one of the central parts of the recent corporate governance reforms. If shareholders become more interested and aware of the potential link between votes cast and their outcomes, informed and responsible voting could potentially lead to more economically significant and meaningful results. This is ultimately an empirical question and certainly an interesting area for future research.

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7. Appendix A: Definition of variables

Variables	Definition
Voting variables	
Dissent	The number of votes ‘against’ as a percentage of total votes cast on M&As
Dissent2	The number of votes ‘against’ as a percentage of total votes that could be cast on M&As
High Dissent	Dummy variable set to 1 if *Dissent* is higher than the mean *Dissent*, 0 otherwise
DissentDRR	The number of votes ‘against’ as a percentage of total votes cast on DRRs
Performance variables	
CAR (-1; 1)	The 3-day cumulative abnormal returns around transactions calculated using the event-study methodology based on the market model. The market return used is the return on FTSE All Share Index. The estimation period used to calculate α and β parameters of the model is trading 150 days (-180, -30) relative to the announcement
AR	Abnormal returns on the voting day calculated using the event-study methodology based on the market model
AAR	Post-completion average monthly abnormal returns calculated using the event-study methodology based on the market model
CAR	Post-completion cumulative average monthly abnormal returns calculated using the event-study methodology based on the market model
BHAR	Post-completion buy-and-hold monthly abnormal returns calculated using the event-study methodology based on the market model
ROA	The ratio of net income over book value of total assets
Tobin’s q	Market value of total assets divided by book value of total assets, where market value of total assets is calculated as book value of total assets minus book value of common equity plus market value of common equity
Firm characteristics	
Firm Size	Logarithm of book value of sales
Cash/TA	Cash and cash equivalents divided by book value of totals assets
Leverage	The ratio of total debt over book value of total assets

Ownership variables

BoardOwn	Percentage of shares owned by the board of directors
OwnConc	The percentage ownership of the largest shareholder who is not a board member

Governance characteristics

Board Size	Log of the number of directors on the board
Non-Exec	Percentage of non-executive directors on the board
Gender	Number of female directors on the board
CEO Age	Log of the age of the CEO at the financial year end

Deal characteristics

Rel.Size	Deal size divided by the market value of the acquirer
Diversifying	Dummy variable set to 1 if acquirer and target firms' 2-digit SIC codes are different, 0 otherwise
Diversifyingat4	Dummy variable set to 1 if acquirer and target firms' 4-digit SIC codes are different, 0 otherwise
Diversifyingat3	Dummy variable set to 1 if acquirer and target firms' 3-digit SIC codes are different, 0 otherwise
Diversifyingat2	Dummy variable set to 1 if acquirer and target firms' 2-digit SIC codes are different, 0 otherwise
Cash-payment	Dummy variable set to 1 if a bid is financed by cash only, 0 otherwise
Foreign	Dummy variable set to 1 if a bid is cross-border, 0 otherwise
Friendly	Dummy variable set to 1 if a bid is friendly, 0 otherwise
Public	Dummy variable set to 1 if the target is publicly listed firm, 0 otherwise
Post-crisis	Dummy variable set to 1 if voting takes place from 2009 onwards, 0 otherwise

Diversification variables

Diversified Firm	Dummy variable set to 1 if the acquirer firm reports more than one segment at 4-digit SIC code
Diversifiedat4	Dummy variable set to 1 if the acquirer firm reports more than one segment at 4-digit SIC code
Diversifiedat3	Dummy variable set to 1 if the acquirer firm reports more than one segment at 3-digit SIC code

Diversifiedat2	Dummy variable set to 1 if the acquirer firm reports more than one segment at 2-digit SIC code
Number of Segments	The number of segments reported by firm at 4-digit SIC code
Entropy	Measure of the extent of diversification calculated as $\sum_{i=1}^{n} P_i \ln 1/P_i$, where P_i is the share of firm sales generated in industry i at 4-digit SIC code, and summation is over the n industries in which the firm operates
Herfindahl	Measure of the extent of diversification calculated as $H = \sum_{i=1}^{n} P_i P_i$, where P_i is the share of firm sales generated in industry i at 4-digit SIC code, and summation is over the n industries in which the firm operates
Excess Value	Natural logarithm of the ratio of the firm's actual value (market value of equity plus book value of total debt) to the sum of the imputed value of the firm's segments, where the imputed value of segment is equal to the corresponding segment's sales multiplied by the industry median ratio of capital to sales as in Berger and Ofek (1995)