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Electronic voting, shareholder activism, and dividend payouts

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ABSTRACT

The aim of this paper is to examine the impact of implementing an electronic voting (evoting) system on dividend payout decisions in an emerging economy. The findings indicate that publicly-traded firms in Taiwan distribute more dividends following the mandatory adoption of the e-voting scheme. The possible channel of increased dividend payouts is through better firm performances after the application of e-voting. The research provides new insights into how the e-voting mechanism fosters greater shareholder activism, improves corporate performance, and influences dividend distributions.

JEL classification: G3; G34 Keywords: Electronic Voting; Shareholder Activism; Dividend Payouts

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1. Introduction

To align with the Corporate Governance (CG) Principles by the Organization for Economic Co-operation and Development (OECD), Taiwan's regulators required publicly-traded companies to offer electronic voting (hereafter referred to as the evoting) as an option beginning in 2012[2] The provision for "electronic transmission" is supposed to open up more convenient and diversified channels for shareholders to exercise their shareholder rights and supervise the top management for corporate policies (Lee & Yang, 2017). Specifically, one of the corporate policies, dividend payout, has to be proposed, voted on, and approved during the General Shareholders' Meetings (GSMs). Therefore, it is reasonable to argue that the mandatory adoption of e-voting system, an alternative external governance mechanism, can exert influence on the dividend payouts. However, there is hardly any study that examines the impact of the implementation of e-voting on corporate payout policies. Accordingly, this study seeks to fill this gap by investigating whether the e-voting enhances the payout behavior because of elevated voting power and participation.

Based on the quasi-natural experiment from the mandatory use of e-voting, this study finds that the application of e-voting system is significantly and positively associated with dividend payouts, suggesting that diversified participation channels of shareholders encourage firms to pay out more dividends. This article also shows that the channel to increased dividend payouts is due to better firm performances after the implementation of e-voting, consistent with the hypothesis that the less constraint to shareholders, the better the firms' performances (Chung, Judge, & Li, 2015; Cremers & Ferrell, 2014; Klapper & Love, 2004).

Denes, Karpoff, and McWilliams (2017) review 73 studies on the impact of active shareholder proposals on target firm earnings, operations, and governance. They recommend that future research accounts for context and heterogeneity when analyzing shareholder activism effects. Unlike mature development of institutional environment in developed economies, the institutional context of emerging markets like Taiwan is constantly changing (Lien, Teng, & Li, 2016). This study contributes to the shareholder activism literature by validating the positive impact of the new e-voting system on the corporate payout policies. This study also exhibits the possible channels to increased dividend payouts is through improved firm performances because of less constraint to shareholders. Therefore, this study adds new insights to the relations that e-voting promotes active shareholder participation, improves corporate performances, and enhances dividend payout behavior.

The study is structured as follows. Sections 2 reviews the articles concerning the electronic voting, dividend payout policies, and firm performances. Section 3 states the data source and research methodology. Section 4 provides empirical results. Section 5 concludes.

2. Research background

The physical shareholder meeting is a forum that provides for confrontation, debate, and deliberation (Boros, 2003). However, since meetings can be held during business hours and are far from the shareholders' homes, remote e-voting is created for most shareholders who would like to join the meeting but could not. Based on the Principles of CG released by the OECD in 2004, companies should facilitate the exercise of shareholders' voting rights during the GSMs, which include the right to participate and vote in GSMs. Following the CG framework by OECD, the Financial Supervisory Commission in Taiwan has regulated listed companies to adopt electronic transmission as one of the tunnels for exercising voting rights since 2012. Since 2018, all of the listed companies are required to provide investors with an e-voting system.

[2] The principles by OECD aim to help regulators improve the legal, regulatory, and institutional framework for CG. In 2012, companies with capital exceeding 10 billion NT$ and boasting a shareholder count of over 10,000 were mandated to adopt an e-voting system. Subsequently, in 2014 and 2016, the requirement for e-voting was extended to encompass firms with capital amounts of NT$5 billion and NT$2 billion, respectively. Since 2018, all of the listed companies are required to provide shareholders with e-voting system.

Based on the statistics and figures of Taiwan Depository and Clearing Corporation, the number of shares by e-voting has risen from 27.54% of the quorum in 2012 to 49.40% in 2017. The number of e-voting observations has also surged from 34,000 in 2012 to 2,230,000 in 2017. In 2017, 1,217 listed companies have adopted an e-voting system, which accounted for over 90% of the market capitalizations. The average GSMs time of e-voting corporations has decreased from 74 minutes in 2015 to 48 minutes in 2017, respectively. These aggregate statistics highlight the importance, growth, and efficiency of e-voting system for the GSMs in Taiwan capital markets. Shareholder activism has become an important topic in the literature. In a survey of empirical research, Denes et al. (2017) summarize and synthesize the results from 73 studies that investigate the effect of active shareholder proposals on target firm earning, operations, and governance features. They suggest that future studies should consider the context and heterogeneity in examining and interpreting the effect of shareholder activism. Unlike the mature economies, emerging economies are experiencing gradual transformation in institutional and regulatory environment (Lien et al., 2016). Before the mandatory implementation of e-voting beginning in 2012, the voting rights of shareholders in Taiwan were limited because of the prohibition of split voting rights and concentration of the meeting dates. Under such circumstances, shareholders may not able to oversee company decisions such as key agendas, company policies, and corporate re-elections (Lee & Yang, 2017). After the revision of relevant laws and introduction of e-voting system, shareholders are supposed to supervise the managements with their votes more easily, efficiently, and conveniently. With the elevation of number of attendees, the board and management will experience more pressure and shift corporate policies in favor of shareholder expectations (Filatotchev & Nakajima, 2014; Jamali, Safieddine, & Rabbath, 2008; Yoshikawa & Phan, 2001).

Specifically, Taiwanese shareholders prefer cash dividend payouts, and the earning distribution policy has to be requested, voted on, and approved during the GSMs. (Teng, Li, & Yang, 2021; Teng & Liu, 2018). Under the perpetual pressure of disciplinary action, firms may choose to pay more dividends in response to shareholder monitoring (Crane, Michenaud, & Weston, 2016). However, whether the increase in participation and reinforcement of CG via the implementation of e-voting transforms the dividend payout policies remains a mystery to be resolved. Additionally, prior studies indicate that the constraint to shareholders is significantly and negatively related to firm performances (e.g., Chung et al., 2015; Cremers & Ferrell, 2014; Klapper & Love, 2004). Since the application of e-voting systems is presumed to decrease constraints for shareholders, it may contribute to superior firm performances, thereby leading to increased dividend payouts. However, there is scarcely any research examining the effect of e-voting systems on firm performances. Therefore, the objective of this study is two-fold. One is to investigate the transformation of dividend payout policy before and after the application of an e-voting system. The other is to examine the impact of the e-voting mechanism on firm performance.

3. Data and method

3.1 Data

The financial, accounting, and GSMs data is retrieved from the Taiwan Economic Journal (TEJ) database to conduct empirical tests. The sample consists of publicly- traded firms in Taiwan Stock Exchange Corporation. To investigate the relation between mandatory implementation of e-voting and corporate payout policies, the sample consists of observations from the year 2012, when certain firms were first required to implement e-voting systems, to 2018, when all remaining listed firms were also required to implement e-voting systems.

3.2. Method

According to the prior studies regarding dividend payouts (e.g., Fenn & Liang, 2001; Teng et al., 2021), I adopt the following regression equation to examine the impact of the e-voting system on the dividend payouts. To facilitate specific comparative analysis, the sample period includes three

year before and after the adoption of the e-voting system.[3]

$$DP_t = \alpha + \beta_1 EVOTING_t + \beta_2 INST_{t-1} + \beta_3 SIZE_{t-1} + \beta_4 PROFIT_{t-1} + \beta_5 CASH_{t-1} + \beta_6 AG_{t-1} + \beta_7 LC_{t-1} + \beta_8 RISK_{t-1} + \beta_9 DP_{t-1} + \beta_{10} FIRM_t + \beta_{11} IND_t + \varepsilon_t \quad (1)$$

where the dependent variable DPt represents three measures of dividend payouts including cash dividend per share, stock dividend per share, and total dividend per share. They are calculated by the amount of cash dividends, stock dividends, and total dividends (i.e., cash and stock dividends) divided by shares outstanding, respectively. EVOTING represents a dummy variable which is equal to 1 if the dividend payout occurs after the implementation of e-voting or zero if otherwise. INST represents institutional ownership which is the percentage of shares held by institutional investors. SIZE represents the size of the firm, which is calculated as the natural logarithm of the total assets of the firm. PROFIT represents earnings (operating income) scaled by the book value of total assets. CASH represents operating cash flow minus capital expenditures scaled by the book value of total assets. AG represents percentage change in total assets of firms. LC represents retained earnings scaled by the book value of assets. RISK includes two types of corporate risk. One is idiosyncratic risk which is defined as standard deviation of residuals from a regression of its daily excess stock returns (raw returns minus the riskless rate) on the market factor (the value-weighted market return minus the riskless rate). The other is systematic risk which is calculated as standard deviation of the predicted value from the above regression used to compute idiosyncratic risk (Hoberg & Prabhala, 2008). To reduce the possible endogeneity problem that may arise due to simultaneity, I lag these control variables by one year to estimate firm dividend payouts (Lien et al., 2016; Peng & Jiang, 2010). DPt-1 represents various dividend payout measures in the previous year. I add firm (i.e., FIRM) and industry (i.e., IND) dummies to control for the fixed effect.

Following prior studies (e.g., Bhagat & Bolton, 2008; Chen, 2021; Cremers & Ferrell, 2014; Teng & Yang, 2021), I adopt the following model to investigate the effect of evoting system on the firm performances:

$$PERF_t = \alpha + \beta_1 EVOTING_t + \beta_2 SIZE_{t-1} + \beta_3 DR_{t-1} + \beta_4 INST_{t-1} + \beta_5 AGE_{t-1} + \beta_6 PERF_{t-1} + \beta_7 FIRM_t + \beta_8 IND_t + \varepsilon_t \quad (2)$$

where the dependent variable PERFt represents various firm performance measures including ROA, ROE, EPS, Profit before tax to capital stock, and Operating income to capital stock. ROA and ROE is computed as net income divided by the total assets and total equity, respectively. EPS is computed as net income divided by the average number of common shares outstanding. Profit before tax to capital stock and operating income to capital stock is computed as profit before tax and operating income divided by paid-in capital, respectively. DR represents debt ratio which is computed as the total debt divided by the total assets. AGE represents the firm's age which is computed as the observation year minus the foundation year of the firm. PERFt-1 represents various performance measures above in the prior year. The other controls share the same definitions as equation (1). To avoid the biased standard error problem in the panel data, I follow Petersen (2009) and Thompson (2011) by clustering firm and year effects in the above regression analyses.

4. Empirical results

Table 1 shows the descriptive statistics for the fundamental variables in the regression model (1). On average, the publicly-traded firms in Taiwan pay out cash dividends, stock dividends, and total dividends up to 1.76, 0.075, and 1.83 NT$/per share, respectively. Clearly, the total dividend payout primarily consists of cash dividends, aligning with the literature suggesting that Taiwanese publicly-traded firms have catered to investors' preference for cash dividend payouts since the 2000s (Teng & Liu, 2018). On average, institutional investors hold around 43% of shares of publicly traded firms in Taiwan. The average assets growth rate of firms is nearly 5% before and after the implementation

[3] Qualitatively similar results are obtained across various sample periods. Further details can be provided upon request.

of the e-voting system.

Table 1. Summary statistics

	N	Mean	Median	SD	Max	Min
Cash dividend per share	4,476	1.755	0.875	3.629	91.5	0
Stock dividend per share	4,476	0.075	0.000	0.296	5	0
Dividend per share	4,476	1.83	1.000	3.641	91.5	0
Evoting	4,476	0.5	0.500	0.5	1	0
Institutional ownership	4,476	43.25	42.220	22.272	99.23	0.02
Size	4,476	16.014	15.883	1.323	21.562	9.757
Profitability	4,476	0.039	0.038	0.083	0.592	-1.22
Cash	4,476	0.098	0.095	0.114	0.703	-0.951
Asset growth	4,476	4.95	2.420	23.622	777.15	-68.96
Life cycle	4,476	0.08	0.148	1.714	0.817	-68.212
Systematic risk	4,476	0.687	0.598	0.471	4.272	0.001
Idiosyncratic risk	4,476	1.752	1.669	0.736	8.113	0.336

This table shows the descriptive statistics of the main variables for the effect of e-voting system on dividend payouts. Cash dividend per share, stock dividend per share, and dividend per share represents the amount of cash dividends, stock dividends, and dividends (i.e., cash and stock dividends) scaled by shares outstanding. Evoting represents a dummy variable which is equal to 1 if the dividend payout occurs after the implementation of e-voting or zero if otherwise. Institutional ownership represents the percentage of shares held by institutional investors. Size represents the logarithm of the firm's total assets. Profitability represents earnings (operating income) scaled by the book value of total assets. Cash represents operating cash flow minus capital expenditures scaled by the book value of total assets. Asset growth represents percentage change in assets. Life cycle represents retained earnings scaled by the book value of assets. Idiosyncratic risk is defined as standard deviation of residuals from a regression of its daily excess stock returns (raw returns minus the riskless rate) on the market factor (the value-weighted market return minus the riskless rate). Systematic risk is calculated as standard deviation of the predicted value from the above regression used to compute idiosyncratic risk.

Table 2 shows the correlation coefficients for the primary variables. Consistent with the result from Table 1, the cash dividend per share is highly correlated with the dividend per share with coefficient 0.997. The correlation coefficients between independent and control variables are mostly small, indicating that multicollinearity may not be a significant issue in the regression analysis. For instance, the cash and profitability variables exhibit the highest correlation coefficient of 0.581.

Table 2. Correlation coefficients

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Cash dividend per share	1.000											
(2) Stock dividend per share	-0.002	1.000										
(3) Dividend per share	0.997***	0.079***	1.000									
(4) Evoting	0.023	-0.060***	0.018	1.000								
(5) Institutional ownership	0.245***	0.057***	0.249***	0.057***	1.000							
(6) Size	0.191***	0.087***	0.197***	0.035**	0.426***	1.000						
(7) Profitability	0.411***	0.122***	0.420***	-0.037**	0.232***	0.228***	1.000					
(8) Cash	0.268***	0.033**	0.270***	-0.057***	0.194***	0.215***	0.581***	1.000				
(9) Asset growth	0.122***	0.083***	0.129***	-0.057***	0.113***	0.110***	0.218***	0.017	1.000			
(10) Life cycle	0.059***	0.014	0.060***	-0.013	0.038**	0.177***	0.447***	0.268***	0.048***	1.000		
(11) Systematic risk	0.059***	0.088***	0.066***	-0.227***	0.087***	0.429***	0.039***	0.165***	0.014	0.027*	1.000	
(12) Idiosyncratic risk	-0.027*	-0.004	-0.027*	-0.098***	-0.071***	-0.174***	-0.210***	-0.065***	0.044***	-0.164***	0.425***	1.000

This table shows the correlation coefficients of the main variables for the effect of e-voting system on dividend payouts. Cash dividend per share, stock dividend per share, and dividend per share represents the amount of cash dividends, stock dividends, and dividends (i.e., cash and stock dividends) scaled by shares outstanding. Evoting represents a dummy variable which is equal to 1 if the dividend payout occurs after the implementation of e-voting or zero if otherwise. Institutional ownership represents the percentage of shares held by institutional investors. Size represents the logarithm of the firm's total assets. Profitability represents earnings (operating income) scaled by the book value of total assets. Cash represents operating cash flow minus capital expenditures scaled by the book value of total assets. Asset growth represents percentage change in assets. Life cycle represents retained earnings scaled by the book value of assets. Idiosyncratic risk is defined as standard deviation of residuals from a regression of its daily excess stock returns (raw returns minus the riskless rate) on the market factor (the value-weighted market return minus the riskless rate). Systematic risk is calculated as standard deviation of the predicted value from the above regression used to compute idiosyncratic risk. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively.

Table 3 shows the preliminary results for the impact of mandatory implementation of e-voting system on the dividend payouts. As shown in the table, the evoting variable is significantly and positively associated with cash dividends per share and total dividends per share at the 1% level. The application of the system increases the cash dividend and total dividend by 0.111 and 0.122 NT$/per share, respectively. In other words, the mandatory implementation of e-voting system has enhanced the effectiveness of investors' supervision and management on the corporate dividend payout policies. Regarding the control variables, prior dividend payouts are significantly and positively associated with current dividend payouts, indicating the persistence of payout decisions over time.

Table 3. The impact of e-voting on the dividend payouts

	(1) Cash dividend per share	(2) Stock dividend per share	(3) Dividend per share
Evoting	0.111***	-0.009	0.122***
	(0.040)	(0.008)	(0.041)
Institutional ownership	-0.001	0.000	-0.000
	(0.001)	(0.000)	(0.001)
Size	0.010	-0.001	-0.000
	(0.020)	(0.004)	(0.021)
Profitability	-0.402	0.216***	-0.657*
	(0.345)	(0.067)	(0.357)
Cash	0.324	-0.075*	0.370*
	(0.212)	(0.043)	(0.217)
Asset growth	0.001*	0.000**	0.002*
	(0.001)	(0.000)	(0.001)
Life cycle	0.006	-0.004	0.010
	(0.013)	(0.003)	(0.013)
Systematic risk	-0.017	0.038***	-0.002
	(0.057)	(0.012)	(0.059)
Idiosyncratic risk	0.022	-0.007	0.006
	(0.033)	(0.007)	(0.034)
Prior cash dividend per share	0.993***		
	(0.006)		
Prior stock dividend per share		0.405***	
		(0.013)	
Prior dividend per share			0.990***
			(0.007)
Industry effect	Yes	Yes	Yes
Firm effect	Yes	Yes	Yes
Constant	-0.223	0.078	-0.067
	(0.316)	(0.064)	(0.324)
N	4,476	4,476	4,476
adj. R^2	0.877	0.223	0.871
F	2,661.811	107.942	2,521.786

This table shows the regression results for the impact of e-voting on the dividend payouts. Cash dividend per share, stock dividend per share, and dividend per share represents the amount of cash dividends, stock dividends, and dividend (i.e., cash and stock dividends) scaled by shares outstanding, respectively. Evoting represents a dummy variable which is equal to 1 if the dividend payout occurs after the implementation of evoting or zero if otherwise. Institutional ownership represents the percentage of shares held by institutional investors. Size represents the logarithm of the firm's total assets. Profitability represents earnings (operating income) scaled by the book value of total assets. Cash represents operating cash flow minus capital expenditures scaled by the book value of total assets. Asset growth represents percentage change in assets. Life cycle represents retained earnings scaled by the book value of assets. Idiosyncratic risk is defined as standard deviation of residuals from a regression of its daily excess stock returns (raw returns minus the

riskless rate) on the market factor (the value-weighted market return minus the riskless rate). Systematic risk is calculated as standard deviation of the predicted value from the above regression used to compute idiosyncratic risk. These control variables are lagged by one year to estimate firm dividend payouts. Prior cash dividend per share, stock dividend per share, and dividend per share represent various dividend payout measures in the previous year. Industry and firm effects represent dummy variables to control for the industry and firm fixed effect. Standard errors are reported in parentheses and are clustered by firm and year based on Petersen (2009) and Thompson (2011). *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively.

To further explore the channels behind the increased dividend payouts, this study investigates the impact of the implementation of e-voting system on the various firm performances. As shown in Table 4, the evoting variable is significantly and positively related to various firm performance metrics, including ROA, EPS, profit before tax to capital stock, and operating income to capital stock. This is consistent with the argument that fewer constraints on shareholders lead to better firm performances. Therefore, publicly-traded firms in Taiwan become more capable of paying higher dividends after the implementation of the e-voting scheme. In line with the literature, a firm's size, institutional ownership, and prior performance are significantly and positively associated with current firm performance.

Table 4. The impact of e-voting on the firm performances

	(1) ROA	(2) ROE	(3) EPS	(4) Profit before tax to capital stock	(5) Operating income to capital stock
Evoting	0.283*	0.353	0.256***	3.123***	1.926*
	(0.154)	(0.457)	(0.098)	(1.181)	(1.040)
Size	0.186***	0.961***	-0.035	-0.502	-0.352
	(0.071)	(0.210)	(0.044)	(0.534)	(0.470)
DR	-0.003	-0.015	0.005*	0.067*	0.025
	(0.005)	(0.014)	(0.003)	(0.035)	(0.031)
Institutional ownership	0.014***	0.048***	0.004*	0.054*	0.017
	(0.004)	(0.012)	(0.003)	(0.030)	(0.027)
Age	-0.006	0.005	0.002	0.051	0.068
	(0.006)	(0.019)	(0.004)	(0.049)	(0.043)
Prior ROA	0.767***				
	(0.010)				
Prior ROE		0.498***			
		(0.013)			
Prior EPS			0.948***		
			(0.006)		
Prior profit before tax to capital stock				0.965***	
				(0.006)	
Prior operating income to capital stock					0.989***
					(0.006)
Industry effect	Yes	Yes	Yes	Yes	Yes
	Yes	Yes	Yes	Yes	Yes
Constant	-1.942*	-14.928***	-0.053	-0.053	-0.868
	(1.056)	(1.056)	(0.669)	(8.094)	(7.121)
N	4,476	4,476	4,476	4,476	4,476
adj. R^2	0.630	0.298	0.838	0.851	0.876
F	954.532	238.032	238.032	3,196.228	3,196.228

This table shows the regression results for the impact of e-voting on the firm performances. ROA and ROE are computed as net income divided by the total assets and total equity, respectively. EPS is computed as net income divided by the average number of common shares outstanding. Profit before tax to capital stock and operating income to capital stock are computed as profit before

tax and operating income divided by paid-in capital, respectively. Evoting represents a dummy variable which is equal to 1 if the dividend payout occurs after the implementation of e-voting or zero if otherwise. Size represents the logarithm of the firm's total assets. DR represents debt ratio which is computed as the total debt divided by the total assets. Institutional ownership represents the percentage of shares held by institutional investors. Age represents the years since the foundation of the firms. These control variables are lagged by one year to estimate firm performances. Prior performances represent various performances measures in the previous year. Industry and firm effects represent dummy variables to control for the industry and firm fixed effect. Standard errors are reported in parentheses and are clustered by firm and year based on Petersen (2009) and Thompson (2011). *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively.

5. Conclusion

Unlike developed markets, emerging markets like Taiwan are experiencing a gradual enhancement in their institutional environments. Since 2012, the regulators in Taiwan has required publicly-traded firms to implement e-voting system. This event provides us a quasi-natural experiment on how an e-voting system takes effect on corporate dividend payout policies. The findings reveal that the e-voting mechanism is significantly and positively related to dividend payouts. Further empirical tests show the increased dividend payout is through better firm performances. These findings validate that the e-voting system enhances shareholder activism, the actions undertaken by shareholders to influence firm performances and payout decisions. While this study considers several factors that influence firm performance, it is not without limitations, such as the omission of potential economic factors that could significantly impact firm performance. Future research should explore new implementations of e-voting systems in other countries and investigate the impact of e-voting on various meeting issues, such as shareholder-initiated resolution measures that are brought up for shareholder votes.

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