BI Norwegian Business School - campus Oslo

GRA 19703

Master Thesis

Thesis Master of Science

Role of the Board and the case of Special Meetings

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Start: 15.01.2019 09.00

Finish: 01.07.2019 12.00

GRA 19703 - Master Thesis

BI Norwegian Business School, Oslo

Programme: Master of Science in Business, Major in Finance

Hand-in date: 01st July 2019

Master Thesis

- Role of the Board and the case of special meetings -

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Abstract

In this paper, we study heterogeneity of Bylaws and Articles of Incorporation of the companies with Board-centred model of corporate governance and the case of special meeting thresholds. The research is conducted on companies that are in the region of Delaware, USA. What year the company went public, diversity among shareholders and existence of dual shares are significant and enabled us to construct the Special Meeting Model. Implicating to potential drivers behind this threshold. In the second part of the paper, we conclude that a 52-week highest price at which stock has traded during the year is statistically significant.

Key words: Corporate governance, special meeting, bylaws, dual classes of shares, board of directors, GMI Index, shareholders rights, S&P500

Acknowledgments

We would firstly like to express our gratitude to Professor Salvatore Miglietta (Institute of Finance at BI Norwegian Business School) for his supervision of this master thesis and steering towards the right direction. His time, knowledge and advice shared with us, were of quite importance for this final research paper.

Furthermore, we would like to thank to all our professors at BI Norwegian Business School in Oslo and University of Ljubljana, School of Economics and Business, for being part of our academic development through the last two years of the Master studies.

Finally, we would like to express our profound gratitude to our families and friends, providing us with belief, encouragement, positive thoughts and support through our study years, as well as through the whole process of master thesis research.

Without the wholesome support of people mentioned above, this accomplishment might not be possible.

Thank you.

Laura Sešek and Martin Sandstå

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List of Abbreviations

GMI	Governance Metrics International
IPO	Initial Public Offering
ROE	Return on Equity
ROA	Return on Assets
CRSP	Center in Research for Security Prices
NAICS	North American Industry Classification System
SMM	Special Meeting Model
OLS	Ordinary Least Squares
SEC	Securities and Exchange Commission
CLRM	Classical Linear Regression Model
IRRC	Investor Responsibility Research Center

1. Introduction and Motivation to Research Topic

Under American corporation statute, a corporation should be managed by the directions of the board of directors. Board-centred model of corporate governance is the prevailing governance model in the United States of America (USA). In latest years, we were able to spot numerous headlines in newspapers and websites, addressing conflicts and lawsuits among board of directors, CEOs and shareholders. We ask ourselves whether the rising number of conflicts is connected to better transparency of companies and more informed shareholders, or the rights that minority and majority of shareholders hold. Multiple block-holders can be observed among publicly held companies in the USA. Whilst the diversity among them can have positive impact on the corporation, it might as well have negative ones.

In the General Corporation Law of State of Delaware, chapter 1., subchapter VII. Meetings, Elections, Voting and Notice, it is stated that *"Special meetings of the stockholders may be called by the board of directors or by such person or persons as may be authorized by the certificate of incorporation or by the bylaws.* " (State of Delaware, 2019, Chapter 1., Subchapter VII.) Looking at bylaws of different corporations, we can observe heterogeneity on this section. Majority of them have stated in their bylaws that special meetings of stockholders can be requested by majority of the board of directors. In some other observed corporations, the meeting can be requested only by CEO, Chairman of the board or the Directors. In others, shareholders have the right to hand in a written consent to the Secretary to call the meeting. They can do so if stockholders (one or more) hold no less than 10%, 25%, 30%, 50% or more of the total stocks in the corporation. Whilst in most of Continental Europe, company control lies in single shareholder hands, usually owning 40-80% of the company's shares. This contrasts with the US, where several larger shareholders need to join forces to have an influence over the company's management. As observed, the largest shareholder in the US, usually holds 8-10% of the shares in the company and the companies are widely held. In most US incorporated companies, we can see a dispersed ownership and weak control, which can lead to weak monitoring by shareholders. On the positive side, there is increased stock liquidity and potential for hostile, however, value-increasing takeovers. (Correia Da Silva & Goergen, 2004) In the big scheme of things, this is important for the corporation as it is an indication where the power and leadership in these companies actually stems from, and what effect it has.

This paper seeks to add to the literature on rights assigned to shareholders, majority and minority, especially when it comes to calling in the special meeting, mainly to assign new members of board of directors. We understand that corporate governance provisions such as limits to the special meeting provision, should not be looked at in isolation without controlling for other provisions, before saying whether the company has a good or bad governance practice. In Section 2, we provide an insight on relevant literature for this research.

Our companies observed are incorporated in the State of Delaware and data retrieved from Edgar database, Compustat, Bloomberg, ExecuComp and Center in Research for Security Prices (CRSP). Our data set is unique. In Section 3, we describe our data sample, variables and methodology used, in more detail. With no evidence or previous model that would explain the relationships between the special meeting threshold and companies' characteristics and strategies, we firstly run several different correlation matrices. These outputs and positive correlations between special meeting threshold and different companies' characteristics then enabled us to carry out further research. In Section 3, we set out three major research questions:

Q1: Is the threshold demanded to call in a special meeting dependent on company's year of going public?

Q2: Do companies with dual classes of stocks request lower special meeting threshold than companies that only obtain ordinary stocks?

Q3: Do companies with higher insider stock holdings request lower special meeting threshold?

We were able to reject two null Hypothesis out of three, at a significance level of 5%. Year of company going public, diversity among shareholders and existence of dual shares are significant and enabled us with construction of classical linear regression model (CLRM) of a special meeting threshold, which we named the Special Meeting

Model (SMM). This SMM model was then further on estimated by the ordinary least squares (OLS) and results are explained under Section 4. In the second part of the paper, we conclude that a 52-week highest price at which stock has traded during the year is statistically significant. As for the conclusion of this paper, we will summarize major findings and implications for further research, as well as discuss limitations and possible improvements of this research.

2. Literature review

As far as we know, no previous research has investigated the special meeting threshold and its causal relationships. Hence, we decided to cover topics that provide us with understanding of the significant USA Corporate legislation, corporate bylaws, historic origins and role of board of directors, corporate governance ratings and shareholders activism.

2.1. Review of the significant USA Corporate legislation

Firstly, we need to have a look at corporate legislation concerning corporate governance that developed through major economic events in history and further on resulted in increased transparency of the corporations.

As a starting point, the Clayton Antitrust Act was accepted in 1914, which among other tools to prevent monopolies, also prevented the sitting on competing companies' boards. (Ramírez & Eigen-Zucchi, 2001)

The Securities Act was accepted in 1933, three years after the Stock Market Crash, which led to an economic depression. This Act encouraged greater transparency of the companies, to assure that investors can make an informed investment decision. In 1934, Securities and Exchange Commission (SEC) was established and since then, companies with more than $10 million in assets and whose securities are held by more than 500 owners, are obliged by law to make regular fillings of financial reports, which are nowadays accessible to general public online, in the EDGAR database. To prevent misrepresentations and other frauds in securities sales, companies must amongst other, also file a description of their business, properties, securities that are offered for sale and disclose information about its executives and proxy solicitations used in annual or special meetings. (U.S. Securities and Exchange Commission, 2013)

Due to rising abusive and fraudulent practices of investment companies and advisors in 1930s, the Senate and House of Representatives of the USA in Congress passed on the Investment Company and Advisors Acts in 1940, to increase transparency and reduce conflicts of interest in companies whose primarily function is to invest in securities of other companies (i.e. mutual funds, investment advisers). These Acts require full disclosure of company's financial condition and investment policies to investors, on a regular basis. However, with these Acts, SEC does not have a permission to directly supervise investment decisions and activities of investment companies. (Senate and House of Representatives of the United States of America in Congress, 2018)

Despite all the regulation accepted, the savings and loan crisis occurred in 1980s and was a call for further legislative action. To recover public's trust in this industry, the government first accepted Financial Institutions Reform, Recovery and Enforcement Act in 1989 and a year later Comprehensive Thrift and Bank Fraud Prosecution Act, to fight financial fraud. (Senate- Judiciary, 1990)

Through 1990s first market pressures on companies occurred, with shareholder activists fighting corporations against poison pills and secret executive compensations. The breaking point of empowerment of shareholders' activism is believed to be the removal of General Motors' CEO, Robert C. Stemple, in 1993, due to shareholders' pressure. Eventually followed by actions of ousting many other CEOs in corporations such as IBM, American Express and others. (Armour & Cheffins, 2011)

Main objective of the Sarbanes-Oxley Act, accepted in 2002, was to increase agents' (board of directors and executive management) and gatekeepers' (regulators, financial analysts, accountants) accountability for financial reporting, due to series of financial reporting frauds again shaking public's confidence. The perhaps most notorious and well-known scandal contributing to the act of 2002, is believed to be the collapse of energy company Enron, which filed for bankruptcy protection after being caught underreporting its debt and overreporting its profits. (Chhaochharia & Grinstein, 2007)

Since 2006, investment companies in USA need to comply new rules adopted by SEC. Their boards need to include at least 75% of independent directors, who must meet at least quarterly and must annually conduct self-assessment. Further on, the chairperson must be an independent director and directors must be authorized to hire their own staff. (Green, 2005)

In 2010, with the Dodd-Frank Wall Street Reform and Consumer Protection Act, the government wanted to make publicly traded companies even more transparent for their investors, with several rules and regulations to increase corporate responsibility. Recovering from the 2008 financial crisis, the Obama administration wanted to make sure it would never happen again. Subsequently, the Dodd-Frank Act is arguably one of the most comprehensive regulatory acts of the SEC with more than 2,300 pages all together. The act also provides shareholders with greater power and influence on the level of compensation for their executives, with the likes of a say-on-pay and say on golden parachutes, as well as requiring publicly listed firms to disclose a ratio of payment between its CEO and median annual employee. *"Shareholders will have a greater say on the pay of CEOs and other executives, so they can reward success instead of failure"*, Obama said when signing the act (The White House, Office of the Press Secretary, 2010). In addition to this, it contained a rule to allow shareholders access to the proxy ballot, meaning any shareholder with more than 3% of the company's shares could nominate and add up to 25% of directors up for election in a given year, to the firm's proxy ballot. (Cohn, Gillian, & Hartzell, 2016). The rule was eventually vacated by the U.S Court of Appeals by the district of Columbia in 2011, but it opened the conversation about proxy access, and is believed to have a major impact on the dramatic rise in companies adopting proxy access to their bylaws. At the end of 2018, 71% of the S&P 500 companies included proxy access in their bylaws, compared to less than 1% in 2014 (Gregory, Grapsas, & Holland, 2019).

2.2. Corporate Bylaws

The mechanics used as an internal governance in companies is their charter and bylaws. There are numerous ways in which companies' bylaws differ from another, but for this paper, we focus on the differences that either enhance or restrict the shareholders rights to call a special meeting. Other important provisions recognized as the most prevalent include share structures that separate cash-flow rights and voting rights, and amendments like black-check preferred stock, classified boards, fair-price restrictions, poison pills, or supermajority voting requirements. (Gillan, Hartzell, & Starks, 2003) With respect to regulating and influencing the direction of a business without relying on government regulation (private ordering), there is little doubt about the importance of corporate bylaws. Hence, the threshold and possibility to change these bylaws according to the different stakeholders' preferences, can be a huge factor to introducing conflicts. As shown above, bylaws can be subject to trend-wise change according to investors preferences, but provisions set in place by the board can make it hard for majority shareholders to make these changes. A provision most commonly set in place by the board of directors is in form of a supermajority requirement, meaning a voting requirement that is substantially more than 50% of the shareholders (Bebchuk, Cohen, & Ferrell, 2009). In the case of private ordering, we have seen a rise in shareholders acting in attempts to reform bylaws amendments, in the form of majority voting, proxy access and the rights of shareholders to call a special meeting. (Fisch, 2018) It is in the bylaws of each individual company where we find the threshold of necessary shares owned to be able to call the special meeting, also stating who determines the time, place and date of these meetings.

2.3. Historical origins and role of Board of directors

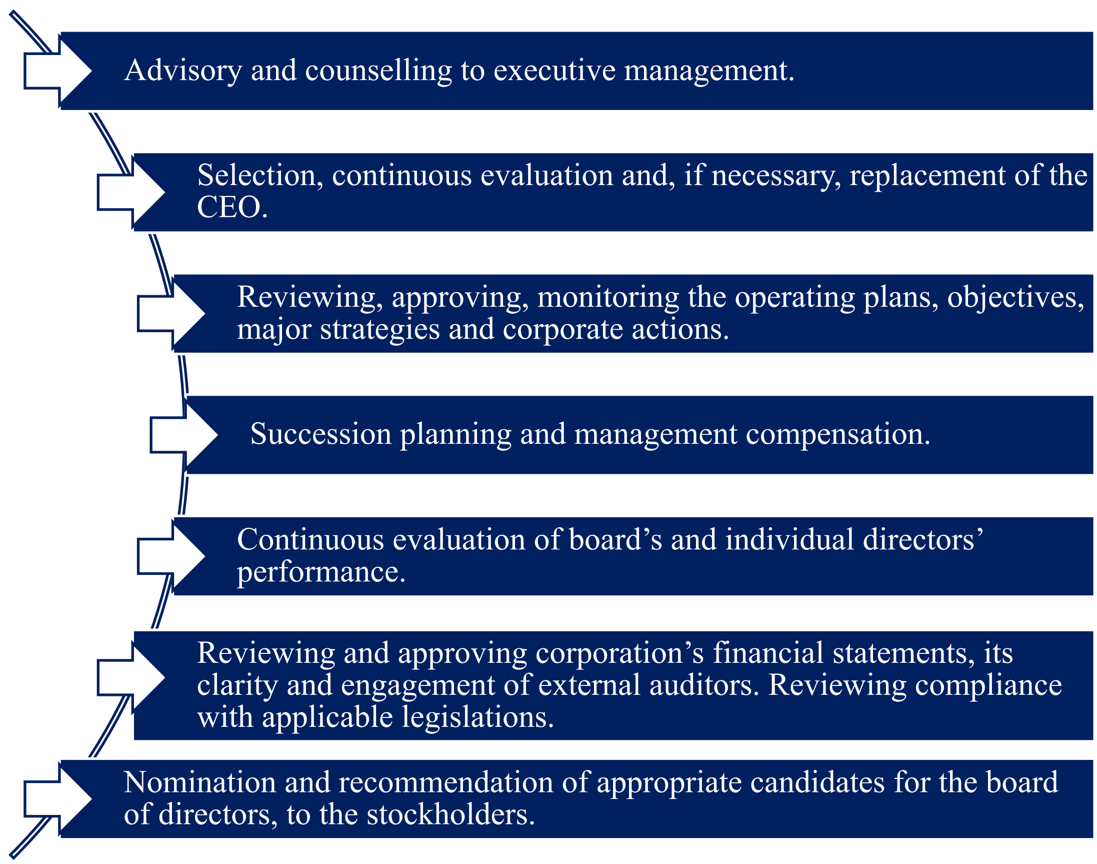
In this section, we touch upon the historic development of the board of directors, to examine the reasons of their existence and their role in the corporation, especially when it comes to conflicts between minority and majority shareholders, CEO and other stakeholders.

Complexity of business organizations was an outcome of industrialization in 1850s and resulted in modern managerial structures and corporate governance. However, first public limited liability corporations developed in 1900s, when also majority of corporations from our sample data held their IPOs. Franklin A. Gevurtz states in his paper on Historical and Political origins of board of directors that the combination of corporate governance, where board representative works with CEO of the company escalated from Western Europe's political practices and ideas, already back in the Middle Ages. Specifically, this could be observed in kingdoms parliaments, Church, town councils and other councils. Therefore, it was quite natural for the corporations to follow the same pattern and appoint objective directors to represent shareholders' interests. (Gevurtz, 2004)

To introduce the most elementary concepts of board of directors and its' role in the company, we take a look at what Business Roundtable, an association consisting of leading CEOs of USA companies, defines as oversight functions of the board. (Green, 2005) They state that the primary functions of the board are as displayed in Figure I.

Figure I: FUNCTIONS OF BOARD OF DIRECTORS

Figure below points out primary functions of the board, as defined by the Business Roundtable Associated. Association consists of leading CEOs of companies in the USA.



A good board structure is believed to depend on various factors, such as size and independence of board, appointed committees, independent chair or lead director. In general, in the USA, the listing standards require an independent majority of the board. The chairman of the board and CEO positions are traditionally not held separately. However, we can observe an upcoming trend of separation and appointment of lead directors in the board. By legislation, a company is required to have an audit committee to retain public accountant and advisors. (Green, 2005)

The recent annual survey of companies listed in S&P500, conducted by leading executive search firm Spencer Stuart shows that average board size consists of 11 directors, in comparison from 13 members a decade ago. On average, the boards have four committees. Trends such as appointing a lead director and women on board are increasing. In 2003, only 36% of companies had a lead director and only a year later 84% of companies. However, 74% of companies still combine the position of CEO and Chairperson on the board. *(Spencer Stuart, 2019)* There is no legislation yet that would forbid this combination of positions, often referred to as imperial CEO, except for investment companies, where chairperson must be an independent director, since 2006. Many shareholders' activists, corporate governance experts and academics argue that these two positions held by one person create conflicts of interest and should be split. CEO often is or should be the subject of board meetings and an imperial CEO might implement policies that serve only the executive management and not the needs of shareholders. On the other hand, board consultant Ram Charan argues that independent chairperson or lead director dilutes accountability, dynamics and communication. *(Green, 2005)* Conversely, research conducted by Ira M. Millstein and Paul W. MacAvoy, shows that there is a causal link between corporate governance and shareholder return, more over showing that it is important to designate an independent director as a chairperson. *(Millstein & MacAvoy, 1998)*

As has been noted, one of primary functions of board of directors is to perform continuous performance evaluation of board as a whole and of individual directors. Spencer Stuart's survey shows that 98% of S&P500 companies conduct annual board assessment in year 2018. Moreover, 7% more than in 2017 hired external parties to assist them with assessment. On the contrary, only 38% of S&P500 companies reported annual evaluation of individual directors in 2018. (Spencer Stuart, 2019)

Declassified board structure is on the rise, as in 2018, 92% of S&P500 companies had annual elections of the members. Meaning that only 8% of S&P500 companies had staggered classified board (3-year term) in 2018. Whilst in 2008, 34% of companies had a 3-year terms for the board. (Spencer Stuart, 2019)

There are number of shareholders' defence measures that can be implemented within the corporation, such as staggered board, confidential voting, fair price provisions and more known poison pills. Directors are usually elected on an annual basis, at the annual meetings of the board. From 1980 on, companies tried to protect themselves against raiders lengthening directors' terms from one to three years, staggering election so that only a third of the board could be replaced annually. Consequently, destroying shareholders' value. In the last decade we can observe a decrease in implementation of staggering boards, for example Goldman Sachs and Qualcomm phased out staggering board in 2007. However, in 2015, 16.8% of Standard & Poor's 500 (S&P 500) companies still had a staggered board. (Bowie, 2016)

Numerous studies have been carried out whether the poison pills create or destroy shareholders' value. In 1985, Delaware legislation was accepted, giving company's right to adopt a shareholder rights plan, which most commonly consist of distributing rights or warrants that have value if activated by a hostile takeover. If this occurs, existing shareholders can buy the stock cheaply or sell their stock back to the company at a dear price. However, there is evidence that poison pills and such defences are most often used to prevent the sale of the company, no matter the fair price. Therefore, most likely destroying shareholders' value.

2.4. Corporate Governance Ratings and Indices

Every company is different and has different needs. The same implies to shareholders rights in the company. It is hard to generally point out what the best governance practices are for each company. However, there are some governance practices and frameworks for companies to follow and reach the perfect score in ratings and attract more shareholders. We look at two of them; the Governance Metrics International (GMI) Ratings that are most commonly used in practice and Governance Index, where Gompers, Ishii and Metrick take more academic approach towards constructing an index, by using the incidence of 24 governance rules.

2.4.1. The GMI Ratings

Investment managers seeking to diversify will find it time-consuming to collect all relevant information about the governance of their targets manually, as well as difficult to distinguish good governance from bad. GMI is a leading advisor with approximately $15 trillion dollars' worth of companies taking their advice. They provide and sell ratings that are meant to improve and identify the characteristics of a well governed business, making its customers more able to earn a superior risk-adjusted return by buying good governed firms and avoid bad governed firms (Daines, Gow, & Larcker, 2010). The GMI agency maintains ratings on governance practices of nearly 6,400 companies all over the world, and their dataset dates to 2001. These governance metrics increase transparency of the firm with a general overlook of executive management and the board, subsequently also their practices. In September 2013, MSCI Inc. bought GMI Ratings for $15 million, adding them to their approximately $8 trillion benchmark on a worldwide basis of investment decision support tools for investors globally. The Chairman of GMI Ratings, John Higgins, said, *"GMI has long been a believer in the importance of incorporating ESG (Environmental, Social and Governance) factors into the investment process. We believe that becoming a part of MSCI, with its global footprint and resources, will significantly enhance our ability to do just that. MSCI's ESG research and its strenght in benchmarking make it a natural fit for GMI."* (MSCI Inc., 2014) The method they use is a score based model that is weighed, calculated and then given a score ranging from 1.0 as its lowest, and to the highest possible score of 10.0. As a part of their search in identifying companies at risk, they also look for accounting transparency issues, and reports anything that could potenatially impact the decision to invest. This includes a separate rating system based on indentifying companies currently or previously involved in major ESG controversies, adherent to international norms and principles. The main categories for this rating is environment, customers, human rights, labor rights and governance. GMI/MSCI Ratings overall focus is on four major groups: companies, directors, CEO compensation and takeover defences (MSCI Inc., 2019) We tried to acquire the relevant scores for our companis, but they were unfortunately not available to us as students.

2.4.2. Governance Index (GIM Index)

In 2003, Gompers, Ishii and Metrick released a paper called "Corporate Governance and Equity Prices" in The Quarterly Journal of Economics, where they created an index for estimating the level of democracy in corporations with respect to their shareholders power versus management. (Gompers, Ishii, & Metrick, 2003) The paper has been cited more than 8,000 times. Their approach was to review publications and provisions about corporate governance from the Investor Responsibility Research Center (IRRC), and using that information to rank approximately 1500 companies, based on how many or few of these provisions were present. The provisions provided by the IRRC were divided into five groups based on the intended effect it would have on the companies. The first was a group of tactics used to hold off and delay the attempt of hostile takeovers, where-in they put the case of special meetings. The reason they saw the case of special meetings being an effective tool to delay takeovers, is that when the level of stocks required to call a special meeting rises, the shareholders are more likely to have to wait for the annual meeting to make their case. After ranking all 1,500 of these companies, they compared the returns of the companies with the largest effective shareholder rights (democracy portfolio), with the companies with the most management power (dictatorship portfolio), and found that during a period of more than 9 years (September 1990-December 1999), the democracy portfolio outperformed the dictatorship portfolio with 8.5 percent per year. In addition to that, they found that the effect on companies with a single increase in the number of governance provision were associated with a negative impact of 11.4% on Tobin's Q ratio. The results were statistically significant and therefore played a part in our decision to look at the case of special meetings in isolation. Be attentive that our intention in this paper is not to distribute scores to companies and to point out whether company has a good or bad governance practice. As corporate governance provisions, such as limits to special meeting provision, should not be looked at in isolation, without controlling for other provisions before saying anything about company's governance practice.

2.5. Shareholder activism and special meetings

Before 1990, there was little shareholder involvement in corporate practices and therefore, large corporations had little or no reason to restrict shareholders' rights. Due to recent boom in shareholders' activism, lawsuits and removals of directors and CEOs from their positions, we want to raise a question of how and if the shareholders are able to reach the dismissal of directors. To send an alarming signal or call for changes in the corporation, shareholders might wait for the annual meeting or request a special meeting.

Most common forms of shareholders' activism in the USA are the proxy contests, shareholders' proposals and direct negotiations with the management (jawboning). Renneboog and Szilagyi (2011) carried out a research, which showed that in the U.S. stock market reaction to shareholders proposals is normally positive in contrast to stock markets in Europe and United Kingdom stock markets, where there is a negative stock price reaction to shareholders proposals. (Renneboog & Szilagyi, 2011) These proposals have to be submitted at least 6 months in advance of the annual general meeting and there are also limited topics that can be covered. With shareholders' proposals, shareholders might suggest removal of duality or anti-takeover devices and others. However, in the USA, shareholder proposals are non-binding, meaning that managers are not bound to implement shareholder proposal.

There might be two reasons for shareholders to demand a special meeting; firstly, to speed up changes at a certain corporation, for example to restructure board of directors, dismiss and then elect new directors. Hence, not needing to wait until the general annual meeting, to evoke the changes. Another purpose might be to demonstrate the strategy of facing-off against company's management, without even needing the vote.

Special meeting of shareholders can be called by the board or by the shareholders itself. However, companies require demand from enough shareholders to call in a meeting. Typical lowest threshold for shareholders to be able to call in a special meeting is owning 10% of company's shares.

In the Delaware Code of Law, it is stated that; *"Special meetings of the stockholders may be called by the board of directors or by such person or persons as may be authorized by the certificate of incorporation or by the bylaws.* ". (State of Delaware, 2019, Chapter 1., Subchapter VII.) Having a look into corporation's bylaws, we find heterogeneity in demand of shares by the company, to be able to call in the special meeting. After having enough shares demanded by individual company, letter demanding a special meeting from investors must be handed in. In this notification, investors must state the purpose of the meeting. Company also has the right to full transparency and disclosure about shareholders that are demanding the special meeting. After receiving the notification about the meeting, the company sets the date for the meeting and a record date for voting at the meeting (15 to 30 days in advance of the meeting).

To be able to gain the needed support for demanding the special meeting, investors first need to file in a special Form 13D disclosure.

Different demand of shares to call in the special meeting, might be to different strategies of the companies. For example, if there is a company that has threshold for special meeting set at 50% or more, its shareholders that succeed in calling a special meeting, will also provide enough shares to win the majority voting. On the other hand, shareholders of companies with threshold set lower than 50%, might be able to get enough shares to call in the special meeting, but not having enough votes to approve the agenda of the meeting. However, having enough shares to call in the special meeting, will probably already show the depth of support of shareholders for agenda of special meeting. Meaning that the request itself may achieve that company looks into the matter, without even holding the special meeting. Without having enough shares demanded, shareholders can still hand in the demand for special meeting, just to show the support for the changes they think need to be done in company's board of directors.

In this paper, we would like to explore the correlations behind the special meeting threshold demands. Whether they depend on the industry the company is in, who the CEO is, timing of corporation's first IPO and other variables that could be behind this threshold. Another important question we will look into and try to answer, is whether diversity among block holders (large shareholders) is exclusively positive, or if it can have some unwanted negative effects.

2.6. Summary of literature review

One of most impactful corporate regulations is probably the establishment of SEC in 1934. As for since then, the companies with more than $10 million in assets and whose securities are held by more than 500 owners, are obliged to make regular fillings of financial reports, which are accessible online, in the Edgar database. This led to increased transparency and shareholders' awareness of practices in publicly traded companies. Further on, since 2006, investment companies' boards in USA need to include at least 75% of independent directors, who must meet at least quarterly and conduct annual self-assessments.

In general, special meetings can be called in by companies' CEOs, Chairmen of the boards, their directors and shareholders. However, not just any shareholders might call in a special meeting. Companies have different thresholds set, that usually vary from 10% to 50%. Moreover, there are also companies, where shareholders do not have the right to call in a special meeting.

Looking at more practical (GMI Ratings) and more academical (GIM Index) approach on corporate governance practices and shareholders' rights gives us an insight on relevant provisions and best practices. The extent of research carried out about special meetings, more specifically based on what companies set their special meetings thresholds is still quite unclear and unexplored. We were not able to find any evidence or model that would explain the relationships between the threshold and companies' characteristics and strategies.

3. Data Sampling and Methodology

The aim of this part is to set out and discuss the data sources we decided to use. Moreover, to set out our main research questions, explain the methodological approach used in the paper and summary descriptive statistics, with correlations for dependent (special meeting threshold) and explanatory variables applied.

3.1. Sample Data

We believe that our topic is quite unexplored so far. Therefore, our main qualitative data resources are the Edgar database and companies' websites, providing articles of incorporations, bylaws and charters, provisions, proxy statements and their annual reports. We also looked at Delaware Code of Law for relevant articles and laws. Further on in this paper, we take a deeper look at individual companies in our sample size to seek for possible correlations.

Our data set is unique. To begin with, we hand-picked data from the online Edgar database and companies' websites. To confirm the feasibility of research, we focused on a hundred randomly chosen corporations in Delaware, USA. After finding heterogeneity in bylaws and articles of incorporations, we decided to concentrate on heterogeneity in eligibility to call in a special meeting of stockholders, specifically in percentages that allow shareholders to call in a special meeting. The observed data sample consists of a hundred randomly chosen corporations that are incorporated in Delaware, USA, due to it being largest and most comprehensive dataset available.

Data used is almost non-exclusively written in a professional style. This is to make them as objective as possible, and easier to interpret by law. The qualitative data found on the Edgar database is similar in style and easy to compare, which made it more comfortable to find heterogeneity and trends between the observed corporations. Special meeting thresholds vary from 10-100%, where 100% meaning that only the CEO, the Board of directors or Chairman of the Board are able to call in a special meeting.

We test our research questions and hypotheses using additional quantitative data from Compustat, Bloomberg, ExecuComp and CRSP. Fundamental data is based on yearly publications. We use the last 8 years (2010-2018) to test for correlations and relationships between special meeting threshold and financials of the companies observed. We matched Edgar data collected, to the CRSP and Compustat database by the ticker symbol, and then hand checked names and lacking information.

As already mentioned, our sample consists of a hundred Delaware incorporated corporations, subsequently following the same legal regulations and guidelines. The companies chosen are operating in several different industries and chosen by random. We divided the companies used for this research in accordance with the North American Industry Classification System (NAICS), as can be seen in Table I. All hundred corporations in the sample are part of S&P 500 (as of January 31, 2019), as well as fifty-nine corporations represent part of the S&P 100 (as of January 31, 2019).

Table I

NAICS Codes

The table presents NAICS system of division of industries, which was applied to our sample data companies.

Division	Code	Industry
A	01-09	Agriculture, Forestry and Fishing
B	10-14	Mining
C	15-17	Construction
D	20-39	Manufacturing
E	40-49	Transportation, Communications, Electric, Gas and Sanitary Services
F	50-51	Wholesale Trade
G	52-59	Retail Trade
H	60-67	Finance, Insurance and Real Estate
I	70-89	Services
J	90-99	Public Administration

3.2. Research Questions

In this paragraph, we will further on explain the methods used to analyze the three major research questions stated below.

As there are no previous research conducted, we wanted to investigate the causal relationships between special meeting thresholds and the different company's characteristics. And thus, we present the following research questions:

Q1: Is the threshold demanded to call in a special meeting dependent on company's year of going public?

$$SPECIAL\ MEETING\ THRESHOLD = \alpha + \beta_1\ IPO_i + \varepsilon_i \qquad (1)$$

The regression coefficient β_1 measures the percentage change in special meeting threshold, associated to one standard deviation change in the year of a company's first IPO. Our regression will test the alternative hypothesis (H_1) that $\beta_1 \neq 0$ against the null hypothesis (H_0) that $\beta_1 = 0$. We want to reject the null hypothesis.

Q2: Do companies with dual classes of stocks request lower special meeting threshold than companies that only obtain ordinary stocks?

$$SPECIAL\ MEETING\ THRESHOLD = \alpha + \beta_2\ DUAL\ CLASSES\ OF\ STOCKS_i + \varepsilon_i \quad (2)$$

The regression coefficient β_2 measures the percentagewise change in special meeting threshold, associated to whether corporation has different classes of stocks (dummy variable: 1 = yes) or just ordinary stocks (0 = no). Regression used will test the alternative hypothesis (H_1) that $\beta_2 < 0$ against the null hypothesis (H_0) that $\beta_2 = 0$. We want to reject the null hypothesis.

Q3: Do companies with higher insider stock holdings request lower special meeting threshold?

$$SPECIAL\ MEETING\ THRESHOLD = \alpha + \beta_3\ INSIDER\ HOLDINGS_i + \varepsilon_i \quad (3)$$

The regression coefficient β_3 measures the percentagewise change in special meeting threshold, associated to whether corporation has higher or lower percentage of insider stock holdings. Regression used will test the alternative hypothesis (H_1) that $\beta_3 < 0$ against the null hypothesis (H_0) that $\beta_3 = 0$. We want to reject the null hypothesis.

In the second part of this master thesis, we explore if there is any economic rationale present behind the topic of interest. We focus on whether the special meeting threshold has any correlation with two of the most important measures for evaluation of executive management teams' effectiveness in entrusted companies' capital; Return on Equity (ROE) and Return on Assets (ROA). Moreover, we also try to explore the relationship between the special meeting threshold and balance sheet items (liabilities, assets and equity), Earnings Before Interest and Taxes (EBIT), how much cash companies hold, ex-dividend payments and High and Low Stock Price.

3.3. Methodology and Variables

As explained in previous sections, the special meeting threshold is our main topic of interest in this master thesis. We were not able to find any kind of model or theory, which would reveal the relationships between special meeting threshold and any other variables. As already mentioned, this topic is so far quite unexplored. Therefore, to explore possible correlations and relationships, we started our analysis with constructing various correlation matrices with different variables. Our variables are described in Table II.

Table II

Variable Descriptions

The table presents descriptions of variables used in our model.

Variable Descriptions	
SM	Special Meeting Threshold
IPO	Company's year of going public
SH	Number of shareholders
IH	Insiders' holdings (%)
D	Dual Shares (dummy variable)

We can see in Table III and IV that special meeting threshold is correlated with several firm characteristics, including the year of IPOs', different classes of shares, ownership, CEO tenure years and average age of the board members. Please see Appendix 1 and 2 for more correlation matrices.

Significant variables then led us to the construction of a classical linear regression model of a special meeting threshold, which we named the Special Meeting Model (SMM). This SMM model was then further on estimated by the ordinary least squares (OLS). We also performed model diagnostics (Matlab code in additional document), in which we tested the model for normality of disturbances (Jarque-Bera test), multicollinearity (VIF), heteroscedasticity (White test) and autocorrelation (Breusch-Godfrey test) up to 12 lags.

We will now explain the variables used more in detailed.

a) Special meeting threshold

Special meeting threshold, expressed in percentage units, is the dependent variable in our analysis. As mentioned in section 3.2., threshold at 100% indicates that only the

CEO, the Boards of directors or the Chairman of the Board can call in a special meeting. On the other hand, threshold of 0% means that any shareholder may call in a special meeting (no matter what stake they hold), if they deliver a written consent to the Secretary. However, the latter was never the case in our observed companies.

Table III

Correlation Matrix (I)

Table II gives correlations for special meeting threshold with set of firm characteristics: industry, IPO year, number of employees and d holds for dummy variable for dual shares (1=yes, 0=no). as of 31st January 2019.

	Special meeting threshold	Industry	IPO	Dual shares	Number of employees
Special meeting threshold	1				
Industry	-0,06	1			
IPO	**0,29**	0,21	1		
Dual shares	**0,28**	0,21	0,18	1	
Number of employees	-0,20	0,11	0,23	0,02	1

b) Company's IPO

Companies that decided going public, to raise capital and opportunities for expansion, become publicly traded and owned entities. Our observed companies are all listed on major US stock exchanges and are therefore publicly traded. When going public in the US, companies are obliged to disclose certain items that are outlined by the SEC. Amongst these items, we can also see the Articles of Incorporation and Bylaws, which are delivered within the IPO process. In this research, we explore whether the year of a company's IPO is of any significance when it comes to special meeting threshold. Our data on the year of IPOs' was hand-picked for each company from online source Crunchbase. We also look to see if there are any trends present, and if the companies, whose IPO was in the same year, have the same special meeting threshold set, and is the threshold larger or smaller in companies that recently went public.

c) Dual classes of stocks

Many companies practice the issuance of different types of shares. This practice was already known long back in history but was banned on the New York Stock Exchange in 1926 and then reinstated during the 80s. Dual class stock structures can differ on voting rights and dividend payments. The latter is the case in our sample data. Usually one class, with limited or no voting rights, is offered to the general public, while the other class, with higher voting power, is offered to founders of the company and executives. Classes of stocks with higher voting power most often provide for the majority control of the company. Nowadays, the trend of practicing dual classes of stocks has again emerged with technology start-ups going public (such as Google, Facebook), to retain their control. Dual classes of stock dummy is used as a variable.

Table IV

Correlation Matrix (II)

The table presents correlation matrix for special meeting threshold with CEO characteristics, as of 31st January 2019: whether current CEO is also the founder of the company, CEOs ownership in the company, expressed in percentages and tenure years of current CEO.

	Special meeting threshold	Is CEO also the founder?	CEO Ownership	CEO Tenure Years
Special meeting threshold	1			
Is CEO also the founder?	**0,15**	1		
CEO Ownership	**0,08**	0,59	1	
CEO Tenure Years	**0,15**	0,69	0,27	1

d) Diversity among shareholders

To see whether shareholders are diversified, and if diversification of shareholders has any effect on the special meeting threshold, we look at the number of shareholders, the largest 20 shareholders, and the number of shares they hold as of 31st January 2019. We collected data on different type of shareholders, as shown in Table V, from the Bloomberg base. The largest company's shareholder in the USA, usually holds 8-10%

shares of stocks and the companies are widely held, which was also the case in our sample data. In most US incorporated companies, we find a dispersed ownership and weak control, which can lead to lessened monitoring by shareholders. However, with that said, there may be better stock liquidity and potential for value-increasing takeovers. (Correia Da Silva & Goergen, 2004) Correlation matrix between special meeting threshold and number of shareholders is displayed in Appendix 1.

Table V

Division of Stock Owners

The table divides individual shareholders observed in our sample data, into clusters according to type of their operations.

Types of Stock Owners
Investment Advisors
Banks
Insurance Companies
Pension Funds
Governments
Hedge Fund Managers
Sowereign Wealth Fund
Brokerage
Individuals
Corporations
Private Equities
Trusts
Holding Companies

e) Company's insider holdings

Corporate insiders in USA is defined as company's officer, director and any owner of more than 10% of company's shares. Company's founders, directors, managers and their families have the right to sell and buy company's stocks and other securities, such as bonds and stock options. However, all the insider trading practices and relevant information (name, position of the person in that company, purchase or sell, number of shares, buying or selling price) have to be disclosed to SEC and are available online to the general public. There has been a long ongoing debate whether or not insider trading should be illegal, as other investors might not have access to all the information that is available to insiders. Insiders could potentially make larger profits or lower losses, due to all accessible information. Insider trading indeed undermines investors' confidence in fairness and integrity of securities trading on the market. Lower special meeting threshold might be a result of higher insider holdings, meaning that corporate insiders already hold higher voting power. Please see Appendix 2 for correlation matrix between special meeting threshold and insider holdings, and executive team characteristics. For the purposes of this paper, we determine insider holdings as all shares held by company's officer or director, even if the stake is lower than 10%.

Table VI

Correlation Matrix (III)

The table gives correlations for special meeting threshold with ROE, ROA, 1 year, 3 years and 5 years return to shareholders. The calculation of ROA is explained with formula (4). The sample period retrieved is from 2008-2018.

	Special Meeting threshold	ROE	ROA	1 Yr Return to Shareholders	3 Yr Return to Shareholders	5 Yr Return to Shareholders
Special meeting threshold	1					
ROE	-0,03	1				
ROA	**0,10**	0,20	1			
1 Yr Return to Shareholders	-0,02	0,00	-0,01	1		
3 Yr Return to Shareholders	-0,02	0,06	0,26	0,05	1	
5 Yr Return to Shareholders	-0,04	0,08	0,28	0,06	-0,04	1

In the second part of the analysis, we tried to analyse the relationship with performance measurements of the companies, such as ROE and ROA, which indicate the executive managements' effectiveness. We can see in Table VI that the special meeting threshold is correlated with ROA. However, it has negative correlations with ROE, 1 year, 3 years and 5 years return to shareholders. In Table VII, we can also see that the special meeting threshold has a positive correlation with High and Low Stock Prices.

f) Return on Assets

ROA is commonly used as an indicator on how efficient a company's management is at utilizing its assets to generate earnings, which is displayed in percentages. For each year and all the companies, ROA was calculated based on following formula:

$$ROA_{i,t} = \frac{NET\ INCOME_{i,t}}{SHAREHOLDER\ EQUITY_{i,t} + LIABILITIES_{i,t}} \qquad (4)$$

Where i is the respective firm from our sample data, and t the year, ranging from 2008 to 2018.

Table VII

Correlation Matrix (IV)

The table gives correlations for special meeting threshold with set of firm performance characteristics and balance sheet items. The sample period retrieved is from 2008-2018.

	Special meeting threshold	EBIT	Price High	Price Low
Special meeting threshold	1			
EBIT	-0,35	1		
Price High	0,12	-0,07	1	
Price Low	0,10	-0,04	0,98	1

g) High and Low Stock Price

Table VII indicates correlation between special meeting threshold and high, low stock price. A 52-week high and low is the highest and lowest price at which the stock was traded during the year. It is quite commonly used among traders and investors to determine current value of a stock and future price movements predictions. Strong positive and significant correlation is shown to be more associated with a high stock price than with a low stock price.

To observe the effects of these measures, we added the following two regressions to the second part of the analysis:

$$SPECIAL\ MEET\ THRESHOLD = \alpha + \beta_1\ ROE_{i,t} + \beta_2\ ROA_{i,t}\ + \mu_i + \varepsilon_{i,t} \quad (5)$$

$$SPECIAL\ MEET\ THRESHOLD = \alpha + \beta_1\ EBIT_{i,t} + \beta_2\ HIGH\ STOCK\ P_{i,t} + \beta_3\ LOW\ STOCK\ P_{i,t} + \mu_i + \varepsilon_{i,t} \quad (6)$$

Where *i* is the respective firm from the sample data and *t* the year, ranging from 2008 to 2018.

Fama MacBeth regressions were then run in excel, year-by-year, using end-of-the-year observations. Industry fixed effects have been considered to remove the impact of an omitted variable bias. Industry dummy variables, μ_i, were created for our analyses, based on NAICS classification system displayed in Table I. However, for the purpose of our regressions we have taken 9 of them into account (10 dummies altogether), to avoid the dummy variable trap, which would lead us to multicollinearity.

Getting yearly regressions, we then took an average of all regressions from year 2008 to 2018. Further on, model diagnostic was performed, for the linear regression model assumptions.

3.4. Summary statistics

Table VIII shows the summary statistics for the special meeting threshold and firm characteristics as of 31st January 2019: IPO year, shareholders diversity, CEO ownership, current CEO tenure, number of board members and executives, average age of current board members, number of boards served by the board members, number of committees companies have appointed, number of employees, stake of largest shareholder and the sum of top 20 largest shareholders in the corporation. The second column shows the mean value of firm's characteristics. The last two columns are showing the minimum and maximum values observed. These results are descriptive and provide some background for the analyses conducted in the following sections of this paper.

Table VIII

Summary Statistics

The table presents summary statistics for percentages to call in a special meeting, IPO year, number of shareholders, insider holdings, CEO ownership, current CEO tenure, number of board members and executives, average age of current board members, number of boards served by the board members, number of committees companies have appointed, number of employees, stake of largest shareholder and the sum of top 20 largest shareholders in the corporation.

SUMMARY STATISTICS					
Variable	Observations	Mean	Std. Dev.	Min	Max
Special Meeting threshold	100	0.5190	0.3778	0.1	1
IPO	99	1992.5150	13.9689	1956	2018
No. of shareholders	99	482.6566	119.5266	52	783
CEO Ownership	97	0.0106	0.0336	0	0.1958
CEO Tenure	99	7.1802	8.1608	0.08	49.25
No. of BOD members	100	11.71	2.4133	6	18
Average age of BOD members	92	69.1304	62.3689	52	73
BOD served	98	1.1338	0.4309	0.22	2.38
Insiders holdings	100	0.0223	0.0610	0.0002	0.4079
No. of Executives	99	17.30	7.0475	7.0475	56
No. Of Committees	100	4.1919	1.2345	2	8
No. Of Employees	99	118338.2	257614.3	618	2300000
Top Shareholder Ownership	100	0.1139	0.0695	0.0695	0.4874
Ownership Top 20 Shareholders	100	0.5386	0.1013	0.3493	0.867

The Mean value of special meeting threshold is 51.90%, and the minimum special meeting threshold is 10%. In 13% of the corporations included in our sample, the founder of the company is also its current CEO (as of 31st January 2019). This is mainly the case in companies with first Initial Public Offering (IPO) made in late 90s and until recent. We can see the first IPO occurred in 1956 and the last observed in 2018.

There are CEOs in our observed companies that do not hold any shares of the company, however a maximum stake of shares that a CEO holds is 19.58%. Mean value of CEO tenure in our sample is 7.18 years. We can also observe that maximum CEO tenure is 49.25 years.

The Board of directors is independent for all our 100 observed corporations. The board with the fewest members consists of 6 members, and the board with the highest number of members has 18 members. Mean value is 11.71. Average age of board of directors is 69 years, whereas the "youngest" boards average age is 52 years old, and the "oldest" is 73 years. On average, board members serve 1.13 boards.

Figure II: BOARD OF DIRECTORS TRENDS

In the figure below, you can see Board characteristics in 2018. Data retrieved from Bloomberg database and companies' websites.

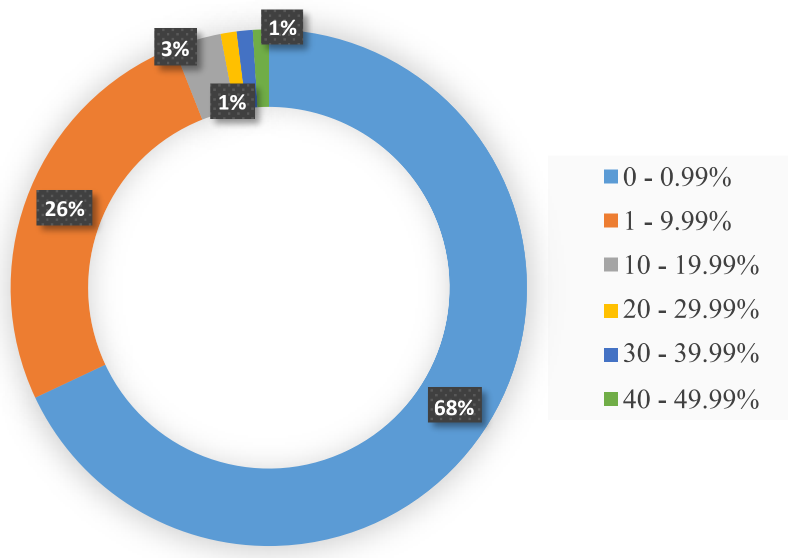
Insiders in observed companies holds on average 2.23% of the company's shares, and 68% of the companies have insider holdings lower than 1%. On the other hand, there is an outlier company, where insider holdings amount to almost 50%. Insider trading undermines investors' confidence in fairness of securities trading on the market.

The minimum stake of shares that the largest shareholder holds in a company is 6.95% and the largest stake is at almost 50% (48.74%). Mean value is 11.39%, which goes with Da Silva's and Goergen's (2004) findings that the largest company's shareholder in the USA usually holds 8-10% shares of stocks, and that they are widely held. Meaning that ownership is in general dispersed with weak control. Largest shareholders in companies are usually Investment Advisers, Pension Funds, Insurance Companies, the Government, Brokerages, Hedge Fund Managers, Sovereign Wealth Fund, Banks and Corporations.

The twenty largest shareholders own on average 53.86% of the shares and is therefore the majority. This means that the largest twenty shareholders would in most cases be able to call in a special meeting if needed. In the minimum case, the largest twenty shareholders in sum hold 34.93% of the shares and in the maximum case 86.7% of the shares.

Figure III: INSIDER HOLDINGS

Doughnut chart display percentages for insider holdings in our data sample companies, as of 31st January 2019. Data is retrieved from Bloomberg database.

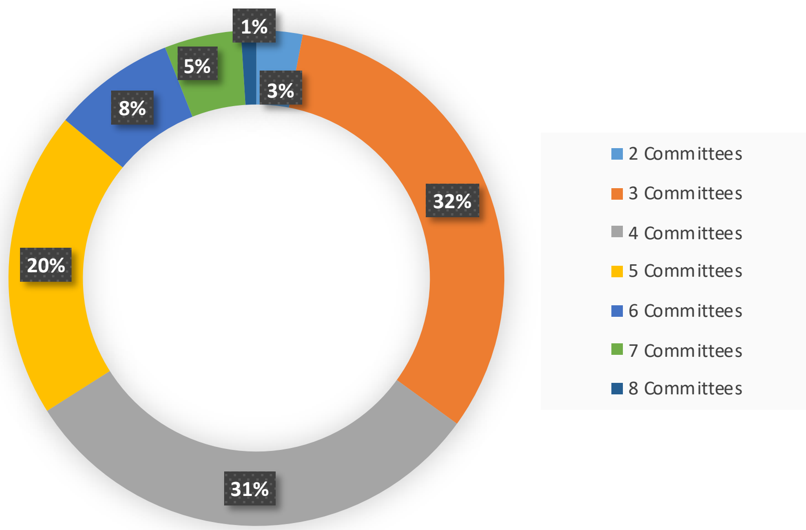


Companies on average have 4 committees in place, and the minimum number of committees observed is 2, with the maximum of 8. Most common are Audit, Nominating and corporate governance committees and Compensation committees. However, many companies are now also implementing Public policy and corporate reputation committees.

As already mentioned, all corporations observed in the sample are part of S&P500 (as of 31st January 2019), therefore we did not include a S&P500 dummy variable.

Figure IV: **NUMBER OF COMMITTEES IN PLACE**

Doughnut chart display percentages for number of Committees our data sample companies have in place, as of 31st January 2019. Data is retrieved from companies' websites, under sections Corporate Governance or Internal Control.



4. Results

In this section, we will first discuss the main findings with regards to our three major research questions, leading to the construction of the SMM model, before we proceed to display the main results of the model diagnostics performed. We then went on testing the model for the normality of disturbances, absence of multicollinearity, homoscedasticity and absence of autocorrelation. Further on, in the second part of this paragraph we discuss the results from Fama MacBeth regressions and performance measures.

4.1. Special Meeting Threshold and Characteristics of the Firm

This section will discuss our three major research questions, and the results learned from this paper.

4.1.1. Special meeting threshold and IPO year

In this paragraph, we will discuss our first research question and explore whether the demanded threshold to call in a special meeting is dependent on the company's year of going public (IPO). The analysis was conducted as explained in paragraph 3.2. Our results indicate that the year of the IPO is a statistically significant variable, and the results from the regression performed in Stata, are displayed in Appendix 5. The regression coefficient β_1, measures the percentagewise change in the special meeting threshold associated with one standard deviation change in the year of company's first IPO. We found this coefficient to be 0.008. This implies that 1-year change in the year of the IPO, will on average imply a 0.8 percentage point increase in special meeting threshold. Therefore, we were able to reject the null hypothesis that $\beta_1 = 0$, at a statistical significance level of 0.03 (p-value < 0.05). R-squared amounted only to 9%, meaning that the explanatory power is low.

This results nevertheless indicate that the year of a company's IPO is of significance when it comes to setting the special meeting threshold. In addition to this, we found that the majority of companies that held their first IPO in the 20^{th} century, only allowed CEOs, the Chairman of the board, and other board members to call in a special meeting. Overall, we can see a trend in recent years towards limiting shareholders' ability to demand a special meeting and make changes.

4.1.2. Special meeting threshold and dual stocks

Do companies with a dual class stock structure request a lower threshold for calling a special meeting, than companies that only obtain ordinary stocks? Usually one class, with limited or no voting rights, is offered to the general public, while the other class, with higher voting power, is offered to the founders of the company and executives. Classes of stocks with higher voting power most often provide for majority control of the company. The value for majority holders is related to the cash flows and private benefits they can extract, while smaller outside investors is more related to voting rights in for example a control contest. (Hauser & Lauterbach, 2004)

Results of our analysis indicate that the dummy variable for dual stocks is statistically significant at the 5% level. Our regression output is presented in Appendix 6. The regression coefficient β_2 measures the percentagewise change in special meeting thresholds associated to whether the corporation has different classes of stocks (dummy variable: 1 = yes) or just ordinary stocks (0 = no). The analysis allowed us to reject the null hypothesis and confirm our research question, at the 5% significance level. The coefficient is substantial at -0.3698, which implies that on average, companies with dual stocks, ceterus paribus, have 36.98 percentage points lower special meeting thresholds set than those without. R-squared only amounted to 8% and adjusted R-squared to 7%, so there is certainly reason to believe there are other underlying factors we are yet to explain.

4.1.3. Special meeting threshold and insiders' holdings

In this paragraph, we will discuss our final research question of this paper, which is whether companies with higher insider stock holdings request a lower special meeting threshold.

The regression coefficient β_3 measures the percentagewise change in special meeting threshold, associated to whether the corporation has a high or low percentage of insider stock holdings. We failed to reject the null hypothesis at a significance level of 5%, which is indicating that a lower special meeting threshold might not be influenced by a high share of insider holdings.

The regression output is presented in Appendix 7. Our regression coefficient turned out to be -0.131, however the p-value of 0.835 is too high for us to reject the hypothesis. Therefore, we cannot say that companies with higher insider stock holdings is associated with a lower special meeting threshold.

On the other hand, when creating our SMM model, we noticed that by including this variable, we increased the explanatory power of the model as a whole (R-squared). In addition to this, the p-value of the insiders' holdings variable in the model held a p-value of 0.056, which is close to 0.05. Therefore, we decided to include it in our SMM Model.

4.2. The Special Meeting Model (The SMM)

In this section, we will discuss the model constructed in this master thesis, the so-called Special Meeting Model. The analysis was conducted as explained above. The process of testing different linear regressions, led us to constructing the following model:

$$SMM = \alpha + \beta_1\, IPO_i + \beta_2\, SH_i + \beta_3\, IH_i + \beta_4 D + \varepsilon_i \qquad (7)$$

In the model, i is the respective firm from the sample data. The SMM model was estimated by using the ordinary least squares (OLS), and the Stata code we used can be found in an additional document provided

In order to make a valid statistical inference based on an econometric model, the model must be correctly specified and key assumptions of the CLRM needs to be satisfied. Having that said, we performed model diagnostics (Matlab code in additional document), in which we tested our model for the normality of disturbances (Table IX), absence of multicollinearity (Table X), homoscedasticity (see graphs in Appendix 11) and absence of autocorrelation (Breusch-Godfrey test, up to 12 lags). There were no violations of these assumptions present, therefore no corrections needed.

Table IX

Testing the Normality of Disturbances

The table presents output of testing for the Normality of Disturbances. We performed a Jarque-Bera test (1987) and checked for possible violations of the assumption. There were no violations present. Skewness amounts to 0.4126347, meaning it is slightly skewed to the right. Kurtosis is 2.193187 meaning curve is leptokurtic, slim and long-tailed.

Normality of disturbances testing Output	
	Residuals
Variance	0.1089465
Skeweness	0.4126347
Kurtosis	2.193187

The regression coefficient β_1, that measures the percentagewise change in special meeting thresholds associated to one standard deviation change in the year of the company's first IPO, is 0.006. This implies that a 1-year change on the date of the IPO, ceterus paribus, will on average imply a 0.6 percentage point increase in the special meeting threshold for the companies. The results of the analysis are displayed in a table, under Appendix 8.

Table X

Testing the Absence of Multicollinearity

The table presents output of testing for the absence of Multicollinearity. The Mean VIF of the model equals 1.28, meaning it is close to 1 and there is no multicollinearity present in the model.

Multicollinearity testing Output			
Variable	VIF	Tolerance	R-Squared
SM threshold	1.31	0.7634	0.2366
IPO	1.15	0.8687	0.1313
SH	1.41	0.7082	0.2918
IH	1.19	0.8386	0.1614
D	1.33	0.7528	0.2472
Mean VIF	**1.28**		

The regression coefficient β_2, that is measuring the effect of diversity among shareholders amounted to -0.001, at a significant p-value of 0.03. Implying that a one standard deviation change in number of shareholders, ceterus paribus, on average implies a 0.1 percentage point decrease in the special meeting threshold.

β_3 is a regression coefficient measuring the percentagewise change in special meeting threshold associated to changes in insiders' holdings. It amounts to -1.136, implying that 1% increase in insider's holdings, ceterus paribus, on average implies a 13.6 percentage point decrease in the special meeting threshold. Acquired p-value for this variable is 0.056. As the p-value is close to the required value of 0.05, we decided to keep it, due to the overall high explanatory power of the model.

The regression coefficient of β_4 measures the effects on the special meeting threshold that are associated with whether the company has dual shares or just ordinary ones. At a significance level of 5%, the dummy coefficient for this variable was -0.45, which implies that on average, ceterus paribus, companies that issue dual class shares, have lower special meeting thresholds set.

The R-squared we got using this model amounts to 25.35%, whereas the adjusted R-squared is slightly lower with 22.14%.

4.3. Special Meeting Threshold and Performance Measures

Lastly, we will discuss the results from the Fama MacBeth regressions performed. The analysis was performed as described in paragraph 3.3., under section f and g.

4.3.1. Special Meeting Threshold, ROE and ROA

After running the Fama MacBeth regressions with ROE and ROA measures year-by-year, we calculated the average and received the results that are displayed in the table in Appendix 9. Main findings from these regressions are that both ROE and ROA are statistically insignificant at the 5% level, with p-values 0.5450 (ROE) and 0.5835 (ROA).

4.3.2. Special Meeting Threshold, EBIT, Price High and Price Low

Results displayed in the table in Appendix 10, shows that the EBIT variable is not statistically significant at the 5% level, with a p-value of 0.5450. The 52-week lowest price at which the stock was traded during the year, had a p-value of 0.3678. On the other hand, the 52-week highest price at which the stocks were traded during the year, is a statistically significant variable, with a p-value of 0.0241 and R-squared amounts to 25%. This result implies that a 1-unit increase in Price High, ceterus paribus, on average implies a 0.21 percentage point increase in special meeting threshold.

5. Conclusion and Limitations

In this paragraph, we will comprehensively summarize major findings and limitations of this research and give a final comment of the paper.

Can special meeting threshold be explained by any of the firms' characteristics? The simple answer is yes. We say that because the year of a company's first IPO, diversity among shareholders, number of insiders' holdings and the fact whether companies have dual shares or not, are efficient in explaining special meeting thresholds. According to our regressions, the coefficients, t-statistics and the R-squared are significant and provide meaningful results.

Insiders holdings is the strongest factor, with coefficients -1.136, respectively implicating that companies with insider holdings in general have lower special meeting thresholds set.

Do companies with dual classes of stocks request lower special meeting threshold than companies that only obtain ordinary stocks? Classes of stocks with higher voting power, which are being offered to founders of the company and executives, most often provide for majority control of the company. Having that said, it was not a surprise to discover that companies with dual shares tend to have a lower threshold for calling a special meeting. In recent years, with technology start-ups going public, the trend of practicing dual classes of stocks has again emerged, in order for the founders to retain control over the company, yet receiving the capital needed for expansion.

One surprising factor of this study is that none of the characteristics of the board of directors tested is significant, thus showing that board of directors does not explain the special meeting threshold. As well as the insignificance of ROE, ROA and EBIT factors.

In the big scheme of things, exploration of different correlations among special meeting threshold and different characteristics of the firms, such as IPO year, CEO tenure, CEO ownership, insiders' holdings, shareholders' diversity, ownership structure, etc. allowed us to construct the SMM Model, helping us explain some drivers behind the special meeting thresholds.

Although this paper has delivered some new findings to the topic of special meetings threshold, we noticed some caveats that need to be expressed in this section. Firstly, the SMM model we designed, could be compared to different years. Adding t as a yearly observation to number of shareholders, insider holdings and dual shares. This would allow for more accurate observations and explanation of special meeting thresholds through years. If we were granted the access to GMI Corporate Governance Ratings, we would be able to compare these ratings with the 100 companies observed, and further explore correlations and their significance to see whether companies with higher (lower) special meeting threshold have lower (higher) GMI ratings, meaning they are less (more) friendly to shareholders.

Secondly, one could collect data on how many special meetings are called, and the purpose of them, to get a further insight in the frequency and results of these special meetings.
Another limitation is the sample size chosen. Hand-picking data is time consuming, hence without a time constraint, we would increase our sample size and number of observations. This would improve accuracy and accountability of our model, and this paper. As well as not randomly picking companies, which were at the end all part of the S&P500, we could make a comparison between companies that are included in S&P500 or S&P100, to seek whether this variable causes changes in special meetings threshold set by companies. Increasing the sample size would probably also help improve the output of assumption about normality of disturbances.

We believe our model is just a beginning of explaining how, and on what base the special meeting threshold of companies is set. However, we can argue that we are quite satisfied with the output, as we could not find any relevant academic papers regarding this topic.

Appendix

Appendix 1: Correlation Matrix (V)

Appendix 1 gives correlations for special meeting threshold with number of shareholders, top shareholder, ownership of the largest shareholder, sum of ownership of 20 largest shareholders and ownership by type (classified as shown in table IV), as of January 31st 2019.

	Special meeting threshold	Number of Shareholders	Top Shareholder	Top Shareholder Ownership	Ownership of Top 20 Shareholders	Ownership by type
Special meeting threshold	1					
Number of Shareholders	-0,25	1				
Top Shareholder	-0,08	-0,17	1			
Top Shareholder Ownership	0,04	-0,44	0,33	1		
Ownership Top 20 Shareholders	**0,28**	-0,56	0,35	0,41	1	
Ownership by type	0,07	-0,45	0,17	0,68	0,05	1

Appendix 2: Correlation Matrix (VI)

Appendix 2 gives correlations for special meeting threshold with insider holdings, and executive team characteristics, as of January 31st 2019.

	Special meeting threshold	Insiders Holding	Number of Executives	Av. Age of Executives
Special meeting threshold	1			
Insiders Holding	-0,02	1		
Number of Executives	-0,03	0,15	1	
Av. Age of Executives	-0,16	0,51	0,07	1

Appendix 3: Correlation Matrix (VII)

Appendix 3 gives correlations for special meeting threshold with board and board members' characteristics: how many, their average age and average number of boards served, as of January 31st 2019.

	Special meeting threshold	Number of Board Members	Av. age of Board Members	Av. number of boards served
Special meeting threshold	1			
Number of Board Members	-0,02	1		
Av. age of Board Members	**0,12**	-0,11	1	
Av. number of boards served	0,00	-0,02	0,02	1

Appendix 4: Correlation Matrix (VIII)

Appendix 4 gives correlations for special meeting threshold with set of firm performance characteristics and balance sheet items. The sample period retrieved is from 2008-2018.

	Special meeting threshold	Assets	Book Value Per Share	Ordinary Equity	Cash	Long-Term Debt	Ordinary Dividends	Total Dividends
Special meeting threshold	1							
Assets	-0,27	1						
Book Value Per Share	-0,17	0,35	1					
Ordinary Equity	-0,37	0,85	0,37	1				
Cash	-0,25	0,59	0,51	0,51	1			
Long-Term Debt	-0,30	0,90	0,34	0,79	0,74	1		
Ordinary Dividends	-0,33	0,35	0,02	0,61	0,21	0,45	1	
Total Dividends	-0,34	0,42	0,05	0,66	0,26	0,52	0,99	1

Appendix 5: Regression Output (I)

Appendix 5 gives special meeting threshold and IPO regression results. Results displayed in brackets are negative values.

Special meeting threshold - IPO

F (1,97)	9.21
Prob > F	0.0031
R-squared	0.0868
Adj R-squared	0.0773

	Coeff.	Std Error	t-stat	p-value
IPO	0.008	0.003	3.04	0.003
Cons	(15.306)	5.212	(2.94)	0.004

Appendix 6: Regression Output (II)

Appendix 6 gives special meeting threshold and Dual shares dummy variable (1=yes, 0=no) regression results.

Special meeting threshold - Dual shares dummy

F (1,98)	8.44
Prob > F	0.0045
R-squared	0.0793
Adj R-squared	0.0699

	Coeff.	Std Error	t-stat	p-value
d	(0.3698)	0.1273	(2.91)	0.005
Cons	0.4857	0.0382	12.72	.000

Appendix 7: Regression Output (III)

Appendix 7 gives special meeting threshold and Insiders holdings regression results. Results displayed in brackets are negative values.

Special meeting threshold - Insiders holdings

F (1,98)	0.04
Prob > F	0.8346
R-squared	0.0004
Adj R-squared	-

	Coeff.	Std Error	t-stat	p-value
Ins. Holding	(0.131)	0.626	(0.21)	0.835
Cons	0.522	0.041	12.90	.000

Appendix 8: Regression Output (IV)

The table gives regression results from constructed model (SMM Model). Model consists of four variables: IPO, number of shareholders, insider holdings (expressed in percentage units) and d, which holds for a dummy for dual shares (1=yes, 0=no). Results displayed in brackets are negative values.

The SMM Model

F (4,93)	7.90
Prob > F	0.0000
R-squared	0.2535
Adj R-squared	0.2214

	Coeff.	Std Error	t-stat	p-value
IPO	0.006	0.0026	2.26	0.026
No. Shareholders	(0.001)	0.0003	(3.08)	0.003
Ins. Holding	(1.136)	0.5865	(1.94)	0.056
d	(0.450)	0.1251	(3.59)	0.001
Cons	(10.808)	5.2444	(-2.06)	0.042

Appendix 9: Regression Output (V)

The table gives output from Fama MacBeth regressions run year-by-year. Model consists of following variables: ROE, ROA and industry dummies (10-14, 15-17, 20-39, 40-49, 50-51, 52-59, 60-67, 70-89, 90-99). Results displayed in brackets are negative values. The sample period retrieved is from 2008-2018.

ROE, ROA and INDUSTRY DUMMIES			
R-squared	0.1337		
	Coeff.	**t-stat**	**p-value**
ROE	(0.0002)	(0.2754)	0.5450
ROA	0.0000	(0.0286)	0.5835
"10-14"	0.2195	0.5002	0.6254
"15-17"	0.0000	65535	-
"20-39"	0.3652	0.9572	0.1250
"40-49"	0.1430	0.3536	0.7344
"50-51"	0.0156	7281.6950	-
"52-59"	0.3150	0.7862	0.8530
"60-67"	0.2202	0.5573	0.5850
"70-89"	0.1071	0.2610	0.7971
"90-99"	0.000	65535	-
Cons	0.2230	0.5838	0.5648

Appendix 10: Regression Output (VI)

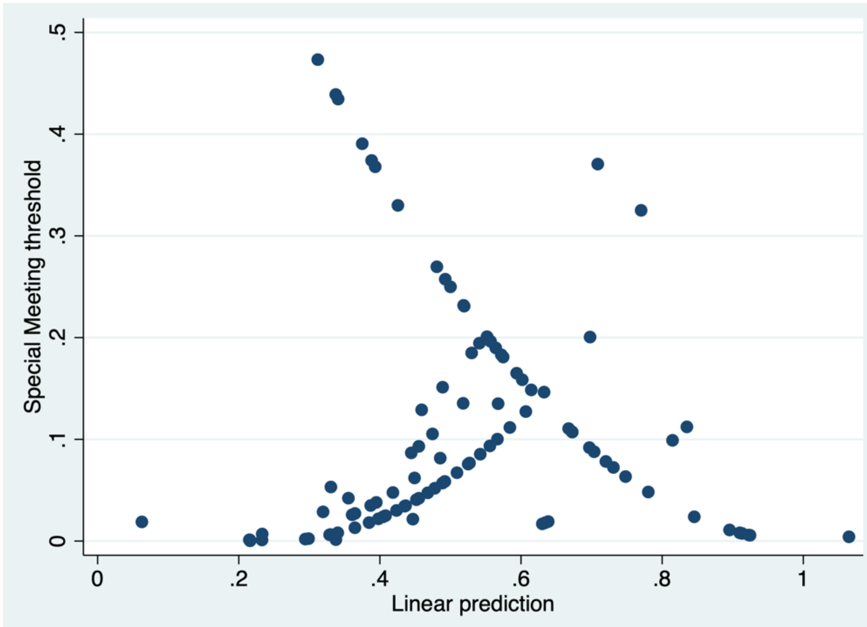
The table gives output from Fama MacBeth regressions run year-by-year. Model consists of following variables: EBIT, PRICE HIGH, PRICE LOW and industry dummies (10-14, 15-17, 20-39, 40-49, 50-51, 52-59, 60-67, 70-89, 90-99). Results displayed in brackets are negative values. The sample period retrieved is from 2008-2018.

EBIT, PRICE HIGH, PRICE LOW and INDUSTRY DUMMIES			
R-squared	0.2497		
	Coeff.	**t-stat**	**p-value**
EBIT	(0.0001)	(0.2754)	0.5450
PRICE HIGH	0.0021	1.8743	0.0241
PRICE LOW	(0.0025)	(0.8054)	0.3678
"10-14"	(0.6717)	(1.6381)	0.1106
"15-17"	-	-	-
"20-39"	(0.4335)	(-1.2066)	-
"40-49"	(0.6990)	(1.8505)	0.0721
"50-51"	(0.7567)	(1.5190)	0.1360
"52-59"	(0.6938)	(1.8444)	0.0741
"60-67"	(0.6451)	(1.7498)	0.0870
"70-89"	(0.2818)	(0.7358)	0.4738
"90-99"	-	-	-
Cons	0.9704	2.691	0.0106

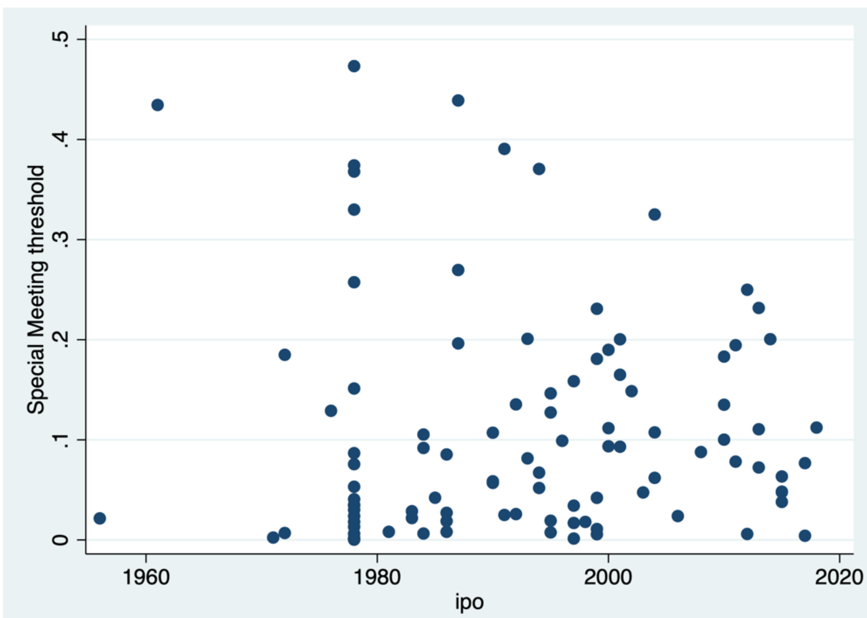
Appendix 11: Testing for Homoscedasticity

The scatters plotted between special meeting threshold and explanatory variables in our model show there is no heteroscedasticity present in our model. As there are no visible patterns. We also performed a White test (1980).

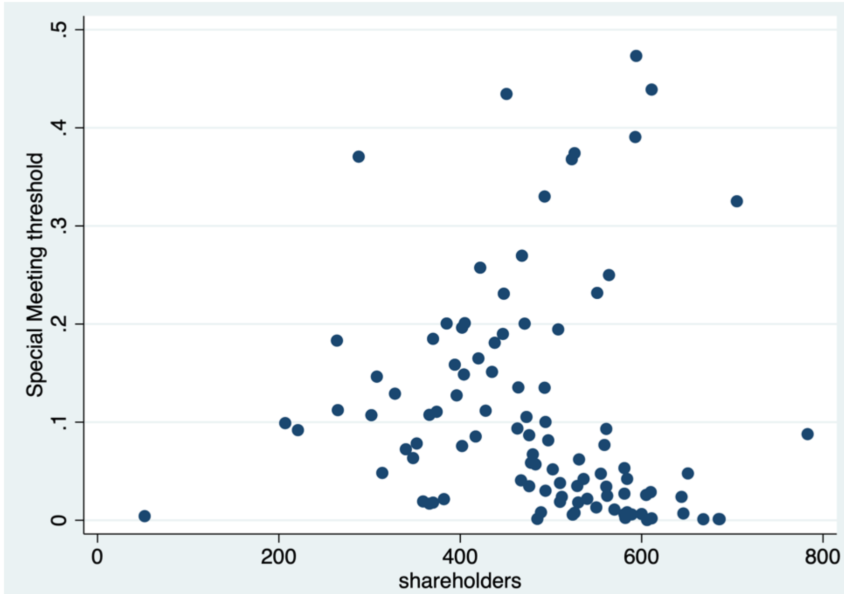
a) Scatter plot: Special Meeting threshold and Linear Prediction



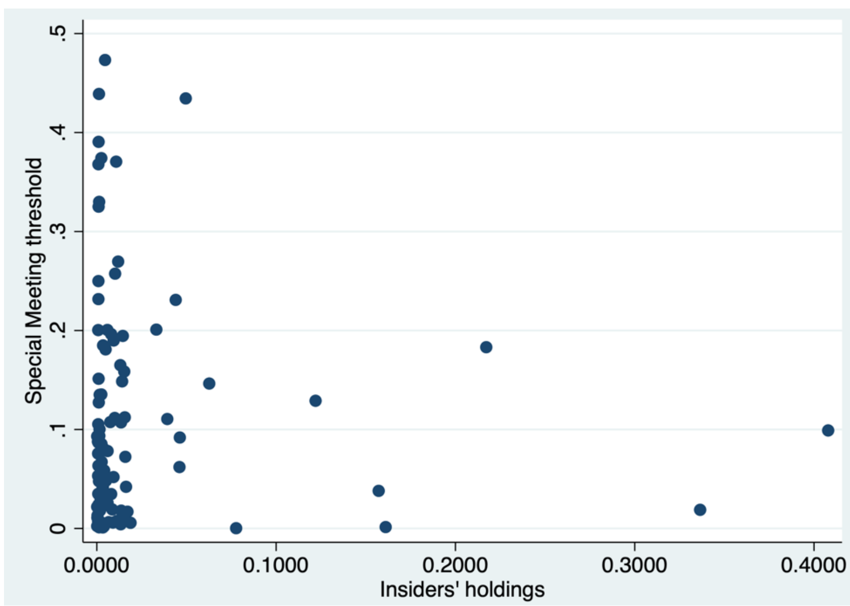
b) Scatter plot: Special Meeting threshold and IPO



c) Scatter plot: Special Meeting threshold and Number of Shareholders



d) Scatter plot: Special Meeting threshold and Insiders' Holdings



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