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Do Institutional Owners Monitor? Evidence from Voting on Connected Transaction Proposals in Hong Kong-Listed Companies

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DO INSTITUTIONAL OWNERS MONITOR? EVIDENCE FROM VOTING ON CONNECTED TRANSACTION PROPOSALS IN HONG KONG-LISTED COMPANIES

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The conventional view in Hong Kong has been that institutional owners tend to be passive owners and that they do little to monitor the companies' management. We investigated whether the presence of institutional owners in Hong Kong-listed companies was associated with greater monitoring of management through dissent voting by hand-collecting information for a sample (n= 96) of connected transaction proposals ("CT proposals") and of their voting outcomes, as announced in the Stock Exchange of Hong Kong during the period from 2012–14. Our study shows that voting approval rates on CT proposals were lower (i.e. greater dissent voting) when institutional owners had at least 5 percent shareholdings and when the CT proposals were likely to expropriate or when the company holding the vote did not have a controlling shareholder. These findings support the view that the presence of institutional ownership in Hong Kong can be consistent with monitoring effects and, to that extent, with good governance.

INTRODUCTION

This article reports findings from our investigation of whether the presence of institutional owners ("IOs") in Hong Kong-listed companies has been associated with greater monitoring of management through dissent voting in general meetings. The results of this investigation are important for Hong Kong and other global markets.

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Institutional investors own roughly 70 percent of the equity in the top thousand listed companies in the United States.[1] In the countries member of Organization for Economic Co-operation and Development (OECD), the largest asset in the portfolio of traditional institutional investors (notably, pension funds, investment funds, and insurance companies) has been shares in listed companies. The total assets managed by those investors more than doubled from 2000 to 2011, growing from USD 36 trillion to USD 73.4 trillion.[2] In turn, the percentage of equity owned directly by physical investors in US listed companies fell from 84 percent to around 40 percent between 1963 and 2011. Similarly, in the United Kingdom, equity owned directly by physical investors in listed companies fell from 54 percent to 11 percent from 1963 to 2012. In Japan, 2011 figures show physical persons owning only 18 percent of all public equity.[3] Institutional investors have also achieved a strong presence in the Hong Kong Stock Exchange. They were responsible for 60 percent of market turnover in the last decade (in terms of 2005–2015 cumulative securities market turnover); whereas retail investors accounted for roughly 25 percent of market turnover.[4] With IOs showing an increasingly important presence in listed companies, a key question has been to what extent IOs have influenced the governance of these companies.

More specifically, it has not been evident whether and how IOs have exercised their monitoring function, especially through voting rights. The exercise of voting rights has been recognized as an important principle of stewardship in a growing number of countries around the world.[5] This principle has more recently been embraced in Hong Kong. In evaluating the creation of new principles of responsible ownership, the Hong Kong Securities and Futures Commission ("SFC") stated, "Given the significance of their holdings [holdings of institutional investors in HK], the way in which such institutional shareholders use their rights is of fundamental importance to the health and stability of an investee company and ulti-

1. Ronald J. Gilson & Jeffrey N. Gordon, *The Agency Costs of Agency Capitalism: Activist Investors and the Reevaluation of Governance Rights*, 113 COLUM. L. REV. 863 (2011); David Yermack, *Shareholder Voting and Corporate Governance*, 2 ANN. REV. OF FIN. ECON. 103–25 (2010).

2. Serdar Çelik & Mats Isaksson, *Institutional Investors as Owners: Who Are They and What Do They Do?* 10–11 (Org. for Econ. Coop'n and Dev. Corp. Governance, Working Paper No. 11, 2013).

3. *Id*. at 7.

4. *See* HKEX, CASH MARKET TRANSACTIONS SURVEY 2014/15, https://www.hkex.com.hk/eng/stat/research/Documents/cmts2015.pdf.

5. ICGN, *Global Stewardship Principles* (2016), https://www.icgn.org/policy/stewardship-codes; OECD, *Principles of Corporate Governance* (2004), http://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf; OECD, *Reform Priorities in Asia: Taking Corporate Governance to a Higher Level* (2011), http://www.oecd.org/daf/ca/49801431.pdf; *see generally* PRI Association, *The Six Principles*, PRINCIPLES FOR RESPONSIBLE INV., https://www.unpri.org/about/the-six-principles.

mately to our economy."[6] Those rights include the right to participate and to vote in the investee's general meetings.[7]

Shareholder approval in general meetings—an ex ante control mechanism of corporate governance—can be of great importance in Hong Kong given the constraints currently observed in the enforcement ex-post. In this sense, the investigations conducted by the Securities and Futures Commission ("SFC")—the capital markets regulator in Hong Kong—have been contained by limited resources and by the SFC's mandate covering a range of objectives. Although the SFC does monitor the state of corporate governance in listed companies (eg. by conducting investigations under section 214 Securities and Futures Ordinance [Cap. 571] ("SFO")), a large proportion of the SFC's enforcement efforts have concentrated in the prosecution of (mis)conducts of licensed intermediaries, including brokers, asset managers and investment advisors, among others, under the SFO and the several codes of conduct. Class actions are unavailable in Hong Kong, while derivative actions brought by company members have largely operated in the ambit of private firms due to restrictions on the plaintiff's legal standing to bring lawsuits in relation to listed companies and the presence of economic disincentives for plaintiffs to sue.[8]

Although voting is a critical channel for IOs to engage with their investee companies—and this is the channel our investigation has focused on—engagement may occur in other various ways. As well documented in recent literature, IOs have engaged through private dialogue or through informal talks with directors and/or managers. McCahery, Sautner, and Starks found a widespread use of private discussions as engagement channels and concluded that "investors first try to engage firms behind the scenes through direct negotiations, and take measures (e.g., shareholder proposals, public criticism [or dissent voting]) only after these private interventions have failed."[9]

Dimson, Karakas, and Li also revealed evidence of institutional investors' engagement with the investee companies regarding social corporate responsibility done through private dialogue via letters, e-mails, telephone conversations, and direct conversations with senior management.[10] Albeit an extreme form, litigation by IOs against the investee company has also been identified as a form of engagement.[11] IOs may simply choose, more-

6. Sec. and Futures Comm'n of H.K., Consultation Paper on the Principles of Responsible Ownership ¶ 5 (Mar. 2, 2015), http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/.

7. *See id.* ¶¶ 15, 51.

8. Félix E. Mezzanotte, *The Unconvincing Rise of the Statutory Derivative Action in Hong Kong: Evidence from its first Ten Years of Enforcement*, 17 J. Corp. L. Stud. 469, 496 (2017).

9. Joseph A. McCahery et al., *Behind the Scenes: The Corporate Governance Preferences of Institutional Investors*, 71 J. Fin. 2912, 2932 (2016).

10. Elroy Dimson et al., *Active Ownership*, 28 Rev. Fin. Stud. 3225, 3227 (2015).

11. McCahery et al., *supra* note 9.

over, to sell their shares and exit (divest from) the investee company.[12] This threat to exit has often been used as a bargaining tool, as has public criticism of investee companies.[13]

Within the frame of the general meetings, IOs may resort to activism through the submission of their own proposals for voting. Shareholder-sponsored proposals have worked as a vehicle for shareholders to convey their expectations to the board and to top management. The use and effectiveness of shareholder-sponsored proposals have been investigated extensively in US public companies as a form of shareholder activism.[14] In general meetings, shareholders may also vote against proposals submitted by managers (management-sponsored proposals). These proposals are typically submitted to a shareholder vote as a necessary step in the process of corporate decision-making, and the result of the shareholder vote is binding.

In the context of management-sponsored proposals, shareholders who are entitled to vote on the proposal can constrain managerial conduct (monitoring effects) by voting in dissent or by eventually vetoing the proposal.[15] Management-sponsored proposals may include, among other proposals: the election or removal of company directors or auditors, executive compensation, allotment of shares, share buy-backs, and related-party transactions. McCahery, Sautner and Starks reported that 53 percent of respondents (surveying 143 corporate governance experts from different countries) recognized in dissent voting a shareholder engagement measure.[16] Iliev et al. have also provided evidence on the importance of the general meeting and on dissent voting as a monitoring mechanism in a non-US context.[17]

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12. Robert Parrino et al., *Voting with their Feet: Institutional Ownership Changes Around Forced CEO Turnover*, 68 J. FIN. ECON. 3 (2003).

13. McCahery et al., *supra* note 9.

14. Lilli Gordon & John Pound, *Information, Ownership Structure, and Shareholder Voting: Evidence from Shareholder-Sponsored Corporate Governance*, 48 J. FIN. 697 (1993); Stuart L. Gillan & Laura T. Stars, *Corporate Governance Proposals and Shareholder Activism: The Role of Institutional Investors,* 57 J. FIN. ECON. 275 (2000); Jonathan M. Karpoff et al., *Corporate Governance and Shareholder Initiatives: Empirical Evidence*, 42 J. FIN. ECON. 365 (1996); Randall S. Thomas & James F. Cotter, *Shareholder Proposals in the New Millennium: Shareholder Support, Board Response, and Market Reaction*, 13 J. CORP. FIN. 368 (2007); Yonca Ertimur et al., *Board of Directors' Responsiveness to Shareholders: Evidence from Shareholder Proposals*, 16 J. CORP. FIN. 53 (2010).

15. *See generally* James A. Brickley et al., *Ownership Structure and Voting on Antitakeover Amendments*, 20 J. FIN. ECON. 267 (1988); James A. Brickley et al., *Corporate Voting: Evidence from Charter Amendment Proposals*, 1 J. CORP. FIN. 5 (1994); Timothy R. Burch et al., *Is Acquiring-Firm Shareholder Approval in Stock-for-Stock Mergers Perfunctory?*, 33 FIN. MGMT. 45 (2004); *See*, Lilian Ng et al., *Does Shareholder Approval Requirement of Equity Compensation Plans Matter?*, 17 J. CORP. FIN. 1510 (2011).

16. McCahery et al. *supra* note 9, at 2912.

17. *See* Peter Iliev et. al., *Shareholder Voting and Corporate Governance Around the World*, 28 REV. FIN. STUD. 2167 (2015).

Although both managers and activist shareholders can submit proposals to shareholder votes, this investigation will focus on management-sponsored proposals. The evidence of monitoring effects in this context has been mixed. Some evidence suggests that IOs have constrained managerial conduct insomuch as IOs have utilized their voting rights to convey dissent or dissatisfaction.[18] In contrast, other evidence points to managers controlling the voting process, while IOs abstain from voting or vote in accord with management.[19] A number of studies have identified monitoring effects in more specific settings such as when IOs took the form of mutual funds[20] or were foreign institutions.[21] This article will contribute to this debate—built largely on US- or OECD-based evidence—by providing evidence of IOs and voting outcomes in HK-listed companies.

There has currently been little investigation about the extent to which IOs have influenced voting outcomes in HK-listed companies. Testing this relationship empirically has been difficult. Whether IOs attend general meetings and vote—and the direction of this vote cast—cannot be readily observed in Hong Kong as data on the voting activity and data on decisions of IOs operating locally have not been made publicly available (there has been no disclosure obligation in relation to the voting records of IOs in Hong Kong). Despite this caveat, valuable insights can still be drawn by looking at how measures of institutional ownership levels and of voting outcomes in general meeting correlate.

To this end, data of voting outcomes on a sample (n = 96) of connected transaction proposals ("CT proposals") announced in the Stock Exchange of Hong Kong (SEHK) and of levels of ownership held by institutions in the issuers of those CT proposals were collected. Approval rate levels resulting from the voting of the CT proposals was utilized as a proxy for monitoring (lower approval rates are associated with greater dissent voting and, hence, with greater monitoring). Groups with and without institutional ownership were identified and voting approval rates compared between these two groups.

Connected transactions ("CTs") are transactions between the company and an insider such as the company's director(s), chief executive officer or substantial shareholder. CTs are important for corporate governance be-

18. *See generally* Brickley et al., *supra* note 15; Ng et al., *supra* note 15; *Cf.* Gregg A. Jarrell et al., *Shark Repellents and Stock Prices: The Effects of Antitakeover Amendments Since 1980*, 19 J. FIN. ECON. 127 (1987) (discussing shareholder resistance to traditional antitakeover amendments which entrench incumbent management).

19. Burch et al., *supra* note 15; *See* Assaf Hamdani & Yishay Yafeh, *Institutional Investors as Minority Shareholders*, 17 REV. FIN. 691 (2013); *see also* Abe de Jong et al., *Shareholders' Voting at General Meetings: Evidence from the Netherlands*, 10 J. MGMT. & GOVERNANCE 353 (2006).

20. Zhihong Chen et al., *Minority Shareholders' Control Rights and the Quality of Corporate Decisions in Weak Investor Protection Countries: A Natural Experiment from China*, 88 ACCT. REV. 1211 (2013).

21. Miguel A. Ferreira & Pedro Matos, *The Colors of Investors' Money: The Role of Institutional Investors Around the World*, 88 J. FIN. ECON. 499 (2008).

cause they have been used in the past as a vehicle for expropriating minority shareholders in Hong Kong.[22] Taking this critical feature into account in our investigation, comparisons were also made in a setting where CT proposals were more or less likely to expropriate minority shareholders. Here, IOs—largely occupying the role of minority shareholders or outsiders in Hong Kong-listed companies—face expropriation risk and can consequently be expected to influence voting outcomes more significantly than when such a risk is absent. In this setting, one would expect companies with IOs be associated with lower approval rates of CT proposals than companies without IOs.

The presence of a controlling shareholder can also be a relevant factor in terms of the role and impact of IOs in a company's governance. Comparisons were thus also made in a setting where a company has or not a controlling shareholder. In this sense, the current assumption has been that IOs have little or no weight in the voting outcomes of Hong Kong-listed companies because a high percentage of these companies have been dominated by controlling shareholders or controlling families. These controlling shareholders and families leave meager room for minority shareholders—including IOs—to have a say in the outcome of company decisions.[23] The resulting state of affairs implies that IOs in Hong Kong tend to be passive owners or, when disagreement arises, they exit the company instead of informally approaching management or instead of exercising their voting rights.

Findings from this investigation show, on average, that the presence of IOs was irrelevant to voting approval rates. However, when institutional ownership levels were high (at least 5 percent shareholdings) the presence of IOs had a greater effect on these rates, especially, when CT proposals were more likely to expropriate or the company did not have a controlling shareholder. In this latter result, the fact that CT proposals must be approved in general meeting by the vote of disinterested shareholders—which strengthens the voice of outsiders relative to that of insiders—could not compensate for the presence of a controlling shareholder in the company. This result is surprising to the extent that, on average, a sizable 44 percent of the outstanding shares abstained from voting due to the presence of material interest. This outcome casts doubt on the effectiveness of the 'disinterested' shareholder voting mechanism to empower minority shareholders, including IOs, in firms having a controlling shareholder.

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22. Say H. Goo & Rolf H. Weber, *The Expropriation Game: Minority Shareholders' Protection*, 33 H.K. L.J. 71 (2003); *see* Janice C. Y. How et al., *Dividends and Expropriation in Hong Kong*, 4 ASIAN ACAD. MGMT. J. ACCT. & FIN 71 (2008); Adrian C. H. Lei & Frank M. Song, *Connected Transactions and Firm Value: Evidence from China-affiliated Companies*, 19 PACIFIC-BASIN FIN. J. 470 (2011); Yan-Leung Cheung et al., *Tunneling, Propping and Expropriation. Evidence from Connected Party Transactions in Hong Kong*, 82 J. FIN. ECON. 343 (2006).

23. *See* Goo & Weber, *supra* note 22, at 73.

The monitoring effects by IOs at the stage of voting in general meeting identified in this article were probably understated in the regression analysis due to several factors that could not be observed including pre-vote negotiations, selection bias in the sense that only the most benign CT proposals were submitted to shareholder vote, or disgruntled shareholders' exit following the CT announcement. Despite these factors, and the modest levels of institutional ownership found in the sample companies (9 percent on average), it is surprising that monitoring effects were nonetheless captured in the regression.

It is important to note that monitoring effects in our investigation emerged not from the veto of CT proposals but merely from dissent voting. To that extent, the identified effects can be construed as representing no more than a signal of disapproval or dissatisfaction. It is unclear whether dissent voting led to subsequent changes in governance of the sample companies. Prior studies suggest that managers do listen to dissent voting and often follow through by effecting changes in the firm's governance policies.[24]

I. Institutional Setting and Research Question

A. *Institutional Setting*

The literature has widely acknowledged the fact that CTs—more generally known as related-party transactions—have been used by corporate insiders to expropriate wealth from outsiders. Following Ryngaert and Thomas, the wealth expropriation situation denotes firm insiders and majority shareholders using related-party transactions to extract wealth from outsiders; the "[e]xpropriation occurs if the firm receives less net benefit from an RPT than could have been obtained from an arm's-length transaction."[25] This expropriation risk has been acknowledged widely in the literature including the case of Hong Kong.[26] With the purpose of protecting minority shareholders from wealth expropriation, the SEHK listing rules have required that shareholders of the listed issuer approve CT proposals in general meeting.[27]

According to the SEHK Listing Rules, CTs are transactions between a listed issuer and a connected person. A listed issuer denotes a company

24. J. Cai & R. Walkling, *Electing Directors*, 64 J. Fin. 2389 (2009); Paul E. Fischer et al., *Investor Perceptions of Board Performance: Evidence from Uncontested Director Elections*, 48 J. Acct. & Econ. 172 (2009); Yermack, *supra* note 1; s*ee* Illiev et al., *supra* note 17, at 2198–99.

25. Michael Ryngaert & Shawn Thomas, *Not All Related Party Transactions (RPTs) Are the Same: Ex Ante Versus Ex Post RPTs*, 50 J. Acct. Res. 845, 848 (2012).

26. *See* Goo & Weber, *supra* note 22.

27. KHEX Main Board Listing Rule 14A.36 [Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited] (Updated July 22, 2016) http://english1.english.gov.cn/official/2013-03/11/content_2351644.htm (China). (This is a general principle that is complemented with a number of exceptions) (hereinafter cited as SEHK Listing Rule).

listed in the SEHK or its wholly owned subsidiary. A connected person includes, among others, a director, chief executive officer, or substantial shareholder of the listed issuer and their associates.[28] CTs can be of different types such as when a connected person purchases from the listed issuer (or sells to the listed issuer) assets, shares, good or services; or when a connected person benefits from loans or guarantees provided by the listed issuer.[29] CTs are widely conducted in both developed and developing countries, including Hong Kong.[30] Data from the SEHK showed that companies listed therein announced on average roughly 2000 CTs yearly during the period 2009–2014. Of those, about 450 were required to obtain shareholder approval.

The process of seeking shareholder approval has two core steps. In the first step, the listed issuer must prepare and send a circular document to the shareholders.[31] The circular document contains a detailed explanation and evaluation of the CT, as well as an opinion letter issued by an independent financial adviser ("IFA") with a voting recommendation.[32] This letter is aimed at the Independent Board Committee ("IBC") and at shareholders entitled to vote on the CT proposal. The IBC is appointed by the board of the listed issuer and is composed of independent non-executive directors who do not have an interest in the CT. In the circular, the IBC will also issue a letter of opinion in relation to the merits of the CT proposal and recommend whether shareholders should vote in favor of the proposal.[33]

The second step for approval consists in shareholders voting on the CT proposal.[34] The CT proposal must be approved by poll voting and, as a general rule, by passing an ordinary resolution that requires the number of "for" votes be greater than 50 percent of the total votes cast (votes for + votes against).[35] Under some circumstances, the call for a general meeting can be waived and shareholders may approve the CT proposal through the process of written resolution.[36] Shortly after this vote has ended, the poll result is publicly announced and made available on the SEHK website.

It must be noted that the presence of a controlling shareholder has been cited as a factor often precluding the role that minority shareholders can play in the governance of the company, including the monitoring role.[37] Because ownership is highly concentrated in a large fraction of the

28. Stock Exchange of Hong Kong Rule 14.A.07–08.

29. Cheung et al., *supra* note 22, at 349.

30. OECD, PRINCIPLES OF CORPORATE GOVERNANCE (2004), *supra* note 5, at 52.

31. Stock Exchange of Hong Kong Listing Rule 14A.46.

32. Stock Exchange of Hong Kong Listing Rule 14A.39, 14A.44–45.

33. Stock Exchange of Hong Kong Listing Rule 14A.45.

34. Stock Exchange of Hong Kong Listing Rule 14A.36.

35. Companies Ordinance, (2017) Cap. 622, 1, § 563 (H.K.).

36. Stock Exchange of Hong Kong Listing Rule 14A.37.

37. ONC Lawyers Conference, *Shareholder Engagement and Activism in Hong Kong*, Hong Kong (2016).

companies listed in the SEHK, it is likely that minority shareholders in those companies do face this type of constraints. In the context of the voting of CT proposals, however, a mechanism has come to the rescue of minority shareholders, the so-called vote by disinterested shareholders.[38] Under this mechanism, not all the shares with voting rights are entitled to vote on CT proposals. Only the group of disinterested shares (shareholders that do not have a material interest in the CT proposal) can do so: "The connected transaction must be conditional on shareholders' approval at a general meeting held by the listed issuer. Any shareholder who has a material interest in the transaction must abstain from voting on the resolution."[39]

Voting by means of the mechanism of "disinterested shareholders" does, at least in theory, empower minority shareholders by, among other situations, neutralizing the power of the controlling shareholder whenever it acts in the role of connected person. As such, this voting mechanism provides IOs and other minority shareholders with a greater incentive to attend the general meeting and, eventually, exercise their role as monitors of managerial discretion.

B. *Research Questions*

This study aims at investigating whether institutional ownership in Hong Kong-listed companies is associated with more dissent voting of CT proposals in general meetings, and thereby, with greater monitoring of management. As mentioned in the previous subsection, although CTs may affect the firm value either positively or negatively, those transactions have been a popular vehicle in Asia by means of which corporate insiders have expropriated wealth from minority shareholders.[40] In a context of voting on CT proposals in general meetings, the risk of expropriation may work as an incentive for minority shareholders, including IOs, to vote against the proposal.

Prior literature suggests that institutional investors are more likely to monitor company management than individual investors because individual investors' trades are driven to a greater extent by liquidity concerns or speculation,[41] while institutional investors are more sophisticated and

38. *See* Stock Exchange of Hong Kong Listing Rule 14A.36.

39. *Id.*

40. *See* Cheung et al., *supra* note 22.

41. *See, e.g.*, Terrence Odean, *Do Investors Trade Too Much?*, 89 AM. ECON. REV. 1279, 1284 (1999); Brad M. Barber & Terrence Odean, *Common Stock Investment Performance of Individual Investors*, 55 J. FIN. 773, 795 (2000); Brad M. Barber & Terrence Odean, *All That Glitters: The Effects of Attention and News on the Buying Behavior of Individual and Institutional Investors*, 21 REV. FIN. STUD. 785 (2007); Mark Grinblatt & Matti Keloharju, *The Investment Behavior and Performance of Various Investor Types: A Study of Finland's Unique Data Set*, 55 J. FIN. ECON. 43 (2000); Brad M. Barber et al., *Just How Much Do Individual Investors Lose by Trading?*, 22 REV. FIN. STUD. 609 (2009).

powerful given their (on average) larger shareholdings.[42] On the other hand, a stream of research suggests that institutional owners do not necessarily have incentives to monitor.[43] One method of directly observing monitoring activity by IOs is to look at their voting conduct. Because such an observation is unavailable in Hong Kong, evidence in this study relies on the following association:

1) Is dissent voting on CT proposals more pronounced in companies with IOs than in companies without IOs?

Next, we bring in critical factors of corporate law and governance in Hong Kong that may affect the relationship between institutional ownership and dissent voting on CT proposals. Institutional investors in Hong Kong-listed companies are largely minority shareholders permeable to the effects of CTs or to the conduct of controlling shareholders. We include two additional analyses to provide corroborating evidence on the monitoring role of IOs. First, we expect that IOs are able to differentiate between CTs that are beneficial to the firm and CTs that are detrimental to the well-being of the firm, and thus, are more likely to engage in dissent voting for CTs that are likely to expropriate minority shareholders. As such, we ask the following question:

2) Is the association between IOs and dissent voting different when the CT proposals are likely to expropriate?

Second, the probability of institutional monitoring through dissent voting is likely to work only in an environment where dissent voting may convey a meaningful signal of monitoring. In cases where the management is dominated by a controlling shareholder, the CTs are likely to pass regardless of the presence of a dissent voting, and as such, the incentive of IOs to monitor may be weaker. As such, this investigation asks the following question:

3) Is the association between IOs and dissent voting different when the CT's issuer has a controlling shareholder?

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42. For example, *see* John R. Hand, *A Test of The Extended Functional Fixation Hypothesis*, 65 ACCT. REV. 740 (1990); Louis Chan & Josef Lakonishok, *The Behavior of Stock Prices Around Institutional Trades*, 50 J. FIN. 1147 (1995); Beverly R. Walther, *Investor Sophistication and Market Earnings Expectation*, 35 J. ACCT. RES. 157 (1997); Eli Bartov et al., *Investor Sophistication and Patterns in Stock Returns After Earnings Announcements*, 75 ACCT. REV. 43 (2000); Sugato Chakravarty, *Stealth-Trading: Which Traders' Trades Move Prices*, 61 J. FIN. ECON. 289 (2001); Richard W. Sias et al., *Changes in Institutional Ownership and Stock Returns: Assessment and Methodology*, 79 J. BUS. 2869 (2006).

43. For example, *see* Brian J. Bushee, *Do Institutional Investors Prefer Near-Term Earnings Over Long-Run Value?*, 18 CONTEMP. ACCT. RES. 207 (2001); Clifford J. Holderness & Dennis P. Sheehan, *The Role of Majority Shareholders in Publicly Held Corporations: An Exploratory Analysis*, 20 J. FIN. ECON. 317 (1988); Harold Demsetz & Kenneth Lehn, *The Structure of Corporate Ownership: Causes and Consequences*, 93 J. POL. ECON. 1155 (1985); Mara Faccio & M. Ameziane Lasfer, *Do Occupational Pension Funds Monitor Companies in Which They Hold Large Stakes?*, 6 J. CORP. FIN. 71, 105 (2000).

II. Model Specification

In order to address the research questions defined in the previous section of this article, the following equation was estimated:

$$VAR = \beta_0 + \beta_1[INSTOWN] + [control\ variables] + \varepsilon$$

The dependent variable VAR denoted the "Voting Approval Rate" of CT proposals. Approval rate levels resulting from the voting of CT proposals were used in this model as a proxy for monitoring (lower approval rates are associated with higher dissent voting and greater monitoring). The variable INSTOWN represented institutional ownership and was given two different definitions.

In the first definition, INSTOWN_D was a dummy variable that equaled 1 if the firm has IOs and 0 otherwise. The group of firms without IOs works here as a control group. In order to account for varying levels of institutional ownership, different versions of the variable INSTOWN_D were constructed. In particular, the dummy variables INSTOWN_D1, INSTOWN_D5, and INSTOWN_D15 equaled 1 if the IO held at least 1, 5, or 15 percent, respectively, of the outstanding shares of the company, and equaled 0 otherwise.

In the second definition, the variable INSTOWN equaled the total percentage of outstanding shares held by IOs in the company. For companies without IOs, the variable INSTOWN equaled 0. Unlike the dummy variable INSTOWN_D that allocated the value of 1 to each and all companies having IOs, the INSTOWN variable accounted for the variations in the total percentage of outstanding shares held by IOs for each company. By disaggregating shareholdings in INSTOWN, moreover, our study built other subgroup variables in order to account for different characteristics of IOs, including, among other characteristics: whether the institutional investor is local or foreign and the types of investor (*see* Table no. 1 on definitions).

In order to measure how the presence of expropriation risk affected the interplay between VAR and INSTOWN, regressions of VAR on INSTOWN were conducted in separate groups of CTs depending on whether a priori the CTs were likely to expropriate or, instead, were likely beneficial. In order to identify CTs that were likely to expropriate or to be beneficial, two different measures were utilized, as explained below.

The first measure was CT_ONEOFF (dummy variable) that relied on the distinction between one-off CTs (likely to expropriate) and continuing CTs (likely beneficial). This distinction finds justification in the SEHK listing rules. The continuing CTs involve the provision of goods or services that are carried out on a continuing or recurring basis and are expected to extend over a period that must not exceed three years.[44] These CTs are usually transactions made in the ordinary and usual course of business of the issuer, and they are subject to more stringent disclosure rules,

44. Stock Exchange of Hong Kong Listing Rules 14A.31, 14A.52.

including a requirement for annual reporting of continuing CTs and extra supervision of such CTs by an auditor and by independent non-executive directors.[45]

Compared with the one-off CTs, the continuing CTs are more likely to prove beneficial and are unlikely to expropriate. The extra disclosure and monitoring by the issuer of a continuing CT, the long-term business relationships that this type of CT creates, as well as the familiarity of the parties with the contracting terms and the contract's performance[46] may also foster efficient contracting.[47]

The second measure used to identify whether a CT was beneficial or likely to expropriate relied on the market reaction, namely cumulative abnormal returns ("[-1, +3] CAR") at the time of the public announcement of the CT proposal ("CAR_A"). In order to separate the data sample in groups, a dummy variable was built, namely CAR_AD, which equaled 1 if the market reaction was negative (likely to expropriate) and equaled 0 if the market reaction was positive (likely beneficial). The maintained assumption is that the market helps identify whether the CTs proposed are likely to benefit or likely to expropriate the firm.[48]

In order to identify the effects from the presence of a controlling shareholder on the interplay between VAR and INSTOWN, regressions of VAR on INSTOWN were conducted in separate groups of CTs depending on whether the listed issuer had a controlling shareholder. The dummy variable CONTROLLING_SHARE identified the group of firms with (equaled 1) and without (equaled 0) a controlling shareholder.

A set of control variables were included in the regression in order to account for covariate imbalances (see table no. 2 on summary statistics) and to mitigate omitted variable problems. These variables reflect characteristics of the listed issuers, of the CT proposals, and of a listed issuer's voting process in general meeting (see table no. 1 on definitions).

III. Data Sources and Summary Statistics

Data on CT proposals are publicly available from the SEHK website. Circular documents and poll results for each one of the identified CTs were utilized to hand-collect data on the characteristics of CT proposals and voting. Unfortunately, no publicly available data was found on each voter's identity and vote cast. These data are not disclosed in Hong Kong by either institutional investors or listed companies. For this reason, inferences with regards to the actual voting behavior of IOs were not drawn in

45. Stock Exchange of Hong Kong Listing Rules 14A.31, 14A.49, 14A.55, 14A.56.

46. Very often the approval of a new continuing CT in the general meeting consists of a mere renewal of an otherwise expiring continuing CT, which gives the company a better understanding of the track record and past performance of the CT deal.

47. Ryngaert & Thomas, *supra* note 25, at 848–49.

48. Cheung et al., *supra* note 22.

this study that focused only on the association between firms' level of institutional ownership and voting approval rates.

Data on the ownership structure of Hong Kong-listed companies were collected using Thomson-One (Ownership) database which provides data on the equity holdings of institutional investors in listed companies worldwide (including Hong Kong-listed companies). This database reports on the percentage shareholdings of institutional investors for each listed company and breaks these data down by investor's type and place of incorporation. Company data were collected from Capital IQ.

The original sample consisted of 108 CT proposals publicly announced in the SEHK and subject to shareholder approval. A month of the year, December, was selected randomly. The last 36 CTs announced publicly in December were collected for the period 2012–14. A few observations were excluded from the original sample: eight CTs had qualified for a general meeting waiver exception;[49] two CTs could not be adequately categorized (the voting was aimed at a bundle of CTs); a CT was mistakenly repeated; and in one CT the performance of the listed issuer was a clearly an outlier. Consequently, our final sample consisted of 96 CT proposals. Of those, 76 were submitted for a vote in listed issuers with IOs, whereas the rest were voted in listed issuers without IOs. This latter group (20 CT proposals) served as a control group in the regression analysis (see Table no.2 on summary statistics).

Next, the 96 CT proposals were voted by shareholders in extraordinary general meetings. On average only 56 percent of outstanding shares had the right to vote on the specific CT by meeting the condition of independent or disinterested shares (44 percent of outstanding shares were excluded from the voting due to the existence of material interest). Of this 56 percent, only 37 percent were effectively present at the general meeting, showing low levels of voting turnout. Approval rates in terms of majority of votes cast (shares voting for/shares voting for and against) was very high: 98.3 percent on average with no significant difference between groups with and without IOs. Although no CT proposal in our sample was rejected by the vote of disinterested shareholders, dissenting votes were cast in 52.1 percent of the CT proposals (dummy variable DISSENTING_VOTE). In all the CT proposals, the IFA had recommended shareholders vote for the proposal.

In the group of firms with IOs (76 observations), IOs held on average 9 percent of the company's outstanding shares. Among types of IOs, the higher average in terms of holdings corresponded to the category Investment Advisers (6.7 percent). Additionally, foreign IOs held 7.8 percent of the company's outstanding shares, whereas Hong Kong IOs held only 1.2 percent.

Looking at the characteristics of CT proposals in our sample, 59 percent of them consisted of one-off CTs, the rest were continuing CTs

49. Stock Exchange of Hong Kong Listing Rule 14A.37.

(CT_ONEOFF). Sixty-two percent of the CT proposals were concomitantly classified as notifiable proposals for the purposes of the SEHK Listing Rules (CT&NT). In 87 percent of the CT proposals, the connected person was a substantial shareholder (CP_SSH: shareholder holding at least 10 percent of the firm's outstanding shares). The market reaction around the announcement of the CT proposals (CAR [-1, +3]) in our sample was on average negative (-0.003) but—around the release of the circular document—the market reaction was positive (0.007).

The presence of a controlling shareholder (holding 30 percent or more of the company's outstanding shares) was detected in 62.5 percent of the observations (CONROLLING_SHARE). The size of the firms was on average HK$126 billion, and on average, their performances were positive (0.005). Ninety-five percent of the firms were listed in the Main Board of the SEHK, whereas 5 percent listed in the GEM.

When the sample was split into companies with and without IOs, some of the variables across the two groups showed statistically significant imbalances (see t-test scores in Table no.2 in regards to TURNOUT, CT_ONEOFF, CT&NT, CP_SSH, FIRM_MB and others). To mitigate biases in the regression estimations arising from those imbalances, all these variables were included in our regression model as controls. Regression were made using Stata software.

IV. Regression Analysis and Findings

We conducted multiple linear regressions in Stata. Table no. 3 reports the results from separate regressions of VAR on INSTOWN_D (and on its various cutoff forms INSTOWN_D1, INSTOWN_D5, and INSTOWN_D15).

The regression of VAR on INSTOWN_D (dummy variable) was unable to reject the hypothesis that the estimate of INSTOWN_D equaled to zero value, and hence, the regression identified no monitoring effects. As the influence of levels of institutional ownership was allowed through the use of the various cutoff variables, negative and statistically significant effects were shown slightly only for the case of INSTOWN_D15 (-0.031; $t = -1.94$; $p = 0.056$). The analysis suggests that levels of dissent voting were not different in companies with or without IOs in our sample, except for the group of companies where IOs owned a large stake in the company (at least 15 percent).

The outcome variable INSTOWN (continuous variable) was brought into the analysis because, unlike the dummy variable INSTOWN_D, it allowed the characteristics of IOs to feed into the analysis (as shown in Table no. 4). Note first that the presence of monitoring effects emerged when VAR was regressed on INSTOWN. The coefficient of INSTOWN was negative and significant, suggesting a negative association (negative slope) between VAR and INSTOWN (-0.002; $t = -2.83$; $p = 0.06$). The source of this effect—in terms of level of institutional ownership—seems to be the group of firms where IOs owned 5 percent or more of the issued

shares (High_INSTOWN: coefficient -0.001; t = -2.61; p-value = 0.011). The coefficient of Low_INSTOWN was of positive sign and statistically insignificant.

The presence of local IOs proved more relevant than foreign IOs for the purpose of monitoring through dissent voting. The negative and statistically significant coefficient of Local_INSTOWN indicates that dissent voting is more likely in the presence of local, rather than foreign, investors in the ownership structure of the sample firms. Relevant differences were also found between those investors more able (Indep_INSTOWN) and less able (Grey_INSTOWN) to resist managers' pressure. Although the magnitude of the estimates and the sign are similar for both groups of investors, the zero-effect hypothesis could not be rejected for the case of the Grey_INSTOWN. Among types of IOs, only investment advisors (IAs) showed a negative and a significant association with VAR.

In order to corroborate results, additional Probit and Logit regressions of DISSENTING_VOTE (a dummy variable that equals 1 if the voting outcome showed a percentage of dissent voting or equals 0 otherwise) on the different cutoffs of the INSTOWN_D variable were made. In all those regressions, the coefficient estimator of INSTOWN showed a positive sign (consistent with monitoring effects), although statistical significance emerged only for the cutoff variable INSTOWN_D5 (Logit regression: coefficient 1.22, p-value = 0.045; Probit regression: coefficient 0.75 p-value = 0.040). These regressions were run using the same control variables used in the multiple linear regressions as shown in Table no. 3.

In Table no. 5 our sample of CT proposals was split into two groups: (1) CT proposals likely to expropriate (one-off CT proposals) and (2) CT proposals likely beneficial (continuing CT proposals). Regression tests of VAR on INSTOWN_D were conducted separately for each group to evaluate the extent to which the presence of expropriation risk in CT proposals affected the interplay of VAR and INSTOWN_D.

As shown in Table no. 5, the study identified monitoring effects only for the group of CT proposals likely to expropriate but not for those likely beneficial. For the group of CT proposals likely to expropriate, the coefficient of INSTOWN_D showed a negative sign consistently across regressions. The estimates acquired statistical significance for variables INSTOWN_D5 and INSTOWN_D15. These results suggest that companies with IOs exercise greater monitoring through dissent voting than companies without IOs when the CT proposals were likely to expropriate and the IOs held at least 5 percent shareholdings. Consistently, when the outcome variable INSTOWN was used (Table no.6), the coefficient of High_INSTOWN was of negative sign and highly significant (-0.004; t = 4.39).

When CAR_AD was used to proxy for CT proposal likely to bring expropriation or benefit (in place of the distinction one-off versus continuing CT proposals) (Table no. 7), the estimates of INSTOWN_D showed consistently a negative relationship between VAR and INSTOWN_D for

the group of CT proposals likely to expropriate but statistical. Statistical significance, however, was slightly achieved only for the group of companies with IOs holding at least 15 percent of the outstanding shares (INSTOWN_D15 = -0.052; t = 1.77, p = 0.083). When this investigation used the INSTOWN variable (Table no. 8), the results showed the presence of monitoring effects more clearly in the group of CT proposals likely to expropriate (High_INSTOWN = -0.002; t = 2.54). By contrast, no monitoring effects emerged from the regressions of VAR on INSTOWN_D, and of VAR on INSTOWN, for the group of CT proposals likely beneficial.

Results from additional Probit and Logit regressions of DISSENTING_VOTE on INSTOWN_D, and its several cutoff variables, delivered similar outcomes. Although in all these regressions the coefficients showed a positive sign, statistical significance was achieved only by the coefficient of INSTOWN_D5 for the group of CT proposals likely to expropriate, both as denoted by CT_ONEOFF (Logit regression: coefficient = 3.32, p-value = 0.030; Probit regression: coefficient = 2.05, p-value = 0.027) and as denoted by CAR_AD (Logit regression: coefficient = 4.65; p-value 0.005; Probit regression: coefficient = 2.77, p-value = 0.003).

Overall, the regression analyses in this section suggest that monitoring effects through dissent voting—namely the negative relationship between vote approval rates ("VAR") and institutional ownership levels—in companies with IOs were detected in our sample for the group of CT proposals that were likely to expropriate but not for the group of CT proposals likely beneficial. Those monitoring effects emerged for the group of listed issuers having at least 5percent ownership held by IOs.

Regressions of VAR on INSTOWN_D were run separately in other two different groups of CT proposals: the first group was characterized by the presence of a controlling shareholder whereas the second group had no controlling shareholder (CONTROLLING_SHARE).[50] The same regressions were run using the variable INSTOWN instead of INSTOWN_D.[51]

From regressions of VAR on the INSTOWN_D, the presence of monitoring effects appeared to be more likely in the group of companies without a controlling shareholder as indicated by the coefficient estimate of variable INSTOWN_D5, which rejected the hypothesis of zero coefficient (-0.029; t = 2.61). By contrast, the study found no statistically significant results in the group of firms with a controlling owner. These results suggest that the presence of a controlling shareholder is a relevant factor influencing the interplay of IOs and monitoring effects.

The regressions illustrated in Table no. 10 corroborated these results. In Table no. 10, the coefficient of High_INSTOWN is negative and significant for the group of firms without controlling owners but non-significant for the group of firms having controlling shareholders. Statistical signifi-

50. *Infra* Table 9.

51. *Infra* Table 10.

cance, however, was not achieved in any one of the Probit and Logit regressions when the sample was split into groups representing companies with and without controlling shareholders.

V. Discussion

Academic literature suggests that IOs have challenged management in general meetings. Brickley et al. found that the average IO has posed constraints on management through dissent voting.[52] The study shows, relative to other classes of shareholders, IOs are more likely to oppose bad (value decreasing) antitakeover amendment proposals. The work of Ng et al. suggests that monitoring effects by IOs are also present.[53] The authors relied on US data to measure the impact of a regulation issued by the US Securities and Exchange Commission, making the requirement of shareholder approval mandatory for equity-based management compensation plan proposals. Ng et al. found that managers submitted less value decreasing proposals to the approval of shareholders after the introduction of the new regulation (ex-ante effects), whereas in general meetings shareholders vetoed more proposals (ex-post effects). In the context of non-US firms around the world, Iliev et al. found that IOs have, in different degrees, voted against management-sponsored proposals, especially when the IOs feared expropriation.[54]

The findings from our investigation only aligned partially with those from the studies described above. On average, our investigation showed voting approval rates of CT proposals to be similar in companies with and without IOs. But monitoring effects through dissent voting emerged consistently in our sample when the level of ownership by institutional investors was at least 5 percent and the CT proposals, subject to vote, were likely to expropriate value from insiders. To an extent, this finding suggests that IOs can distinguish a priori CT proposals that are value enhancing from those that are value destroying and that monitoring efforts are allocated to preclude expropriation.

Academic literature also highlights that CTs can be harmful or beneficial. A good example of CTs with expropriation effects, or value decreasing effects, is provided by a study conducted by La Porta et al. In this study, 20 percent of bank loans in Mexico were made to firms that fell into the category of related-parties. After analyzing the terms of lending, the authors found that, compared with arm's-length loans, related-party loans carried lower interest rates, higher risk of default, and lower recovery rates (in the case of defaulted loans).[55] This evidence pointed at the pres-

52. Brickley et al., *supra* note 15.

53. Ng et al., *supra* note 15.

54. Iliev et al., *supra* note 17, at 2198–99.

55. Rafal La Porta, Florencio Lopez-de-Silanes & Guillermo Zamarripa, *Related Lending*, 118 Q. J. Econ. 231, 231–68 (2003).

ence of expropriation effects to the advantage of insiders, yet to the detriment of depositors and to the bank's minority shareholders.

In other instances, CTs may prove beneficial. Cheung et al. posit that CTs that consist of cash receipts and are undertaken between parties with subsidiary relationships can benefit the issuer as, for example, where a parent company bails out a struggling subsidiary via propping when no other outside party would help.[56] Occasionally, RPTs constitute efficient arrangements whereby the 'related or connected' element creates an advantage to the contracting parties compared with an arm's-length transaction.[57] Cheng et al. formulate an example CT where an executive (lessor) who owns a commercial property leases this property to the company (tenant) that she works for. In the example, the price of the lease is set to cover the expected losses from a tenant breaking the lease. The executive's position and her firm-specific knowledge allows her to price this risk better than an unrelated party and, consequently, charge a lower price.[58]

Once the distinction between CT proposals likely to expropriate, on the one hand, and CT proposals likely beneficial, on the other hand, were incorporated into the analysis, it became reasonable to expect greater monitoring effects for the group of harmful CT proposals, and vice-versa. Evidence from our investigation supports the view that in the presence of expropriation risk (voting of CT proposal likely to expropriate) monitoring effects are more evident when IOs own at least a 5 percent stake in the company. Below that threshold, no association was found. Notably, this finding supports the results in Iliev et al. that showed a positive association between dissent voting by US IOs and a proposal's expected expropriation effects.[59] Our evidence is, however, less consistent with findings from other studies.

Burch, Morgan and Wolf, for example, examined shareholders' voting outcomes in 209 takeover proposals for the period 1990–2000 in the United States. Their results showed that firms with higher institutional ownership were associated with higher approval rates even when the sample contained 70 percent of value-decreasing merger proposals.[60] Hamdani and Yafeh investigated the voting patterns of IOs on executive compensation and self-dealing proposals in firms with concentrated ownership in Israel and found that investors seldom voted 'against' those proposals.[61] The vote against these proposals was even weaker where the proposal involved self-dealing transactions and where the institutional investor showed some conflict of interest with the insider (in terms of business ties or ownership).

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56. Cheung et al., *supra* note 22, at 355–56.

57. Ryngaert & Thomas, *supra* note 25, at 851.

58. *Id*. at 849.

59. Iliev et al., *supra* note 17, at 2170.

60. Burch et al., *supra* note 15, at 51.

61. Hamdani & Yafeh, *supra* note 19.

In our investigation, monitoring effects were also detected in companies with a high level of institutional ownership and without a controlling shareholder. In the presence of a controlling shareholder, however, our research failed to observe any monitoring effects even when the group of CT proposals issued by the companies having a controlling shareholder contained expropriation risk. This group of CT proposals was composed of 34 one-off CTs and 24 continuing CTs, with the average CAR value for the group being negative (-0.012).[62]

One plausible explanation for the want of monitoring effects despite the existence of expropriation risk is the presence of a controlling shareholder may have worked as a disincentive for active IOs—minority shareholders in our sample of Hong Kong-listed companies—to monitor through dissent voting. Another explanation may be the presence of a controlling shareholder in a firm simply makes such a firm less attractive to more active investors. Monitoring by IOs could also have taken place through private, unobservable negotiations prior to the voting in general meeting.[63] Regardless, the evidence suggests that monitoring through dissent voting on CT proposals was weaker when IOs and a controller shareholder cohabitated in the listed issuer.

This result also suggests that the mechanism of voting by disinterested shareholders, as currently applied to the vote of CT proposals in Hong Kong has not effectively strengthened the vote of minority shareholders when the company has a controlling shareholder. As mentioned earlier in this article, this voting mechanism is meant to empower minority shareholders and, to an extent, neutralize the power of the controlling shareholder whenever acting in the role of connected person. Our findings provide further empirical support to existing views that have contested the effectiveness of the 'disinterested shareholder' voting mechanism in Hong Kong.

Cheung et al. argued that the shareholder vote requirement in CT proposals is ineffective in protecting firm value for those CTs that are a-priori likely to result in expropriation of the minority shareholders.[64] As a result, the authors suggest a narrow scope of definition for connected person. More recently, this view has been echoed in the work of Enriques that cited the case of Hong Kong to illustrate insincere voting by shareholders. Enriques argues, "In the absence of broad-scope rules on who is disqualified from voting, MOM [majority of the minority] approval may

62. The level of expropriation risk was not different between the group of CT proposals issued by firms with a controlling member and the group of CT proposals issued by firms without such a member as measured in terms of the CAR_A or CT_ONEOFF variables.

63. *See* Frank M. K. Wong, *Shareholder Engagement and Activism Under the Radar: Empirical Evidence from Hong Kong (2003–15) — Rethinking Disclosure of Interests Regime* 15, (Hong Kong Shareholder Engagement and Activism Conf., June 23, 2017), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2725318.

64. Cheung et al., *supra* note 22.

just pay lip service to minority shareholder protection."[65] According to these views, the mechanism of disinterested shareholders would be insufficient to preclude wealth expropriation by controlling shareholders.

There are limitations to the investigation and results reported in this article. By looking at the association between firms' institutional ownership and their voting approval rates, one cannot draw inferences with regards to the actual voting behavior of IOs. As mentioned earlier, the absence of publicly available data prevented us from making inferences that account for the identity of the voter and for the direction of the vote cast; these results are not disclosed by institutional investors or by listed companies in Hong Kong. A number of factors that may have influenced voting behavior and outcomes—such as, the role of independent financial advisers in providing voting recommendations to shareholders or the role of media financial reporters in influencing investors' decisions—have not been included in the regression analysis due to available resources. Self-selection problems may also be present to the extent that it is unlikely that IOs picked up firms where to invest in (the sample of issuers in our dataset) at random.

For all the reasons cited above, the relationships between variables in this investigation have been phrased in terms of correlations or associations, without pursuing the more challenging goal of identifying cause-effect relationships.

Conclusion

This research investigated the question of whether the presence of IOs in Hong Kong-listed companies has been associated with greater monitoring of management through dissent voting. The conventional view in Hong Kong has been that IOs tend to be passive owners and, consequently, that they exercise little, if any, monitoring over the company's management. This investigation has produced evidence that partially rejects this proposition. In companies with IOs holding at least 5 percent of the issued shares, monitoring effects were detected when the CT proposals subject to the vote of shareholders in general meeting were likely to expropriate value or when the company holding the vote on the CT proposal did not have a controlling shareholder. Our findings support the view that the presence of institutional ownership in Hong Kong can be consistent with monitoring and, to that extent, with good corporate governance.

65. Luca Enriques, *Related Party Transactions: Policy Options and Real-World Challenges (with a Critique of the European Commission Proposal)*, 16 Eur. Bus. Org. L. Rev. 1, 16 (2015).

Table no. 1: Definition of Variables for Regression Analysis

Theme	*Variable*	*Definitions*
General Meeting	[VAR]	Voting approval rate: number of votes cast for the proposal relative to the sum of the number of votes cast for and against [Burch, Morgan and Wolf (2004); Thomas and Cotter (2007); Armstrong, Gow and Larcker (2013)]
	[DISSENTING_VOTE]	Dummy variable that equals 1 if the voting outcome shows dissent votes (voting outcome is approved by less than 100% of votes cast); equals 0 if the voting outcome shows no dissent votes (CT proposal approved by a 100% of the votes cast)
	[TURNOUT]	Portion of shares, among all disinterested shares with the right to vote on a particular CT, that effectively attended the vote of that CT in GM
	[SHARES_DISINT]	Percentage shares whose holders do not have a material interest in the RPT; the holders of these shares are entitled to attend and vote on the CT in the GM (attendance and voting is however voluntary subject to quorum and majority requirements). Interested shares are excluded from the voting of a CT in the general meeting (majority of the minority system); Interested shares are shares whose holders have a material interests in the CT; the holders of these shares must abstain from voting in the GM; only disinterested shares provide to their holders the right to vote in the GM
Institutional Owners	[INSTOWN_D]	Equals 1 if the listed issuer (company) has institutional owners; equals 0 if the company has no institutional owners
	[INSTOWN]	Percentage of outstanding shares in the listed issuer owned by institutional investors; equals 0 if the company has no institutional investors
	[Low_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by institutional investors that hold less than 5% ownership; otherwise equals 0
	[High_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by institutional investors that hold 5% or more ownership; otherwise equals 0
	[SWF_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by sovereign wealth funds; otherwise equals 0
	[IAs_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by investment advisers including hedge funds; otherwise equals 0

Table no. 1: Definition of Variables for Regression Analysis

Theme	*Variable*	*Definitions*
	[PensionF_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by pension funds; otherwise equals 0
	[B&T_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by banks and trusts; otherwise equals 0
	[PrivateE_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by private equity; otherwise equals 0
	[Foreign_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by foreign institutional investors; otherwise equals 0
	[Local_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by local institutional investors; otherwise equals 0
	[Indep_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by investment advisers (mutual funds and hedge funds) (Ferreira and Matos, 2008)
	[Grey_INSTOWN]	Percentage of outstanding shares in the listed issuer owned by SWF, Pension Funds, Bank & Trust, and Private Equity (Ferreira and Matos, 2008)
Characteristics of Connected Transactions	[CT_ONEOFF]	Dummy variable that equals 1 if the CT is a one-off CT (CT proposal likely to expropriate); equals 0 if the CT is a continuing CT (CT proposal likely beneficial)
	[CT&NT]	Dummy variable that equals 1 if the CT proposal is not categorized as a Notifiable Transaction; equals 0 if the CT proposal is also a Notifiable Transaction
	CP_SSH	Dummy variable that equals 1 if the connected person in a CT proposal is a substantial shareholder of the listed issuer; equals 0 otherwise
Market Reaction	[CAR_A]	Market valuation around the announcement of the CT proposal in the Stock Exchange of Hong Kong in terms of Cumulative Abnormal Returns [-1, +3]
	[CAR_C]	Market valuation around the announcement of the CT proposal's circular document in the Stock Exchange of Hong Kong in terms of Cumulative Abnormal Returns [-1, +3]
	[CAR_AD]	Dummy variable that equals 1 if the market shows a negative reaction around the announcement of the CT proposal (CT proposal likely to expropriate); equals 0 if the market reaction is positive (CT proposal likely beneficial)

Table no. 1: Definition of Variables for Regression Analysis

Theme	*Variable*	*Definitions*
	[CAR_CD]	Dummy variable that equals 1 if the market shows a negative reaction around the announcement of the CT proposal's circular document (CT proposal likely to expropriate); equals 0 if the market reaction is positive (CT proposal likely beneficial)
Listed Issuer	[CONTROLLING _SHARE]	Dummy variable that equals 1 if the company has a shareholder holding 30% or more of outstanding shares; equals 0 otherwise
	[FIRM MB]	Dummy variable that equals 1 of the company is listed in the Main Board of the SEHK; equals 0 if the company is listed in the Growth Enterprise Market of the SEHK
	[FIRM PERFORMANCE]	(ROA): performance of the company (listed issuer) measured by return on assets (EBIT/total assets)
	[FIRM SIZE]	Size of the company (listed issuer) measured by book assets in billion HK$

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Citations to Table no. 2 should still refer to pages 244-247.

Table no.2: Summary Statistics

Variables	All Observations			Companies With IOs			Companies Without IOs			Ttest
	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.	Obs.	Mean	Std. Dev.	
General Meeting Variables										
VAR	96	0.983	0.052	76	0.982	0.052	20	0.987	0.051	*0.41*
DISSENTING_VOTE	96	0.521	0.502	76	0.566	0.499	20	0.350	0.489	*-1.73*
TOURNOUT	96	0.369	0.235	76	0.390	0.243	20	0.291	0.187	*-1.69*
SHARES_DISINT	96	0.562	0.249	76	0.540	0.246	20	0.643	0.250	*1.65*
Institutional Ownership Variables										
INSTOWN_D				76	1.000	0.00	-	-	-	-
INSTOWN				76	9.020	11.96	-	-	-	-
Low_INSTOWN				76	0.778	1.23	-	-	-	-
High_INSTOWN				76	8.191	12.46	-	-	-	-
Foreign_INSTOWN				76	7.801	10.28	-	-	-	-
Local_INSTOWN				76	1.219	2.554	-	-	-	-
Indep_INSTOWN				76	6.753	9.411	-	-	-	-
Grey_INSTOWN				76	2.268	5.830	-	-	-	-
IAs_INSTOWN				76	6.753	9.411	-	-	-	-
SWF_INSTOWN				76	0.818	1.984	-	-	-	-
PensionF_INSTOWN				76	0.184	0.390	-	-	-	-
B&T_INSTOWN				76	0.201	0.919	-	-	-	-
PrivateE_INSTOWN				76	1.065	4.466	-	-	-	-
CT Characteristics Variables										
CT_ONEOFF	96	0.594	0.494	76	0.526	0.503	20	0.850	0.366	*2.69*
CT&NT	96	0.625	0.487	76	0.697	0.462	20	0.350	0.489	*-2.95*
CP_SSH	96	0.875	0.332	76	0.908	0.291	20	0.750	0.444	*-1.92*
Market Reaction Variables										
CAR_A	96	-0.003	0.112	76	0.003	0.106	20	-0.023	0.134	*-0.93*
CAR_AD	96	0.448	0.500	76	0.434	0.499	20	0.500	0.513	*0.52*
CAR_C	96	0.007	0.112	76	0.021	0.107	20	-0.044	0.120	*-2.35*
CAR_CD	96	0.625	0.487	76	0.645	0.482	20	0.550	0.510	*-0.77*
Listed Issuer Variables										
CONTROLLING_SHARE	96	0.625	0.487	76	0.618	0.489	20	0.550	0.510	*-0.55*
FIRM_MB	96	0.948	0.223	76	0.987	0.115	20	0.800	0.410	*-3.52*
FIRM_SIZE (billion $)	96	126.3	659.8	76	158.9	739.1	20	2.547	2.914	*-0.94*
FIRM_PERFORMANCE	96	0.005	0.061	76	0.009	0.048	20	-0.009	0.094	*-1.22*

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Citations to Table no. 2 should still refer to pages 244-247.

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Citations to Table no. 2 should still refer to pages 244-247.

Table no. 3: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D [A]

Independent Variables	*Dependent Variable: VAR*			
	(1)	*(2)*	*(3)*	*(4)*
INSTOWN_D	0.002			
	(0.11)			
INSTOWN_D1		-0.002		
		(-0.14)		
INSTOWN_D5			-0.015	
			(-1.08)	
INSTOWN_D15				-0.031*
				(-1.94)
CT_ONEOFF	-0.038***	-0.038***	-0.044***	-0.041***
	(-2.69)	*(-2.69)*	*(-2.92)*	*(-2.94)*
CT&NT	-0.028*	-0.028*	-0.029**	-0.027*
	(-1.94)	*(-1.93)*	*(-2.04)*	*(-1.96)*
CP_SSH	-0.018	-0.017	-0.017	-0.014
	(-1.02)	*(-0.97)*	*(-0.95)*	*(-0.83)*
CAR A	0.038	0.036	0.044	0.054
	(0.46)	*(0.44)*	*(0.53)*	*(0.67)*
CAR_C	-0.090	-0.088	-0.091	-0.100
	(-1.06)	*(-1.06)*	*(-1.11)*	*(-1.23)*
SHARES_DISINT	-0.002	-0.002	-0.003	-0.003
	(-0.06)	*(-0.08)*	*(-0.12)*	*(-0.13)*
TURNOUT	0.018	0.019	0.027	0.029
	(0.75)	*(0.77)*	*(1.06)*	*(1.21)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.55)	*(0.57)*	*(0.77)*	*(1.12)*
FIRM_PERFORMANCE	-0.025	-0.023	-0.013	0.005
	(-0.27)	*(-0.25)*	*(-0.15)*	*(0.05)*
FIRM_MB	-0.019	-0.017	-0.016	-0.016
	(-0.72)	*(-0.66)*	*(-0.64)*	*(-0.64)*
CONTROLLING_SHARE	-0.010	-0.010	-0.011	-0.014
	(-0.84)	*(-0.86)*	*(-0.93)*	*(-1.17)*
Obs	96	96	96	96
R-squared	0.1328	0.133	0.145	0.170

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level,

**Significant at 5% level,

***Significant at 1% level.

Table no. 4: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN [A]

Independent Variables	*Dependent Variable: VAR*				
	(1)	*(2)*	*(3)*	*(4)*	*(5)*
INSTOWN	-0.002***				
	(-2.83)				
Low_INSTOWN		0.003			
		(0.69)			
High_INSTOWN		-0.001***			
		(-2.61)			
Foreign_INSTOWN			-0.001		
			(-0.93)		
Local_INSTOWN			-0.006**		
			(-2.15)		
Indep_INSTOWN				-0.002***	
				(-2.66)	
Grey_INSTOWN				-0.001	
				(-0.67)	
IAs INSTOWN					-0.002**
					(-1.97)
SWF_INSTOWN					*-0.001*
					(-0.13)
PensionF_INSTOWN					0.005
					(0.21)
B&T_INSTOWN					0.006
					(0.85)
PrivateE_INSTOWN					-0.001
					(-0.66)
CT_ONEOFF	-0.042***	-0.045***	-0.041***	-0.044***	-0.047***
	(-3.11)	*(-3.25)*	*(-3.01)*	*(-3.19)*	*(-3.29)*
CT&NT	-0.025*	-0.027*	-0.025*	-0.026*	-0.027*
	(-1.85)	*(-1.97)*	*(-1.84)*	*(-1.90)*	*(-1.89)*
CP_SSH	-0.013	-0.016	-0.012	-0.012	-0.014
	(-0.76)	*(-0.94)*	*(-0.73)*	*(-0.72)*	*(-0.80)*
CAR_A	0.064	0.065	0.047	0.056	0.053
	(0.81)	*(0.82)*	*(0.59)*	*(0.70)*	*(0.65)*
CAR_C	-0.109	-0.108	-0.092	-0.101	-0.102
	(-1.38)	*(-1.36)*	*(-1.16)*	*(-1.26)*	*(-1.24)*
SHARES_DISINT	-0.006	-0.007	-0.006	-0.002	-0.004
	(-0.23)	*(-0.29)*	*(-0.23)*	*(-0.09)*	*(-0.17)*
TURNOUT	0.040	0.043*	0.040*	0.042*	0.039
	(1.65)	*(1.76)*	*(1.69)*	*(1.70)*	*(1.57)*
FIRM_SIZE	0.000	0.000	0.000	0.000	0.000
	(0.80)	*(0.88)*	*(0.49)*	*(0.72)*	*(0.14)*
FIRM_PERFORMANCE	0.019	0.016	0.034	0.023	0.016
	(0.22)	*(0.18)*	*(0.39)*	*(0.26)*	*(0.17)*
FIRM_MB	-0.012	-0.017	-0.012	-0.012	-0.014
	(-0.48)	*(-0.67)*	*(-0.51)*	*(-0.50)*	*(-0.55)*
CONTROLLING_SHARE	-0.015	-0.015	-0.016	-0.015	-0.014
	(-1.32)	*(-1.34)*	*(-1.44)*	*(-1.26)*	*(-1.21)*
Obs	*96*	96	96	96	96
R-squared	0.209	0.219	0.234	0.214	0.225

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level,

**Significant at 5% level,

***Significant at 1% level.

Table no. 5: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of One-off and Continuing CT Proposals [A]

Independent Variables	*Dependent Variable: VAR* ***CTs Likely To Expropriate***			
	(1)	(2)	(3)	(4)
INSTOWN_D	-0.017			
	(-0.82)			
INSTOWN_D1		-0.018		
		(-0.99)		
INSTOWN_D5			-0.056**	
			(-2.45)	
INSTOWN_D15				-0.115***
				(-3.74)
CT&NT	-0.028	-0.029	-0.034**	*-0.031**
	(-1.52)	*(-1.59)*	*(-2.01)*	*(-1.99)*
CP_SSH	-0.011	-0.008	-0.009	-0.006
	(-0.44)	*(-0.32)*	*(-0.39)*	*(-0.28)*
CAR_A	0.112	0.139	0.181	0.125
	(0.85)	*(1.07)*	*(1.45)*	*(1.10)*
CAR_C	-0.140	-0.181	-0.218*	-0.163
	(-1.05)	*(-1.42)*	*(-1.77)*	*(-1.45)*
SHARES_DISINT	0.010	0.019	0.009	-0.013
	(0.24)	*(-0.46)*	*(0.24)*	*(-0.36)*
TURNOUT	0.014	0.019	0.044	0.042
	(0.36)	*(0.48)*	*(1.13)*	*(1.19)*
FIRM_SIZE	0.000	0.000	0.000	0.000**
	(0.55)	*(0.57)*	*(1.15)*	*(2.07)*
FIRM_PERFORMANCE	-0.050	-0.043	-0.066	-0.008
	(-0.43)	*(-0.37)*	*(-0.60)*	*(-0.08)*
FIRM_MB	-0.009	-0.007	-0.006	-0.007
	(-0.30)	*(-0.23)*	*(-0.22)*	*(-0.27)*
CONTROLLING_SHARE	-0.009	-0.008	-0.011	-0.027
	(-0.45)	*(-0.44)*	*(-0.63)*	*(-1.55)*
Obs	*57*	*57*	*57*	57
R-squared	0.157	0.163	0.245	0.347

Table no. 5: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of One-off and Continuing CT Proposals [A]

Independent Variables	*Dependent Variable: VAR* ***CTs Likely Beneficial***			
	(1)	(2)	(3)	(4)
INSTOWN_D	0.083***			
	(3.61)			
INSTOWN_D1		0.022		
		(1.25)		
INSTOWN_D5			0.014	
			(0.78)	
INSTOWN_D15				0.005
				(0.30)
CT&NT	*0.005*	*-0.006*	*0.014*	*-0.016*
	(-0.14)	*(-0.13)*	*(-0.03)*	*(-0.35)*
CP_SSH	-0.001	-0.017	-0.016	-0.014
	(-0.05)	*(-0.55)*	*(-0.52)*	*(-0.45)*
CAR_A	-0.024	-0.061	-0.097	-0.104
	(-0.26)	*(-0.56)*	*(-0.92)*	*(-0.96)*
CAR_C	-0.006	-0.013	-0.008	0.008
	(-0.07)	*(-0.12)*	*(-0.08)*	*(0.07)*
SHARES_DISINT	0.020	-0.003	-0.011	-0.010
	(0.76)	*(0.11)*	*(-0.38)*	*(-0.34)*
TURNOUT	-0.006	0.019	0.019	0.023
	(-0.26)	*(0.66)*	*(0.63)*	*(0.78)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.35)	*(0.19)*	*(0.16)*	*(0.26)*
FIRM_PERFORMANCE	0.085	0.085	0.048	0.138
	(0.49)	*(0.40)*	*(0.19)*	*(0.62)*

Table no. 5: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of One-off and Continuing CT Proposals [A]

Independent Variables	*Dependent Variable: VAR* ***CTs Likely Beneficial***			
	(1)	(2)	(3)	(4)
FIRM_MB	-	-	-	-
	-	-	-	-
CONTROLLING_SHARE	-0.016	-0.010	-0.015	-0.014
	(-1.22)	*(-0.65)*	*(-0.97)*	*(-0.88)*
Obs	39	39	39	39
R-squared	0.389	0.151	0.123	0.106

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs broken down in two groups: CTs Likely to Expropriate and CTs Likely Beneficial. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level

**Significant at 5% level

***Significant at 1% level.

Table no. 6: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN by Groups of One-off and Continuing CT proposals [A]

Independent Variables	***CTs Likely To Expropriate***		***CTs Likely Beneficial***	
	(1)	(2)	(1)	(2)
INSTOWN	-0.004***		0.000	
	(-4.59)		*(0.31)*	
Low_INSTOWN		.000		0.008
		(0.06)		*(0.81)*
High_INSTOWN		-0.004***		0.000
		(-4.39)		*(0.38)*
CT&NT	-0.024	-0.025	*-0.015*	*-0.025*
	(-1.58)	*(-1.67)*	*(-0.34)*	*(-0.52)*
CP_SSH	-0.005	-0.008	-0.014	-0.014
	(-0.25)	*(-0.39)*	*(-0.44)*	*(-0.44)*
CAR_A	0.171	0.165	-0.102	-0.076
	(1.58)	*(1.51)*	*(-0.95)*	*(-0.58)*
CAR_C	-0.202*	-0.199*	0.008	0.014
	(-1.90)	*(-1.85)*	*(-0.07)*	*(0.13)*
SHARES_DISINT	-0.002	-0.005	-0.010	-0.006
	(-0.05)	*(-0.14)*	*(-0.33)*	*(-0.21)*
TURNOUT	0.066*	0.065*	0.022	0.029
	(1.92)	*(1.90)*	*(0.74)*	*(0.93)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(1.06)	*(1.13)*	*(0.32)*	*(0.41)*
FIRM_PERFORMANCE	-0.009	-0.017	0.133	0.202
	(-0.09)	*(-0.17)*	*(0.58)*	*(0.82)*
FIRM_MB	-0.001	-0.005	-	-
	(-0.03)	*(-0.018)*	-	-
CONTROLLING_SHARE	-0.018	-0.019	-0.013	-0.009
	(-1.12)	*(-1.18)*	*(-0.84)*	*(-0.54)*
Obs	*57*	*57*	39	39
R-squared	0.417	0.424	0.106	0.127

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs broken down in two groups: CTs Likely to Expropriate and CTs Likely Beneficial. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level

**Significant at 5% level

***Significant at 1% level.

Table no. 7: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of Positive and Negative Market Reaction [A]

Independent Variables	*[CAR_A(-)] CTs Likely To Expropriate*			
INSTOWN D	-0.021			
	(-0.91)			
INSTOWN_D1		-0.003		
		(-0.14)		
INSTOWN_D5			-0.033	
			(-1.25)	
INSTOWN_D15				-0.052*
				(-1.77)
CT_ONEOFF	0.049**	0.047**	0.056**	-0.047**
	(-2.18)	*(-2.09)*	*(-2.41)*	*(-2.17)*
CT&NT	-0.025	-0.028	-0.025	-0.023
	(-1.12)	*(-1.24)*	*(-1.13)*	*(-1.08)*
CP_SSH	-0.022	-0.025	-0.024	-0.027
	(-0.72)	*(-0.77)*	*(-0.81)*	*(-0.93)*
SHARES_DISINT	-0.024	-0.027	-0.040	-0.038
	(-0.44)	*(-0.50)*	*(-0.74)*	*(-0.73)*
TURNOUT	0.030	0.031	0.063	0.058
	(0.76)	*(0.77)*	*(1.33)*	*(1.39)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.52)	*(0.47)*	*(0.80)*	*(0.91)*
FIRM_PERFORMANCE	-0.023	-0.020	-0.036	-0.001
	(-0.21)	*(-0.18)*	*(-0.33)*	*(-0.01)*
FIRM_MB	-0.030	-0.037	-0.038	-0.039
	(-0.77)	*(-0.92)*	*(-1.04)*	*(-1.07)*
CONTROLLING_SHARE	-0.022	-0.026	-0.027	-0.028
	(-1.04)	*(-1.19)*	*(-1.27)*	*(-1.36)*
Obs	*53*	*53*	*53*	*53*
R-squared	0.204	0.189	0.217	0.231

Table no. 7: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of Positive and Negative Market Reaction [A]

Independent Variables	*[CAR_A(+)] CTs Likely Beneficial*			
INSTOWN_D	0.024			
	(1.17)			
INSTOWN_D1		0.004		
		(0.24)		
INSTOWN_D5			-0.012	
			(-0.60)	
INSTOWN_D15				*-0.017*
				(-0.82)
CT_ONEOFF	*-0.016*	*-0.016*	*-0.022*	*-0.018*
	(-0.74)	*(-0.74)*	*(-0.96)*	*(-0.85)*
CT&NT	*-0.021*	*-0.020*	*-0.024*	*-0.021*
	(-0.98)	*(-0.94)*	*(-1.08)*	*(-0.98)*
CP_SSH	-0.014	-0.015	-0.016	-0.012
	(-0.59)	*(-0.60)*	*(-0.64)*	*(-0.49)*
SHARES_DISINT	0.013	0.006	0.006	0.006
	(0.42)	*(0.19)*	*(0.21)*	*(0.18)*
TURNOUT	0.016	0.021	0.021	0.022
	(0.41)	*(0.52)*	*(0.52)*	*(0.56)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.21)	*(0.24)*	*(0.43)*	*(0.57)*
FIRM_PERFORMANCE	-0.048	-0.022	0.104	0.086
	(-0.21)	*(-0.08)*	*(0.36)*	*(0.34)*
FIRM_MB	-0.019	-0.005	0.001	-0.002
	(-0.48)	*(-0.12)*	*(-0.02)*	*(-0.06)*
CONTROLLING_SHARE	0.007	0.004	0.000	-0.001

Table no. 7: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of Positive and Negative Market Reaction [A]

Independent Variables	***[CAR_A(+)] CTs Likely Beneficial***			
	(0.42)	*(0.25)*	*(-0.01)*	*(-0.08)*
Obs	43	43	43	43
R-squared	0.097	0.060	0.069	0.077

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs broken down in two groups: CTs Likely to Expropriate and CTs Likely Beneficial. Table 1 provides definitions for the dependent and independent variables. T-test values are shown in brackets.

*Significant at 10% level

**Significant at 5% level

***Significant at 1% level.

Table no. 8: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN by Groups of Positive and Negative Market Reaction

Independent Variables	***[CAR_A(-)] CTs Likely To Expropriate***		***[CAR_A(+)] CTs Likely Beneficial***	
	(1)	(2)	(1)	(2)
INSTOWN	-0.002**		-0.001	
	(-2.65)		*(-1.15)*	
Low_INSTOWN		0.004		0.009
		(0.58)		*(1.11)*
High_INSTOWN		-0.002**		-0.001
		(-2.54)		*(-1.05)*
CT_ONEOFF	-0.049**	-0.050**	*-0.018*	*-0.028*
	(-2.39)	*(-2.43)*	*(-0.88)*	*(-1.28)*
CT&NT	-0.021	-0.018	*-0.020*	*-0.032*
	(-0.99)	*(-0.84)*	*(-0.94)*	*(-1.39)*
CP_SSH	-0.017	-0.026	-0.012	-0.014
	(-0.61)	*(-0.88)*	*(-0.47)*	*(-0.56)*
SHARES_DISINT	-0.029	-0.037	0.000	-0.004
	(-0.59)	*(-0.73)*	*(0.00)*	*(-0.13)*
TURNOUT	0.078*	0.088*	0.019	0.019
	(1.90)	*(2.08)*	*(0.50)*	*(0.49)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.57)	*(0.67)*	*(0.46)*	*(0.54)*
FIRM_PERFORMANCE	0.003	-0.010	0.153	0.219
	(0.03)	*(-0.10)*	*(0.58)*	*(0.82)*
FIRM_MB	-0.033	-0.043	-0.002	-0.006
	(-0.94)	*(-1.17)*	*(-0.05)*	*(-0.16)*
CONTROLLING_SHARE	-0.028	-0.029	-0.005	-0.007
	(-1.42)	*(-1.45)*	*(-0.29)*	*(-0.39)*
Obs	*53*	*53*	43	43
R-squared	0.305	0.320	0.096	0.137

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs broken down in two groups: CTs Likely to Expropriate and CTs Likely Beneficial. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level

**Significant at 5% level

***Significant at 1% level.

Table no. 9: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of Firms With and Without Controlling Shareholders [A]

Independent Variables	***Controlling Shareholders***			
	(1)	(2)	(3)	(4)
INSTOWN_D	0.015			
	(0.59)			
INSTOWN_D1		0.008		
		(0.42)		
INSTOWN_D5			*-0.002*	
			(-0.10)	
INSTOWN_D15				-0.032
				(-1.08)
CT_ONEOFF	-0.055**	-0.054**	-0.055**	-0.058**
	(-2.12)	*(-2.08)*	*(-2.06)*	*(-2.23)*
CT&NT	-0.054**	-0.051**	-0.050**	-0.048**
	(-2.19)	*(-2.13)*	*(-2.07)*	*(-2.02)*
CP_SSH	-0.010	-0.014	-0.013	-0.009
	(-0.33)	*(-0.46)*	*(-0.43)*	*(-0.30)*
SHARES_DISINT	-0.024	-0.027	-0.028	-0.026
	(-0.50)	*(-0.57)*	*(-0.59)*	*(-0.55)*
CAR_A	0.100	0.088	0.083	0.100
	(0.65)	*(0.58)*	*(0.54)*	*(0.66)*
CAR_C	-0.217	-0.207	-0.198	-0.204
	(-1.42)	*(-1.37)*	*(-1.32)*	*(-1.38)*
TURNOUT	0.042	0.041	0.046	0.053
	(0.98)	*(0.94)*	*(0.97)*	*(1.25)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.10)	*(0.08)*	*(0.13)*	*(0.41)*
FIRM_PERFORMANCE	0.004	-0.007	0.004	0.034
	(0.02)	*(-0.04)*	*(0.02)*	*(0.19)*
FIRM_MB	-0.042	-0.035	-0.030	-0.029
	(-0.84)	*(-0.74)*	*(-0.66)*	*(-0.64)*
Obs	*58*	*58*	*58*	*58*
R-squared	*0.202*	*0.199*	*0.196*	*0.216*

Table no. 9: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of Firms With and Without Controlling Shareholders [A]

Independent Variables	***Non-Controlling Shareholders***			
	(1)	(2)	(3)	(4)
INSTOWN_D	-0.007			
	(-0.53)			
INSTOWN_D1		-0.014		
		(-1.15)		
INSTOWN_D5			*-0.029***	
			(-2.61)	
INSTOWN_D15				-0.023*
				(-1.90)
CT_ONEOFF	*-0.027***	*-0.031***	*-0.041****	*-0.030****
	(-2.33)	*(-2.64)*	*(-3.56)*	*(-2.75)*
CT&NT	*0.006*	*0.006*	*-0.004*	*0.003*
	(0.52)	*(0.52)*	*(-0.35)*	*(0.25)*
CP_SSH	-0.019	-0.018	-0.013	-0.019
	(-1.15)	*(-1.20)*	*(-0.97)*	*(-1.34)*
SHARES_DISINT	0.020	0.020	0.018	0.018
	(0.90)	*(0.91)*	*(0.90)*	*(0.85)*
CAR_A	-0.033	-0.027	-0.027	-0.013
	(-0.51)	*(-0.43)*	*(-0.47)*	*(-0.22)*
CAR_C	0.030	0.010	0.014	0.004
	(0.45)	*(0.16)*	*(0.24)*	*(0.07)*
TURNOUT	0.002	-0.001	0.003	0.007
	(0.07)	*(-0.04)*	*(0.15)*	*(0.32)*
FIRM_SIZE	0.000	0.000	0.000	0.000
	(0.67)	*(0.85)*	*(1.58)*	*(1.31)*
FIRM_PERFORMANCE	-0.041	-0.037	-0.012	-0.023
	(-0.60)	*(-0.56)*	*(-0.19)*	*(-0.36)*
FIRM_MB	-0.017	-0.010	-0.012	-0.015
	(-0.89)	*(-0.50)*	*(-0.67)*	*(-0.85)*

Table no. 9: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN_D by Groups of Firms With and Without Controlling Shareholders [A]

Independent Variables	*Non-Controlling Shareholders*			
Obs	38	38	38	38
R-squared	0.294	0.321	0.434	0.374

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs broken down in two groups: CTs voted in firms having a controlling shareholder and CTs voted in firms not having a controlling shareholder. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level

**Significant at 5% level

***Significant at 1% level.

Table no. 10: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN by Groups of Firms With and Without Controlling Shareholders [A]

Independent Variables	***Controlling Shareholders***	
	(1)	(2)
INSTOWN	-0.002	
	(-1.62)	
Low_INSTOWN		0.006
		(0.76)
High_INSTOWN		*-0.002*
		(-1.50)
CT_ONEOFF	-0.053**	-0.058**
	(-2.11)	*(-2.26)*
CT&NT	-0.042*	-0.043*
	(-1.78)	*(-1.81)*
CP_SSH	-0.010	-0.016
	(-0.35)	*(-0.55)*
SHARES_DISINT	-0.032	-0.038
	(-0.69)	*(-0.83)*
CAR_A	0.086	0.113
	(0.58)	*(0.75)*
CAR_C	-0.187	-0.196
	(-1.28)	*(-1.34)*
TURNOUT	0.071	0.077*
	(1.59)	*(1.71)*
FIRM_SIZE	0.000	0.000
	(0.23)	*(0.26)*
FIRM_PERFORMANCE	0.046	0.021
	(0.27)	*(0.12)*
FIRM_MB	-0.023	-0.031
	(-0.51)	*(-0.68)*
Obs	*58*	*58*
R-squared	*0.239*	*0.255*

Table no. 10: Regression of VOTE APPROVAL RATE (VAR) on INSTOWN by Groups of Firms With and Without Controlling Shareholders [A]

Independent Variables	***Non-Controlling Shareholders***	
	(1)	(2)
INSTOWN	-0.001***	
	(-2.90)	
Low_INSTOWN		0.000
		(0.06)
High_INSTOWN		-0.001**
		(-2.64)
CT_ONEOFF	*-0.034****	*-0.034****
	(-3.27)	*(-3.22)*
CT&NT	*0.003*	*0.002*
	(0.28)	*(0.16)*
CP_SSH	-0.018	-0.018
	(-1.36)	*(-1.36)*
SHARES_DISINT	0.015	0.015
	(0.76)	*(0.76)*
CAR_A	0.004	0.001
	(0.07)	*(0.01)*
CAR_C	-0.015	-0.012
	(-0.27)	*(-0.20)*
TURNOUT	0.010	0.011
	(0.51)	*(0.54)*
FIRM_SIZE	0.000	0.000
	(1.19)	*(1.19)*
FIRM_PERFORMANCE	-0.012	-0.010
	(-0.19)	*(-0.17)*
FIRM MB	-0.012	-0.013
	(-0.73)	*(-0.77)*
Obs	38	38
R-squared	0.461	0.464

[A] This table presents results for OLS regressions in Stata for the sample of 96 CTs broken down in two groups: CTs voted in firms having a controlling shareholder and CTs voted in firms not having a controlling shareholder. Table 1 provides definitions for the dependent and independent variables. Ttest values are shown in brackets.

*Significant at 10% level

**Significant at 5% level

***Significant at 1% level.