CORPORATE GOVERNANCE: HOW DO INVESTORS AFFECT THE PRODUCTION OF EUROPEAN LAW?

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ABSTRACT

The European Commission demonstrates far-stretched ambitions to increase and harmonize the regulatory frameworks that direct and control investors, managers, and other constituents of listed corporations in Europe. Recent initiatives include the EU corporate governance framework (IP/11/404), the Action Plan on European Company Law (EC/12/1340), the revision of the Shareholder Rights Directive (2007/36/EC), the revision of certain elements of the corporate governance statement (2013/34/EU), and the revision of the Transparency Directive (2004/109/EC). A key theme in this paper is to explore investor influence on the production of corporate law by measuring to what extent adopted legislative initiatives correspond to the preferences of the market participants. The empirical findings confirm the assumption that the level of support a legislative initiative obtains in public consultations, and the number of respondents that express a favorable view, positively affect the adoption decision of that initiative. Thus, the evidence supports the belief that the legislature of the European Union is susceptible to opinions and wishes of market participants in the design of the standard contract. Based on the results, the paper seeks to contribute to post-financial crisis discussions on whose interests are served by regulatory harmonization of corporation codes in the European Union.

Keywords: European Commission, corporate governance, shareholders, securities and financial regulation, harmonization, political determinants

JEL classification: K22, G38, G28

I. INTRODUCTION

Ever since the modernization of company law and enhancement of corporate governance (Eur. Comm'n. 2003), the European Commission has demonstrated increasingly far-stretched ambitions to expand and harmonize the regulatory framework that directs and controls investors, managers, and other constituents of listed corporations in the European Union. Initiatives include, for example, a recommendation for an appropriate regime for the remuneration of directors, a recommendation on the role of non-executive directors and board committees, a shareholder rights directive, a transparency directive, as well as amendments to the fourth company law directive, the directive on the annual accounts of certain types of companies, and the two aforementioned directives on shareholder rights and transparency (Eur. Comm'n. 2004a; 2004b; 2005; 2006a; 2006b; 2007a; 2009a; 2013a; 2014).

In addition, the Commission – who is the sole body in the Union entitled to launch legislative initiatives, has published numerous public consultations, statements, and working documents. Most notably this include the impact assessment of the proportionality principle that led to the abolishment of ambitions to implement full shareholder democracy in 2007, the EU corporate governance framework in 2011, the action plan on European company law in 2012, and the communication on long-term financing of the European economy in 2013 (Eur. Comm'n. 2007b; 2011; 2012; 2013b).

The underlying objectives of the aforementioned reforms have, from time to time, been a subject of great debate. While much of the Commission's work has been received with praise by the market participants (essentially reflecting a perceived lowering of transaction costs), other initiatives have stirred significant negative reactions (essentially reflecting a perceived increase of transaction costs). Particularly efforts that infringe on the power tilt between majority and minority investors, have caused substantial frustration (Financial Times, 2015; Lekvall et al., 2015). Distrust in the

Commission's legal imagination has arised from the apparent consideration of some corporate governance mechanisms aimed to solve agency problems as agency problems in themselves, approaches perceived as too Anglo-Saxon, too bureaucratic, or unlikely to exist, and solutions that contradict the identified problem (see Enriques, 2014; Lekvall, 2014; Strand, 2015).

Parallell to this, anecdotal evidence indicates that the Commission is susceptible to pressure, both in the creation and the withdrawal of legislative initiatives, and that it seeks convergence through congruence as well as lobbyism (Siems, 2006). The much criticized suggested amendment of the proportionality principle constitutes an obvious example. Moreover, the Commission's recognition of the need for a system for cross-border voting was anticipated already in the consultation on cross-border securities holdings in 2009 (Eur. Comm'n. 2009b as cited in Schouten, 2009:3). Still only modest reform on cross-border shareholder voting was implemented at that time, reflecting the reluctancy of the market to praise the proposal (Schouten, 2009). However, the amendments to the shareholder rights directive presented last year contain just the provisions the Commission appeared so reluctant to impose six years ago (Schouten, 2009).

The political economy of the legislature in the European Union is highly under-explored. This paper investigates the legislative process, with focus on public consulations, and the influence of market participants' opinions on the adoption of default contracts. The question of the lawmaker's integrity is intimately linked to the question of the role of law. Market participants represent a multitude of interests that reflect their perceived private benefits under a particular regulatory scenario (see Jensen & Meckling, 1976). This is recognized by the European Parliament, who issued a statement shortly after the European Council recommended the Commission to implement the first public consulation process in 2001 (Eur. Counc., 2001, as cited in Schouten 2009:12), pointing out that *"consultation […] can never replace the procedures and decisions of legislative bodies which possess democratic legitimacy"* (Eur. Parl., 2002, as cited in Schouten 2009:12. The Commission's

unpredictability in launching and withdrawing proposals gives rise to two questions: what is the role of law in the European Union (or rather what should it be), and how is the production of that law influenced by consumer versus alternative interests? The purpose of this paper – which constitutes a pilot study preceeding a more comprehensive empirical study, is to examine the latter question, and, on the basis of the results, discuss the first.

II. PERSPECTIVES ON LAW PRODUCTION

a. What is the role of law in the European Union?

Nominal work on the production of laws starts from the viewpoint that corporation codes reflect the relevant contractual context by providing firms with a default contract formulated under an enabling approach that allows customers to tailor the detailed provisions in accordance with their particular needs (Romano, 2006, citing Easterbrook & Fishel, 1989). As corporation codes are viewed as products, market participants become purchasing customers, essentially rendering the production of corporate law to become a question of how supply should meet demand (Romano, 2006). This has been more explicitly phrased as a rethoric question of whether there is any reason to assume that corporate law benefits the shareholders? (Romano, 2006:114). This question stands subject of a perennial debate in the United States, while it, for reasons that will be specified throughout this article, has gained much less attention than what is reasonable in the European context.

Roberta Romano's notable work on the genius of American federalism explains why state competition for franchaise tax revenues constitutes a beneficial model for the production of corporate law (Romano, 1993; Romano, 2002). With growing amounts of evidence debunk adverse anti-competitive views based on the 'race for the bottom' concept, growing consensus on the

validity of Romano's perception has tilted the debate towards the question of where the so beneficial competition occurs (see Romano, 2006). Besides competititon between states – which constitutes Romano's main case, it has been suggested that the production of corporate law benefits from competition rather between states and the federal authority in Washington D.C. (Kahan & Kamar, 2002; Roe, 2003a; cited in Romano, 2006:114-115), and through firm preferences for organizational form (Levmore, 2005; cited in Romano, 2006:114). These argument are convincingly relevant in the American context, but less applicable in the European.

In order for state competition to fuel production of corporation codes, firms must be able, without significant hazzle, to transfer their legal incorporation across borders - a prerequisite that is largely unavailable in the European Union. Without this feature, firms meet substantial hindrance to react to legislative competition between Member States, essentially creating a system that contains a multitude of legal products, but with far-stretched restrictions on what the customers can purchase. This lack of competition allows lawmakers in the Member States to deviate away from the standard form, thus imposing transaction costs, potentially for the benefit of alternative purposes (see Botero et al., 2004; La Porta et al., 1998; La Porta et al., 1999; La Porta et al., 2000; Roe, 2003b; Pagano and Volpin, 2001; Rajan & Zingales, 2003).

Furthermore, as the Commission intensifies its harmonization ambitions, the opportunity for Member States to compete in offering standard forms is reduced accordingly, which essentially establishes a monopoly of corporate law production that is the opposite to the value-creating federalist system in the United States. The monopoly renders firms to become substantially vulnerable, and the question of how the standard form is produced becomes even more crucial.

The Levmore perspective, that competition also can occur effectively through the choice of organizational form, holds that firms will react if legal production is overhauled by the federal government by changing to unincorporated forms that are subject to alternative legal regimes

(Levmore, 2005; cited in Romano, 2006:115). Such reactions became visible in Norway (although not an EU-member) after the introduction of the mandatory gender quota that caused firms to delist to escape the legal regime (Ahern and Dittmar, 2012; Bøhren and Staubo, 2012; Bøhren and Staubo, 2014). The Commission has so far directed its main focus towards listed firms, but the ambition to extend harmonization efforts also to non-listed firms is articulated in several public consultations from the last decade.

In a European context, which is characterized by strong blockholders, stakeholder concerns, and strong relations between capitalist families, worker unions, and the political establishment, it is also not necessarily the strive for franchaise tax revenues that fuels the production of corporation codes. The Commission's growing harmonization efforts have caused the most resistance when initiatives infringe on the power tilt between majority and minority investors. Despite the risks associated with strong blockholdings (see Morck et al., 2005; Shleifer and Wolfenzon, 2002; Johnson et al., 2000), the perceived value to protect employees and other long-term interests remains high in many Member States. This fact highlights the importance of recognizing the likely influence of political interests, as a complement to the transaction cost perspectives reflected by customer interests (Macey & Miller, 1987; cited in Romano, 2006).

The Commission's harmonization ambitions can in part be referred to the nominal attempts to quantify law that was performed by La Porta et al. in the late 90s (La Porta et al., 1998; La Porta et al., 1999; La Porta et al., 2000). These works are cited in the Commission's impact assessment of the original Shareholder Rights Directive where the Commission recognizes that the level of minority protection is positively associated with firm valuation and negatively associated with blockholdings as the market recognizes private benefit extraction (Eur. Comm'n., 2006c; cited in Siems, 2006).

This recognition, combined with the contextual differences, and the potential divergence of Member States' interests and EU interests, make it reasonable to assume that customer base may be broader than in Europe than in the United States. This insight, however, offers little wisdom on the Commission's legal imagination surrounding the role of corporate law in the Union as there is a built-in contradiction between attempts to challenge the blockholders, attempts to establish a monopoly on the production of corporation codes that undoubtedly will lead to increased transaction costs, and the apparent aim for long-term stakeholderism. As illustrated above, the Commission's imagination of the role of law in the Union leaves the observer with more questions than answers.

b. How is law made?

Yet another important question, if the starting point is that corporate law should reflect the standard contract under an enabling approach, is what elements should be mandatory? (Romano, 2006). Finding the answers to this question is important, not only because the question is important in itself, but also because it offers insights also on the question of how law is made. If firms in the European Union were able to fuel competition in the production of corporate law by offering the Member States tax revenues in exchange for provisions that minimize transaction costs, then mandatory elements of that contract would provide no information on how law was made. But under the condition that firms are not able to trigger competition, neither inbetween Members States, nor between Member States and the Commission, the selection of elements made mandatory instead comes to reflect either the outcome of successful lobbyism, or political interests, or a combination. It must be carefully considered that the outcome of public consultations is unlikely to reflect the standard contract.

The financial system in Europe has seen significant organic developments in recent time, including rise of new dominant investor categories (Eur. Comm'n. 2013c:5), increased

internationalization (Id.), and development of new technological tools for rapid financial transactions (Micheler, 2014). This may well motivate oversight of the regulatory system on relevant matters. But the many new market players who have evolved and become natural elements of the financial landscape have strong private interests. On the other hand, market participants that have lost their relative strenght in the new competitive environment may also be more prone to seek legal protection. Following standard agency theoretical assumptions (Jensen & Meckling, 1976), it can therefore be assumed that parties that are the most opinionated are also the ones that have the strongest interest to alter (or preserve) status quo (see Hirschman, 1970).

Public consultation essentially just constitutes a sanctioned form of lobbyism, and therefore cannot substitute for lack of regulatory competition in in the search for the optimal standard form. The influence of public consultations on the legislature is therefore particularly crucial to consider as adopted legislation also cannot easily be altered, and consequently risks cementing private benefit opportunities over extensive time periods. Rather the solution must be to avoid overregulation that narrows the boundaries of the enabling approach and, thus, the equality aspects of the equal playing field the Commission articulates it aims to establish (see Eur. Comm'n, 2007a). The value of corporate law cannot be enhanced through simple aggregation of variables (Siems, 2006). Rather the opposite is likely to apply.

Anecdotal evidence indicates that the European legislature is susceptive to external pressure (Schouten, 2009; Eur. Comm'n, 2007b), or perhaps even that it seeks it. The Commission has so far taken the position that issues relating to boards, board composition, and remuneration should be articulated under the enabling regime, while ownership-related issues have come much more in focus of mandatory designs. The logic of the Commission's approach is not obvious. In a context where controlling investors can effectively block any legislative initiative to tilt the power balance

from turning in directions that would threaten the preservation of their private benefits, the formulation of provisions to protect blockholders needs little attention from the lawmaker.

Rather the efficacy of capital markets becomes relevant to consider, as the enabling structure depends on efficient pricing of corporate charters to avoid that investors are financially punished for harmful provisions (Romano, 2006, citing Easterbrook and Fishel, 1989). As noted by several authors including Romano, Macey, and Gordon, this reasoning, however, does not apply post-investment when agency costs enter the equation (Gordon, 1989; Macey, 1993). We therefore needs to separate pre-investment regulation from post-investment regulation, as the latter can be argued to require more mandatory elements to protect investors from managerial rent extraction (Romano, 2006). This perspective, however, assumes relatively *"uninformed and unsophisticated shareholders"* (Macey, 1993:187), that are *"systematically victimized by unexpected, one-sided charter terms"* or *"charter terms [that are] not priced, so that even informed investors may be victimized"* (Gordon, 1989, as cited in Macey, 1993:187).

It can be questioned if this can apply in the European context where midstream opportunitism is not fueled by the existence of collective action and freerider problems to the same extent as in the United States (see Romano, 2006). European investors are therefore not likely to be incentivized to become rationally ignorant, making them willing to approve amendments to corporate charters that are adverse to their interests (Id, 2006).

As outlined above, the role of corporate law in the European Union, as well as how this law comes to exist, is surrounded by several question marks. This article aims to contribute to this debate by empirical examination of the impact of public consultation on the European legislature, targeting the questions of what legislative initiatives are adopted as mandatory or enabling law provisions, what level of support did these provisions obtain through public consultation, who are the respondents, and what interests and conflicts of interests do they represent.

In the current shape this article constitutes a pilot study. Thus, not all of the above outlined questions will be fully answered until a more comprehensive dataset is available. The methods and results are outlined below.

III. METHODS AND RESULTS

This paper constitutes a pilot study that preceeds a large and comprehensive statistical analysis of all legislative initiatives that have been presented through corporate law related public consultations put forward by the European Commission since the adoption of the modernisation framework for company law in 2003 (Eur. Comm'n. 2003). The full study builds on the submitted response by each individual participant in the consultation process, which allows for identification of respondents and therefore consecutive exploration of conflicts of interest and private benefits patterns potentially affecting the legislature. The full study will also comprise a larger set of controls, including High Group expert opinions, statements by European authorities and governments, adoption of similar initiatives in the United States, and counts of corporate failures preceeding a legislative decision. It is also currently being investigated if lobbyism can be traced and measured.

a. Pilot study data

The pilot study that is reported in this paper is performed solely to determine feasilbility and final design of the full study. The pilot study comprises a smaller statistical analysis based on data collected from the European Commission's website. Legislative initiatives are explored through public consultations during the time period 2003 until 2012. Thus, the method is the same for the pilot study and the full study, but with the difference that the pilot study employs a much more narrow sample selection. To be included in the pilot study sample, the topic of the consultation must be corporate governance, or directly related to corporate governance, and fall under the Internal

Markets umbrella.[i] This includes ten public consultations with a total of 2060 respondents. The study is limited to questions and ideas that are, or can be, directly translated into a legislative proposal. In the event that several such initiatives can be identified within the scope of the same consultation question, these have been splitted up into the corresponding number of observations.

The results of the consultation process are explored through outcome documents put forward between 2004 and 2014. The dependent variable is an indicator equal to one if a legislative idea became adopted as a recommendation, a directive, or a currently active proposal for a directive, and zero otherwise. The independent variables measure the level of support each initiative has obtained in the public consultation process. For the pilot study the Commission's summary of consultation responses has been used, measuring level of support as an index corresponding to a) strong majority support, b) majority support, c) minority support, or d) very small or no support.[ii] Controlvariables include political tilt in the European Parliament (measured as the percentage of seats held by left-wing parties), stock market index changes measured through the Stoxx 600 Europe Index, and GDP growth.

b. Descriptive stats

The pilot study identifies 275 legislative initiatives in the ten public consultation documents. 43 initiatives have then been excluded from the sample. Of these, 13 are excluded because they constitute no more than questions that seek the respondents' general opinion, but contain no explicit suggestion that can be translated into either soft law or hard law.[iii] 30 observations are excluded because of interpretation difficulties, either relating to whether the suggestion has been implemented (some initiatives have been formulated in very broad terms) or relating to the Commission's summary of the obtained consultation replies.

Thus, the sample comprises 232 observations that have been codified according to topic, with a total of 10 topics and 43 subtopics. Table 1 provides descriptive statistics for initiatives. It can be

noted that initiatives that relate to the board are by far the most common. Issues that relate to the general meeting, shareholder activism, owners, and institutional investors (including intermediaries and proxy advisors) are the second most frequently occuring consultation topics if we consider that these categories are significantly interrelated. General legal issues and remuneration also attracts a great deal of the Commission's attention, while other constituents – stakeholders and employees, are the topics that have been consulted on the least. This might be less notable than first imagined given the limitations in the selection process of the pilot study.

Moreover, approximately 59% of the initiatives obtain significant support (>50% of the respondents in favor). Most commonly supported are initiatives that relate to the general meeting, shareholder activism, and transparency (although very few observations have been made in the last category).[iv] Least common to gain support are initiatives that relate to constituents (few observations), general legal issues and ownership. Overall only 12% of the initiatives gain very little or no support.

Table 2 describes the number of initiatives from each category that has been adopted as a Directive, a Recommendation, or are included in a currently active proposal for a Directive. The latter includes the proposed amendments of the Shareholder Rights Directive presented in 2014. Half of the initiatives put forward in the sleected time period have been translated into either one of the defined outlets. A similar amount of initiatives have become recommendations, directives, or proposed as directives. The data displays strong clusters. Legislation that concerns boards and remuneration have primarily been turned into recommendations, while legislative suggestons regarding general meetings, shareholder rights, and activism have been formulated through directives.

c. Regression results

The relative importance of public consultation support for legislative initiatives is estimated through two logit regressions. We employ two different measures of outcome. In the first regression the dependent variable is equal to one if a legislative initiative brought up in the consultation process has been turned into a recommendation, a directive, or a currently active proposal for a directive, and zero otherwise. The second regression narrows the definition of outcome, and estimates the relative importance of consultation support only in the event an initiative has been translated into a directive or a proposal for a directive. The distinction is important as directives have binding force, while recommendations are voluntary.

The explanatory variable measures the level of support from the consultation process as an index, ranging from strong majority formulated by the Commision in its consultation summary as "an overwhelming majority", "nearly unanimously" or equivalents, a majority, a minority, or very small or no support. Both regressions employ a set of four control variables; number of consultation respondents on the initiative, GDP growth rate in the year prior to adoption, stock market index change measured through the Euro Stoxx 600 in the year prior to adoption, and political tilt in the European Parliament at the time of adoption. The latter is measured as the percentage of seats held by red and green parties, i.e. we measure a tilt to the left.

Table 3 contains the results of the two regression estimations, presenting estimated coefficients, significance levels, proportion of correctly predicted measures, i.e. the relative number of correct classifications from each model, and pseudo R-squared to evaluate goodness-of-fit. For both regressions the proportion of correctly predicted outcome equals 0.75 (regression A) and 0.73 (regression B). Combined with a pseudo R-squared for both models of 0.21, indicating that the independent variables together explain 21% of the variability in legislative outcome, the model appears very good for the intended evaluation.

The first regression (A), where outcome is measured as inclusion of the initiative in either a recommendation, a directive, or a proposal for a directive, shows that consultation support is significantly positively related to the indicator variable at the 95%-level. Moreover, the adoption of a legislative initiative is not significantly related to any of the control variables. These results suggests that support in the consultation process has a high impact on the decision of whether to adopt a proposed legislation or not, while other factors are irrelevant.

The second regression (B), where outcome is instead measured more narrowly as inclusion of the initiative only in a directive or a proposal for a directive – i.e. decisions with binding force, confirms that consultation support is significantly positively related to the adoption decision. In this regression the control variables also play in with significant and positive values regarding the number of respondents, prior year's stock market return, and political tilt to the left.

The results indicate that the more positive the more respondents in the consultation process are, the more likely that a legislative initiative becomes adopted as a directive. The positive value of the control for prior year's stock market return is logical as most adoption of new legislation often occur post-crisis. The results also confirm that political tilt in the European Parliament only affects directives, as recommedations are not subject to the Parliament's vote. Still, considering the limitations of the sample, sample size and time period, the outcome of this variable should be interpreted carefully as election to the Parliament only occur every fifth year and the time period employed is relatively short from this perspective.

4. CONCLUDING REMARKS

The empirical findings of this pilot study confirm the assumption that the level of support a legislative initiative obtains in public consultations, and the number of respondents that express a favorable view, affect the adoption decision of that initiative. Thus, the evidence supports the belief

that the legislature of the European Union is susceptible to opinions and wishes of market participants and other constituents in the design of the standard contract.

Following contractual views on the production of corporate law, the standard form minimizes transaction costs (Romano, 2006:117). Accordingly, the lawmaker should seek to replicate the legal demand that reflects the optimal contract of the average firm. From this perspective the approach taken by the Commission – to sell corporation codes through public consultations as demonstrated by the empirical results, rather than through Member State competition, may well appear to be a genius solution. However, adverse effects are an easy imagination if the respondents' composition fail to reflect a representative view of the market. The composition of the consultation pool becomes a crucial factor to investigate, as agency theoretical assumptions leads us to suspect that parties with stronger private benefits are more prone to exercise voice when the consultation process can be viewed as no more than a sanctioned form of lobbyism. This will therefore be carefully considered in the full study.

On a final note it is recognized that this pilot study has its obvious limitations, primarily related to sample size and selection, but nevertheless offers the necessary results to consider a full study worth doing. The findings imply that the, in recent times, highly criticized harmonization ambitions in the European Commission is not an independent decision but influenced by those that lobby for a certain legislative scenario through public consultations. The results thereby indicate that the European legislature could function as an arena for the most opinionated market participants to demand legislature according to their wishes and private benefits. The full study thereby have the potential to provide important information on the character of these private benefits, as a more comprehensive data material can identify the respondents of the consultation process. The full study is expected to be made public in June/July 2015.

Endnotes

[i] This includes consultations on the documents Modernising Company Law; Recommendation on […] Directors (2004);

[ii] For the full study independent variables will include no. of positive replies on each idea in total and divided by identity of the respondents. I.e., the data will be based on each individual reply of the 2060+ respondents. The scope of the study will then also be expanded to comprise all consultations, recommendations, directives, and hard law within the corporate law area.

[iii] As an example, question 9 of the Action Plan questionaire 2012 asks for opinions on *"What, if any, is the added value that EU company legal forms bring for Europan Business?"* with ten multiple choice answers. This is more of a general question, than a suggestion for a law, and has therefore been excluded.

[iv] Legislation that relates to transparency issues fall primarily under Banking and Finance, Accounting, and other related areas that have not been included in the pilot study. This explains the low number of transparency related initiatives despite that reasonably large revisions of the Transparency Directive has been made in recent time. Transparency areas will be included in the full study.

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TABLE 1

		Large support		Small support	
Category	No. of initiatives	Large majority	Majority	Minority	None
Activism	27	11 (41)	9 (33)	7 (26)	0 (0)
AGM	28	11 (39)	11 (39)	5 (18)	1 (4)
Board/mgmt	49	15 (31)	13 (27)	13 (27)	8 (16)
Constituents	3	0 (0)	0 (0)	2 (67)	1 (33)
Institutions	27	4 (15)	14 (52)	8 (30)	1 (4)
Law	29	3 (10)	9 (31)	13 (45)	4 (14)
Organization	7	1 (14)	4 (57)	1 (14)	1 (14)
Owners	32	4 (13)	10 (32)	13 (41)	5 (16)
Remuneration	25	6 (24)	7 (28)	6 (24)	6 (24)
Transparency	5	0 (0)	4 (80)	0 (0)	1 (20)
TOTAL	**232**	**55**	**81**	**68**	**28**

Table 1: Descriptives of the number of legislative initiatives sorted by category and their level of support. % of initiatives that have gained the four levels of support in parenthesis.

The identified ten categories contain the following subcategories:

Activism: cross-border voting, shareholder cooperation, proposals, voting at AGM, voice at AGM
AGM: formalia and information (i.e. notice, agenda, etc), electronic participation, proxy holders, share blocking
Board/mgmt: directors and board composition, board election, CEO duality, committees, board diversity and gender issues, independent directors, risk management.
Constituents: stakeholders, employees
Institutions: institutional investors, asset managers, proxy advisors, intermediaries.
Law: EU vs. Member States law, hard law, soft law (codes), harmonization, liability issues (criminal and non-criminal), regimes for listed, unlisted, large firms and SMEs.
Organization: groups, pyramids, mergers, legal forms
Owners: identification, shareholder rights, proportionality principle and shareholder democracy, minority protection, stock lending.
Remuneration: executive compensation, approval mechanisms, related transparency
Transparency: reporting, auditing, evaluation

TABLE 2

		Outcome			
Category	No. of initiatives	Directive	Recom.	Dir. proposal	Not implemented
Activism	27	14 (52)	0 (0)	4 (15)	9 (33)
AGM	28	18 (64)	0 (0)	0 (0)	10 (36)
Board/mgmt	49	0 (0)	15 (31)	2 (4)	32 (65)
Constituents	3	0 (0)	0 (0)	0 (0)	3 (100)
Institutions	27	1 (4)	2 (7)	19 (70)	5 (19)
Law	29	1 (4)	0 (0)	7 (24)	21 (72)
Organization	7	0 (0)	0 (0)	0 (0)	7 (100)
Owners	32	4 (13)	2 (6)	10 (31)	16 (50)
Remuneration	25	0 (0)	12 (48)	2 (8)	11 (44)
Transparency	5	2 (40)	1 (20)	0 (0)	2 (40)
TOTAL	**232**	**40 (17)**	**32 (14)**	**44 (19)**	**116 (50)**

Table 2: Descriptives of the outcome of the consultation process.

The outcome of the consultation initiatives by type: legislative idea has been included in a directive, a recommendation, a proposal for a directive, or not implemented. Percentage of total in parenthesis.

TABLE 3: RESULTS

	A: Directive or Recommendation	B: Directive
Constant	3.95e-15 (0.242)	1.25e-48 (0.003)
Support in public consultation	3.106993 (0.000)	2.777524 (0.000)
No. of respondents	1.002493 (0.313)	1.013396 (0.000)
Prior year's stock market return	2.704487 (0.328)	70.73105 (0.001)
Prior year's GDP growth	.0003557 (0.799)	5.10e-28 (0.103)
Political tilt (% left)	8.08e+34 (0.276)	3.3e+119 (0.005)
Proportion correctly predicted	0.7457	0.7328
Pseudo R-squared	0.2104	0.2097

Table 3: Results from logistic model of consultation answers' effect on whether legislative initiatives are adopted.

The outcome of public consultations is measured in two ways. First, as an indicator variable equal to one if a legislative suggestion from the public consultation process has been translated into a Directive, a Recommendation, or is currently included in an active proposal for a Directive. Second, as an indicator variable equal to one if a legislative suggestion from the consultation process has been translated into a Directive (adopted or currently active proposal). Explanatory variables for both regressions are: level of support in public consultation measured as an index, number of consultation respondents, prior year's stock market return measured through Euro Stoxx 600, prior year's GDP growth in the European Union, and the political tilt in the European Parliament measured as the percentage held by the left-wing (defined as red and green parties). The estimated coefficients are presented for each explanatory variable, with p-values in parentheses. Proportion correctly predicted measures the relative number of correct classifications from each model. Correct classifications occur means either that the predicted probability > 0.5, and the observed dependent variable equals one, or that the predicted probability ≤ 0.5, and the observed dependent variable equals zero. Pseudo R-squared evaluates goodness-of-fit.