

Electronic Corporate Governance: Online and Virtual Shareholder Meetings and Shareholder Participation in Switzerland and Germany

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St. Gallen, June 12, 2006

The President:

Prof. Ernst Mohr, PhD

For my parents

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St. Gallen, June 2006

Bernd Beuthel

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Abstract

In the year 2005, average AGM-presence at the largest, public companies in Switzerland and Germany was only around 46-47% of equity capital. Moreover, at several companies, AGM-presence was less than 30%, which means that an investor (e.g. a hedge fund) with a relatively small equity stake could have dominated decision-making in the shareholder meeting. In contrast, in the USA, average AGM-presence was around 80% in the past. This dissertation examines how AGM-presence in Switzerland and Germany can be increased in the future and specifically focuses on the role that the Internet can play. The research method employed consisted of a questionnaire survey of SMI and DAX30 companies as well as expert interviews. One key finding is that, so far, Internet proxy voting and AGM-Webcasts have not led to a significant increase in AGM-presence at DAX30 companies. However, for large companies with dispersed ownership, it can still make sense to offer these services because they give shareholders more flexibility and provide all shareholders, regardless of location, with the chance to follow AGM-proceedings and to exercise their voting rights. Over time, these options might also lead to an increase in AGM-presence. Overall, Switzerland is currently lagging behind other countries in the area of shareholder participation in AGMs via the Internet and several reforms are needed to close the existing gap. Germany, in comparison, is doing quite well but further improvements are still possible.

Abstract in German

Im Jahr 2005 betrug die durchschnittliche Generalversammlungspräsenz bei den grössten börsennotierten Gesellschaften in der Schweiz und Deutschland nur zwischen 46 und 47% des stimmberechtigten Kapitals. Bei einigen Firmen lagen die Generalversammlungspräsenzen sogar bei unter 30%. Das bedeutet, dass im Fall dieser Firmen, ein Investor, wie z.B. ein Hedge Fund, mit einer nur relativ kleinen Investition, die Abstimmung auf der Generalversammlung dominieren könnte. Im Gegensatz zur Schweiz und zu Deutschland lag die durchschnittliche Generalversammlungspräsenz in den USA bei ungefähr 80% in der Vergangenheit. Diese Dissertation untersucht, wie die Generalversammlungspräsenzen in der Schweiz und in Deutschland in der Zukunft gesteigert werden können und konzentriert sich dabei speziell auf die Rolle, die das Internet in diesem Zusammenhang spielen kann. Die angewandte Forschungsmethode bestand aus einer Umfrage unter SMI und DAX30 Firmen sowie aus Expertengesprächen. Ein wichtiges Ergebnis dieser Studie ist, dass Internet Proxy Voting und Generalversammlungs-Webcasts bis jetzt nicht zu einer signifikanten Erhöhung der Generalversammlungspräsenzen bei DAX30 Firmen geführt haben. Nichtsdestotrotz kann es für grosse börsennotierte Gesellschaften mit weit gestreutem Aktionariat Sinn machen, diese Services anzubieten, weil sie die Flexibilität der Aktionäre erhöhen und allen Aktionären, unabhängig von ihrem Aufenthaltsort, die Möglichkeit bieten, die Generalversammlung live zu verfolgen und ihre Stimmrechte auszuüben. Über einen längeren Zeitraum können diese Optionen eventuell auch zu einer Erhöhung der Generalversammlungspräsenzen führen. Insgesamt lässt sich festhalten, dass die Schweiz zurzeit hinter anderen Standorten zurückbleibt, wenn es um die Internet-Partizipation in Generalversammlungen geht und dass einige Reformen notwendig sind, um die bestehende Kluft zu schliessen. Im Gegensatz zur Schweiz, sieht die derzeitige Situation in Deutschland in diesem Bereich ganz gut aus, aber weitere Verbesserungen sind durchaus möglich.

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1. Introduction

1.1 Originality and Significance of the Dissertation

This dissertation falls into the domain of corporate governance research and examines participation in shareholder meetings in Germany and Switzerland. Shareholder meetings constitute an important part of corporate governance because this is where the owners of a company have the opportunity to exercise control over management and to participate in the corporate decision-making process. In essence, the annual meeting provides a system of checks and balances since management has to give account to owners, and owners can take corrective action by exercising their ownership rights. Nonetheless, even though the general meeting offers shareholders the chance to participate in the governance of their firm, participation rates at shareholder meetings in Germany and Switzerland are low. For example, in 2005, only 46% of equity capital was represented in general meetings at DAX30 companies in Germany. This figure has declined consistently from 61% in 1998 and is currently at a historic low. The situation is similar in Switzerland, where only around 47% of equity capital was represented in general meetings of SMI companies in 2005. Given such low shareholder participation, the questions can be asked regarding to what degree corporate decisions reflect the views of all owners and how participation might be increased in the future in order to involve more owners in the governance of their firms. In addition, for some publicly listed companies in Germany, this topic has recently increased in importance since hedge funds have become more active in the German equity market. These companies are now looking for ways to encourage more shareholders to participate in their general meetings in order to prevent a hedge fund with only a limited equity stake from dominating their business affairs. One viable option to do so might be shareholder participation in general meetings via the Internet. The investigation of this issue will form the core of this work.

This dissertation is original because it explores the utilization of the Internet for increasing shareholder participation in Germany and Switzerland and also provides an in-depth look at the situation in several other countries. Furthermore, it aims to make a significant contribution to practice by helping companies to employ the Internet effectively for their general meetings and for increasing shareholder participation in corporate governance.

1.2 Goals of the Dissertation and Research Questions

This dissertation will try to achieve the following overarching goals: (1) Find out if the utilization of the Internet for shareholder meeting processes can be used to increase shareholder participation in Switzerland and Germany and (2) Give concrete recommendations to companies regarding how the Internet can be utilized effectively for shareholder meeting processes. A third, related goal is to point out additional venues in which the Internet can be employed to improve shareholder participation and representation in general meetings in the future.

Based on the points presented in the previous section, the following research questions will be investigated in detail:

- 1. Do large German and Swiss corporations view high shareholder participation in their general meetings as desirable and is there a connection between companies' views on this issue and the actual participation in their general meetings?*
- 2. What do experts view as the key benefits of increased shareholder participation in general meetings of large, publicly listed companies?*
- 3. What is the current situation at large German and Swiss corporations regarding the utilization of the Internet for their shareholder meetings?*
- 4. What are the key advantages and disadvantages of utilizing the Internet for shareholder meetings?*
- 5. What are the key implementation issues regarding the utilization of the Internet for shareholder meetings and which technological systems are currently available?*
- 6. What are the financial aspects of utilizing the Internet for shareholder meetings?*
- 7. For which companies does a utilization of the Internet for shareholder meetings make the most sense?*

8. *To what extent do corporate governance codes cover electronic shareholder participation in general meetings?*

9. *What does a best practice example of a corporate governance code that covers electronic shareholder participation in general meetings look like?*

10. *Is a virtual shareholder meeting a viable option for the future?*

11. *Can Internet proxy voting be used to increase shareholder participation in AGMs?*

12. *In general, how can companies employ the Internet to encourage more shareholders in Switzerland and Germany to participate in the corporate governance of their firms?*

1.3 Methodology and Structure of the Dissertation

The methodology employed consisted of a mix between a questionnaire survey of SMI and DAX30 companies, twelve expert interviews, and an examination of 63 corporate governance codes. The survey investigated the current state of affairs at large corporations in Switzerland and Germany with regard to the use of the Internet for shareholder meetings. Expert interviews were conducted in order to examine practitioners' views on online shareholder participation and to investigate the key implementation issues for an effective utilization of the Internet for shareholder meetings. Finally, corporate governance codes were examined in detail to find out to what extent they already try to encourage online shareholder participation and to devise a best-practice example.

Following the dissertation's introduction, the literature review begins with a discussion of the connection between shareholder meetings and corporate governance and then moves on to examine traditional shareholder meetings in Switzerland and Germany in detail. After that, participation rates at shareholder meetings in Switzerland and Germany are investigated. Next, online and virtual shareholder meetings are discussed and, finally, the literature review concludes with the formulation of the research questions. After the literature review, the research methodology, results of the research, and limitations of the research will be covered. The dissertation will conclude with recommendations for companies, lawmakers, and authors of corporate governance codes and suggestions for future research.

1.4 Definition of Key Terms

The title of this dissertation reads: *Electronic Corporate Governance: Online Shareholder Meetings and Shareholder Participation in Switzerland and Germany*. The term electronic corporate governance (or e-corporate governance) needs to be explained in more detail because it is a new term and needs to be distinguished from the more commonly used term e-governance. E-governance usually deals with how electronic means like the Internet can be used to simplify governmental work and services. The term electronic corporate governance, in contrast, signifies the utilization of electronic means like the Internet in the exercising of corporate governance. E-corporate governance also includes mobile corporate governance or m-corporate governance, which can be conducted over mobile devices like a BlackBerry that allow owners to access the Internet on the go.

At the outset, it is also important to point out that in the following text, the terms shareholder meeting, annual meeting, general meeting, and AGM signify the same thing and are used interchangeably.

2. Literature Review

2.1 Traditional Shareholder Meetings and Corporate Governance

In general, in developed economies like Germany and Switzerland, the traditional shareholder meeting is an integral part of corporate governance and has three general functions (Noack, 2002):

- (1) To provide a setting where management can give account to the owners of a company about what it has done with their company over the last year.
- (2) To provide a forum for discussion about important corporate issues.
- (3) To provide a location for making corporate decisions.

Furthermore, the general meeting is usually involved in the creation and change of the company's articles or statutes, the election of the board and auditors, the approval of the annual report including the income statement and balance sheet, the distribution of income (e.g. in the form of dividends), the discharge of the board's members, and other issues that are reserved exclusively for the general meeting by law or the company's articles or statutes.

The competencies of the general meeting vis-à-vis those of the board vary in different countries. In Sweden, for example, the general meeting can theoretically serve as the ultimate decision-maker in all company matters, whereas in Germany and Switzerland the general meeting has specified areas of influence. In the USA, the shareholder meeting has certain strictly defined competencies plus additional ones depending on the articles of incorporation. Moreover, stock exchanges in the US may require that shareholders decide on certain important company matters. In the UK, the Companies Act of 1985 as well as the London Stock Exchange demand the ratification of specified major transactions by the general meeting. In addition, the general meeting can curtail the future powers of directors via a special resolution and it has certain default powers.

The shareholder meeting is a vital part of corporate governance simply because it gives shareholders the opportunity to participate in the governance of their firm. It provides owners

with the chance to monitor and control management and to reduce information asymmetries between the two parties. From a legal point of view, the shareholder meeting is a crucial institution of corporate governance because it is a tool for holding management accountable for its actions. Theoretically, without the institution of the annual meeting, management would be virtually unaccountable to the owners of the firm and could rule without a proper system of checks and balances.

As will become clear later on, even though the annual meeting is an essential part of corporate governance, participation rates in Germany and Switzerland are low. Indeed, many shareholders do not take advantage of the chance to influence the corporate decision-making process. A higher participation rate would be desirable because this could lead to a broader reflection of owners' interests in the corporate governance process. In a way, this is comparable to the situation in a political democracy. Here, a high voter participation rate is also desirable because it will lead to the result that most citizens' views are reflected in the governance of their country. Additionally, a high participation rate also helps to prevent certain interest groups that only constitute a small part of the total population from hijacking the democratic process to their advantage. Similar reasoning can be applied to the decision-making process at the general meeting. If only a fraction of all shareholders participates, then groups that only hold small blocks of shares have a disproportional influence in the governance of the firm. Sometimes this might be to the benefit of the majority of owners, but sometimes it might also be to their disadvantage.

2.1.1 The Shareholder Meeting in Germany

a) Legal Responsibilities of the Shareholder Meeting

In Germany, legal matters concerning listed companies and their general stockholder meetings are mainly regulated by the "Aktiengesetz"¹ (dAktG). In particular, §§ 118 – 147 dAktG are relevant for the general meeting. According to Seeger (2002), in Germany, the shareholder meeting has several important legal responsibilities that occur frequently. The biggest responsibility is the election of the supervisory board, which is supposed to represent the interests of shareholders in company matters. The supervisory board, in turn, selects management and monitors management's actions in order to make sure that they are in line with shareholders' interests. Another legal responsibility of the shareholder meeting is to

¹ The German term "Aktiengesetz" might be translated into English as stock corporation law.

decide how to distribute a company's profits. Furthermore, the shareholder meeting is responsible for discharging management and the supervisory board and for selecting the auditors.

Besides these frequently occurring legal responsibilities there are other responsibilities that do not occur often and that are only mentioned briefly here. These include, for example, changes in the company charter, actions to secure additional capital or reduce capital, and dissolution of the company. Furthermore, the shareholder meeting decides on matters specifically stipulated in the company charter and, since the implementation of the KonTraG, the shareholder meeting has the right to a specific schedule that governs the preparation and execution of the shareholder meeting (Seeger, 2002).

b) Key Functions of the Shareholder Meeting

From a legal standpoint, a key function of the shareholder meeting is that it provides shareholders with the opportunity to exercise their rights, especially their governance rights tied to the general meeting. According to Seeger (2002), the following functions are particularly important.

First of all, there is the election function, which is the shareholders' most important instrument for exercising power. As outlined previously, especially the election of the supervisory board is crucial here, but also the election of the auditors is significant.

Second, there is the control function. The shareholders exercise control rights through the shareholder meeting. An important instrument for the exercise of control rights is the right of shareholders to give an opinion regarding company matters during the general meeting and to make proposals or counter-proposals during the meeting. Furthermore, shareholders exercise control rights through not discharging management and the supervisory board and through withdrawing their confidence from both parties. When discussing control rights, it is particularly important to mention that the exercise of some control rights requires a certain minimum participation from shareholders. For example, in order to exercise rights that are tied to a shareholder meeting, a meeting needs to be called in the first place. In order to do this, at least 5% of share capital has to demand such a meeting. Achieving this threshold can be rather difficult in large corporations because there are millions of shareholders that do not know each other and that lack an efficient means to organize themselves. A similar problem

arises when shareholders want to propose and elect their own candidate to the supervisory board. In this case, a minimum of 10% of present capital must demand such an undertaking during the meeting but, again, it will be difficult for small, individual shareholders to organize themselves effectively in order to achieve this minimum threshold. In reality then, it is unlikely that small shareholders will be successful in such a task and their control position vis-à-vis management as well as the supervisory board will be weakened. As will be explained later on, the Internet might provide an effective way of organizing smaller shareholders and of increasing their influence on corporate governance.

Third, there is the information function. The shareholder meeting also provides shareholders with the opportunity to exercise their information rights. It is important that shareholders are well informed if they want to utilize their voting rights effectively. Hence, they have to know about the current situation of the firm and its plans for the future. Every shareholder has the right to be informed, but this is a right that is legally tied to the general meeting. Hence, the shareholder has to attend the meeting if he/she wants to exercise this right. The shareholder has the option to pose his/her question to management orally or in writing outside the general meeting, but management does not have the legal responsibility to answer the question.

Fourth, the shareholder meeting can only influence business decisions directly if management demands ratification of certain planned actions by the shareholder meeting. Otherwise, the shareholder meeting can only show its disapproval of management's actions by withholding its approval of profit distribution and by not discharging management as well as the supervisory board. Shareholders might also be able to influence business decisions through the exercise of the right to state their opinion during the meeting. The question certainly remains how much influence a small, individual shareholder can have on management and how successful such an undertaking can be.

Fifth, the shareholder meeting has the power to influence so-called "basic decisions", which include, for example, actions to secure additional capital or reduce capital as well as changes in the legal form of the organization. In the case of these basic decisions, the shareholder meeting's power of influence goes further than with regular business decisions. Since the "Holzmüller-Urteil" (i.e. Holzmüller-decision), management is required to secure a decision by the shareholder meeting if its planned actions considerably impact the rights and interests of shareholders.

c) The Shareholder Meeting as the Most Important Corporate Institution?

In Germany, the shareholder meeting is often described as the “highest organ” of the company, meaning it is the most powerful institution in a company and that ultimate decision-making power rests with it. This classification is mainly based on the circumstance that the shareholder meeting elects the supervisory board, which is supposed to represent owners’ interests vis-à-vis management. In practice, it is certainly not entirely true that the shareholder meeting is the “highest organ” since management and the supervisory board possess certain areas of influence where they do not need to share power with the shareholder meeting (Seeger, 2002; Tanner, 2003). For example, top management can make numerous high-level business decisions that do not need the approval of the shareholder meeting. Furthermore, in practice, the power of the shareholder meeting is curtailed by other factors. For example, as pointed out earlier, only since the introduction of the KonTraG have shareholders had the opportunity to make proposals for the selection of supervisory board members. However, as explained above, a minimum of 10% of present capital must demand this during the general meeting, and it will be difficult for small, individual shareholders to organize themselves effectively in order to achieve this minimum threshold. Hence, in reality, the legally established power of the shareholder meeting is often limited due to impracticality (Frizen, 1981).

d) Determinants of the Shareholder Meeting’s Power

Based on Seeger (2002), the power of the shareholder meeting is strongly determined by the distribution of ownership of share capital. This distribution is important because big shareholders that hold large blocks of shares are very powerful. These might be institutional investors or pension funds. Through their block holdings, they can determine who sits on the supervisory board and thereby heavily influence the running of the firm. In this instance, the power actually shifts from the shareholder meeting to the big shareholder, who makes its presence felt primarily outside the meeting (Seeger, 2002). As a result, power rests with the large shareholder and the supervisory board and less with the shareholder meeting, which is fixed at a single point in time.

In the case where share ownership is not heavily concentrated, the power of the shareholder meeting is tied to the degree of organization among small investors. Usually, this set of shareholders lacks a means of organizing itself effectively and does not participate heavily in general meetings (Cocca and Volkart, 2004; Deutsche Schutzvereinigung für

Wertpapierbesitz, 2005a; Seeger, 2002). According to Baums (1999), a market failure exists in public companies with widely dispersed ownership because investors that only hold small equity stakes will not be motivated to invest a lot of time and money in monitoring their investments. The costs of doing so would simply outweigh the benefits, and investors prefer to be rationally apathetic. As a consequence, a power vacuum arises and management as well as the supervisory board can step in to fill this vacuum.

Another possibility is that a single, larger shareholder or a small group of shareholders can become powerful and dominate the firm. Again, power shifts from the shareholder meeting to another interest group and, furthermore, ownership and control of the company fall apart since they are distributed among different groups. Various scholars (e.g. Latham, 1998, 1999a, 1999b, 1999c, 2000, 2003, 2005; Müller-Erbach, 1929; Püttner, 1963; Roth, 1972; Seeger, 2002) have investigated how to correct this disparity and have proposed different solutions to this issue. What many proposals have in common is that they try to combine the voting power of small shareholders in order to make them more powerful as a group and to shift control back to the majority owners.

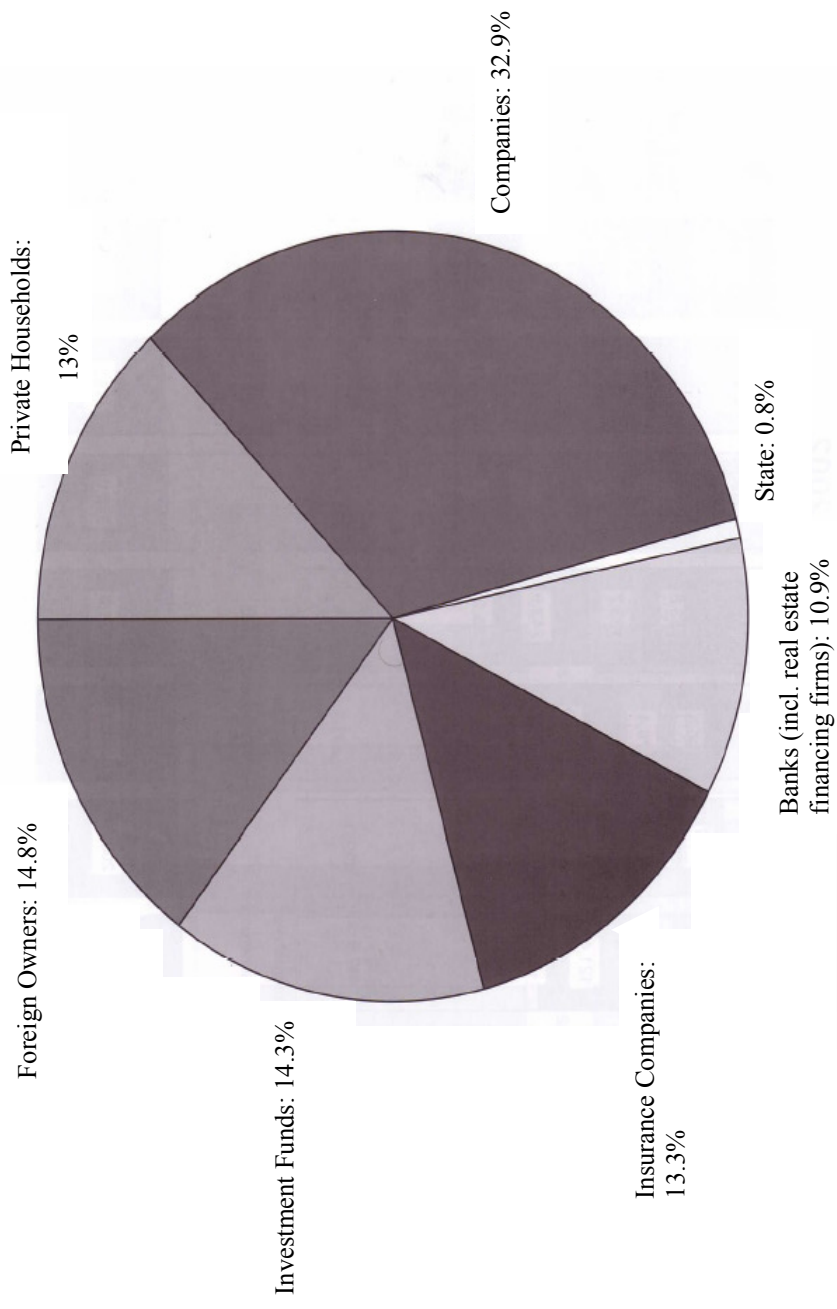
It should be noted here that the Internet might help to alleviate this imbalance between ownership and control by providing an instrument for organization to small shareholders. Furthermore, the employment of the Internet might also help to lower investors' participation costs, thereby lifting some small shareholders out of their rational apathy. These issues will be discussed in detail in later sections.

e) Execution of Shareholder Voting Rights through Banks

Historically, banks have a powerful position at the general meeting in Germany. This is the case because banks often act as proxies for their clients. Many bank customers hold only small stock positions and do not bother with voting their shares personally. Hence, they authorize their banks to vote their shares for them. Given that numerous clients behave in this way, banks can accumulate a large number of shares, which they can then represent at the shareholder meeting. Research by Baums (1996b) shows that, in the past, German banks had considerable influence at shareholder meetings via their proxy voting power. For example, according to Baums (1996b), at several large companies, banks' proxy voting power represented more than 70% of the share capital present at the annual meeting. Baum's (1996b) data is relatively old since it is from 1992, but no newer data is available since this

information is not tracked systematically. Deutsches Aktieninstitut, Schutzvereinigung deutscher Kleinaktionäre, Deutsche Schutzvereinigung für Wertpapierbesitz, and Deutsche Bundesbank were contacted for newer statistics but could not provide them since they do not track them. This is a disappointing circumstance since data of this sort is highly interesting. It shows how much influence banks have at German annual meetings due to their proxy votes. The only recent information that is available is banks' direct shareholdings in German companies without counting their proxy voting power. This information is displayed in the table below.

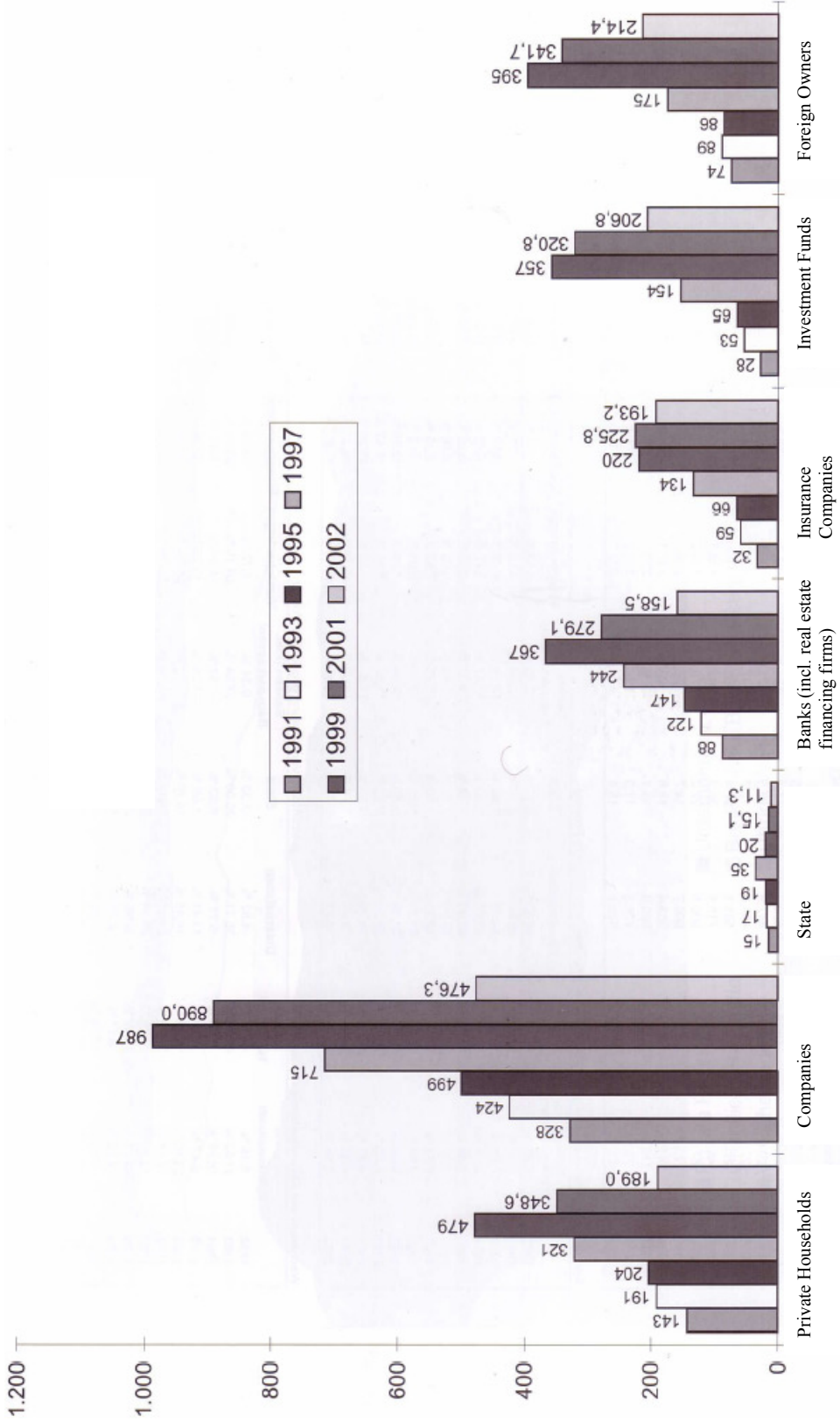
Figure 1: Banks' Stock Ownership in Germany in 2002



Source: DAI, 2005a.

Figure 2: Development of Banks' Stock Ownership in Germany

(all figures in billions of €)



Commas in the figure correspond to decimal points in US/UK.

Source: DAI, 2005a.

As the figures above show, banks' and real estate financing firms' (so-called "Bausparkassen"²) absolute share ownership in billions of € in Germany increased considerably from 1991 to 2004, although with some significant increases and decreases at the end of the 1990s and early 2000s due to the stock market bubble in Germany. In 1991, these companies owned €88.00 billion worth of stock and in 2004, they owned €158.50 billion worth of stock (+80%) (DAI, 2005a). If one adds banks' proxy votes to this figure, one can imagine that banks still have quite a powerful position at some German shareholder meetings. Nonetheless, banks' influence at German general meetings is probably lower today than it has been in the past because some banks like Sparkassen and Volksbanken do not offer proxy-voting services to their clients anymore. They decline to do so because they do not want to incur the associated costs. Furthermore, given the increasing popularity of registered shares, companies have started to communicate directly with their shareholders and, as a consequence, banks' position as a "middleman" has been weakened.

In percentage terms, share ownership of banks and real estate financing firms in Germany has remained relatively stable from 1991 to 2004. In 1991, banks owned 12% of German corporations and in 2004, they owned 11% (DAI, 2005a).

A consequence of banks' special position in Germany is that they can exercise a considerable amount of control over companies in which they do not actually hold share capital. In essence, banks get the opportunity to influence company matters as if they were owners but do not have to take on any ownership risks. The exercise of voting power through banks has been intensely debated and arguments can be found in favor of it and against it. There are also studies that have examined bank voting and corporate performance. For example, Seeger (2002) and Baums (1996b) cite empirical studies that have found a negative correlation between the performance of large, public German companies and bank proxy voting. Hence, as banks' power at the annual meeting increased through the shares that they represented on behalf of their customers, financial performance of the respective companies declined.

In general, it is not possible to state that bank proxy voting is always good or always bad for small investors, but it is certainly possible to imagine situations where banks use their voting power to achieve their own goals instead of their clients' goals. There is no reason to expect

² Some of these real estate financing firms are owned by banks.

that banks' goals and their clients' goals should always be perfectly aligned. For example, banks might utilize their voting power to secure themselves business contracts or to protect their company loans from default. In the first case, a bank might support a management team as well as a supervisory board that will do business with it in the future. If such a management team and supervisory board are installed, the bank will be able to prevent other banks from competing for the business and will be able to charge higher prices for its services due to reduced competition. This, of course, will be to the disadvantage of shareholders since their company's resources will not be allocated most efficiently. In the second case, the bank might support a management team and supervisory board that are overly risk averse since it wants to protect its outstanding loans from default. As a consequence, shareholders will not be able to achieve the return that might be generated under a strategy with higher risk. This is a good example where the bank can exercise control like an owner even though it does not carry any ownership risks and does not think like an owner.

Overall then, in cases where banks' and shareholders' goals diverge, it might be preferable if bank customers had a convenient way to vote their own shares directly. This might happen via the Internet and could help to reduce the banks' influence as well as conflicts of interest somewhat.

f) Efficiency of Traditional Shareholder Meetings

Currently, two important trends can be witnessed at annual shareholder meetings in Germany. First, the percentage of equity capital that is represented at general meetings has been decreasing over the last few years (for details see section 2.2.1). For example, in 1998, 61% of equity capital was on average represented at the general meetings of DAX30 companies. In 2005, this figure had already decreased to 46% (-25%) (Deutsche Schutzvereinigung für Wertpapierbesitz, 2005a). This development will be covered in more depth in the next section, but one important reason behind it might be the increase in the number of foreign owners of German equity. In 1997, the percentage of German equity owned by foreigners was 10% and in 2004, it was 15% (+50%) (DAI, 2005a). According to Seeger (2002), these foreign owners might not be represented directly or indirectly at the general meeting because the required process is an administrative burden for them. If one looks at various large German corporations, foreign ownership is indeed large, whereas shareholder representation at the annual meeting is low: Adidas-Salomon (84% foreign ownership vs. 28% equity representation at the general meeting in 2004), Allianz (34% vs. 37%), BASF (52% vs. 35%),

Bayer (39% vs. 36%), Commerzbank (48% vs. 47%), DaimlerChrysler (45% vs. 44%), and Deutsche Bank (53% vs. 32%). Hence, if one wants to achieve a higher representation of foreign owners at the annual meeting, one good option might be to simplify the participation process by offering them the opportunity to exercise their shareholder rights online.

Second, even though the percentage of equity capital represented at general meetings of large German companies has declined over the years, the number of shareholders that attend shareholder meetings in person has increased (Seeger, 2002). This, of course, has augmented the administrative efforts and costs for the companies organizing the shareholder meetings. For example, in 1999, 20,000 shareholders attended the first general meeting of DaimlerChrysler in Stuttgart. One can easily imagine that a meeting of this scale requires significant administrative preparation and costs a substantial amount of money. In the following, some of the key expense items are listed: (1) salaries for the supervisory board and management team for the duration of the meeting, (2) salaries for employees that prepare the meeting, (3) various materials sent out prior to the meeting, (4) public announcements of the meeting, (5) rent for the meeting location, (6) decoration of the meeting location, (7) technology for the meeting, (8) renting security services and equipment, and (9) food and drinks at the meeting. These expenses can be substantial for large corporations. Again, taking the shareholder meeting of DaimlerChrysler in 1999 as an example, the costs for this event totaled approximately €9 million (Seeger, 2002). These costs are significant, especially when considering that a significant percentage of the shareholders that participated in the meeting only represented a fraction of the equity capital. It is important to recall that in 1999 only 32% of equity capital was represented at DaimlerChrysler's general meeting (Deutsche Schutzvereinigung für Wertpapierbesitz, 2005a), which means that almost 70% of shareholders did not take part in the decision-making process at the shareholder meeting. This finding points up that new ways need to be sought to involve more shareowners in the corporate governance of their firms. Utilization of the Internet might help to alleviate this situation at least to some extent. In particular foreign shareholders, whose ownership of some large German corporations is quite substantial, might appreciate the opportunity to exercise their shareholder rights via the Internet.

2.1.2 The Shareholder Meeting in Switzerland

a) Competencies of the Shareholder Meeting

In general, the shareholder meeting in Switzerland is similar to the one in Germany and many of the same issues pointed out earlier apply. Hence, the presentation here will be comparatively brief in order to avoid repetition. The Swiss “Obligationenrecht”³ and “Aktienrecht”⁴ are important sources of law that deal with public companies and the shareholder meeting. Articles 698-706b of the “Obligationenrecht” are particularly relevant with regard to general meetings at Swiss companies (Tanner, 2003). Article 698 of the “Obligationenrecht” clearly states that the general meeting is the most important institution of a public company (Tanner, 2003). Furthermore, article 698 states that the general meeting has several competencies that only it can exercise and that nobody else can take over from it. These competencies are (Tanner, 2003):

- (1) Creation and change of the company’s articles or statutes
- (2) Election of the board of directors and external auditors
- (3) Approval of the annual report
- (4) Approval of the income statement and balance sheet as well as decisions concerning the distribution of income (e.g. in the form of dividends)
- (5) Discharge of the board’s members
- (6) Decisions about issues that are reserved for the general meeting by law or the company’s articles or statutes.

³ The German term “Obligationenrecht” might be translated directly into English as obligation law.

⁴ The German term “Aktienrecht” might be translated into English as stock corporation law.

b) The Power of the Shareholder Meeting

Based on Swiss law, the three core parts of a public company are the general meeting, the board of directors, and the external auditors (Tanner, 2003). These three parts exercise a legislative function, an executive function, and a control function. Concerning the executive function of the board, there is a difference to the situation in Germany where the top management team as well as the supervisory board take over this function (Tanner, 2003).

In Switzerland, similar to the situation in Germany, there has been a discussion about the primacy of the shareholder meeting vis-à-vis other corporate bodies like the board and the auditors. According to Tanner (2003), the so-called constrained omnipotence theory applies in Switzerland. This means that the general meeting is the most influential institution in a public company but within certain limits. Its position needs to be evaluated in relation to the role of the board, which is also quite powerful. Similar to the general meeting, the board of directors has certain areas of influence over which it has full control – e.g. issues concerning the running of the business enterprise. The shareholder meeting can only influence these areas if the respective decisions are extraordinarily important for shareholders.

In the end, the general meeting can be regarded as the most powerful institution in a company because it elects the board of directors as well as the auditors and monitors their performance. If shareholders are not satisfied with the work of these two bodies, they have the power to change their composition via the general meeting. So, at least in theory, the shareholder meeting plays a crucial role in the governance of a company and provides a system of checks and balances that are intended to ensure that the company is truly run in the owners' best interest. However, in practice, this is not always the case since power can shift from the shareholder meeting to the board and bank representatives.

c) The Role of the Board and Banks

Similar to the situation outlined for Germany, power shifts from the shareholder meeting to the board as shareholder participation in the general meeting declines. As will become clear in the next section, Swiss shareholders only sparingly attend general meetings. As a consequence, the control over a company formally stays with the shareholder meeting but actually falls into the hands of the board, which is often supported by banks' proxy votes. According to Tanner (2003), bank representatives, who can make up a considerable part of represented capital at Swiss general meetings, are sometimes not too critical of the board's

proposals. As presented earlier (e.g. Baums 1996b), banks' and shareholders' interests need not always be aligned and, sometimes, banks might be more interested in maintaining good relations with the boards of companies that do business with them than asking critical questions.

d) Limitations of Shareholder Power in the General Meeting

Finally, when elaborating about the general meeting in Switzerland, it is also essential to point out that companies have the ability to limit shareholders' voting power in the annual meeting through so-called "Prozentklauseln" and "Gruppenklauseln"⁵ in their articles (Nobel, 1997). These two terms will be explained in the following. "Prozentklauseln" limit shareholders' voting power in an annual meeting to a certain percentage, for example, 3%. This means that a specific shareholder cannot represent more than 3% of equity capital in the annual meeting. "Gruppenklauseln" basically state that certain shareholders that combine their votes can be viewed as one shareholder and, hence, cannot exercise more voting power than is permissible under the "Prozentklauseln" (e.g. 3%).

An example can help to illustrate this point. Nobel (1997) cites Nestle, Novartis, Sulzer, and Winterthur as examples of companies that use "Prozentklauseln" and "Gruppenklauseln". Nestle, for example, states in its articles that no person or organization can represent more than 3% of equity capital and that persons or organizations that aim to circumvent this limit by cooperation are counted as one shareholder and, as a consequence, fall under the 3% limit (Nobel, 1997). Nestle phrases this in the following manner in article 6 of its Articles of Association (Nestle S.A., 2001):

Article 6, Paragraph 6, c):

"Subject to Article 14, the following provisions shall be applicable:

a) No natural person or legal entity may be registered as a shareholder with the right to vote for shares which it holds, directly or indirectly, in excess of 3% of the share capital, subject to Article 685d par. 3 of the Code of Obligations. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent this limit, shall be counted as one person."

⁵ "Prozentklauseln" and "Gruppenklauseln" might be translated into English as percentage clauses and group clauses.

From a shareholder democracy point of view such practices appear to be questionable because they seem to strengthen management's position at the expense of shareholders' position. Furthermore, given a diluted ownership structure, principal-agent conflicts might arise more easily under this scheme since it is more difficult for shareholders to combine their voting power in order to control management's actions. In addition, these limits can make it difficult for shareholders to be represented by third parties that offer professional proxy voting services. As a result, CALPERS, the large California pension fund, clearly states that it is against measures that restrict shareholders' voting power to a certain percentage regardless of the size of a holding (CALPERS, 2005).

It is also noteworthy that banks' proxy votes as well as proxy votes exercised by independent company representatives do not fall under the aforementioned limits and usually support the board's proposals. Again, this practice appears to weaken shareholders' position.

2.1.3 Problems of Traditional Shareholder Meetings

As the previous sections have shown, there are several areas where traditional shareholder meetings could be improved.

First of all, due to certain ownership thresholds and a lack of an effective means of organization, it is quite difficult for small investors to combine their voting power and to elect their own representatives to the board of directors. This has limited this groups' impact on corporate governance.

Second, it has become clear that banks' proxy voting has advantages as well as disadvantages. Banks' interests and shareholders' interests that they are supposed to represent in the general meeting do not always need to be aligned. This circumstance has led to reform proposals by various scholars. Baums (1996b), for example, has proposed that CPAs should exercise the votes of all shareholders that are not represented in the annual meeting in order to ensure a more democratic and beneficial decision-making process.

Third, international investors are active in the Swiss and German equity markets and for them it can be unduly cumbersome to exercise their shareholder rights, in particular, if their banks or brokers do not have branches abroad. Furthermore, voting by mail might simply take too

long and be too much of an administrative burden for some people. It is important to note that it could be made easier for international investors to participate in general meetings, which might have a positive effect on their participation.

Fourth, traditional shareholder meetings at public companies are characterized by low shareholder participation rates even though at some companies (e.g. DaimlerChrysler) an increasing number of shareholders attends the meeting personally. This can lead to high administrative efforts and costs on behalf of the companies that organize large meetings. In addition, the traditional proxy voting process by mail might not be the best alternative to encourage higher participation in general meetings. The low shareholder participation rates at general meetings in Switzerland and Germany will be covered in more depth in the following section.

2.2 Participation in Shareholder Meetings in Germany and Switzerland

Section 2.2 has presented several important aspects of the shareholder meeting in detail. It has become clear that the shareholder meeting serves an important purpose as a part of corporate governance because it is a forum where management informs shareholders about important company matters, where these matters are discussed, and where decisions are taken. So, in theory, the shareholder meeting serves an important purpose. Nevertheless, corporate reality in Germany and Switzerland looks differently since shareholders do not take advantage of the general meeting as a tool of corporate governance. As a consequence, the legitimacy of some decisions might be questioned and considerable information asymmetry between management and shareholders might exist. Only a fraction of all shareholders actually participates in German and Swiss shareholder meetings. In the following, the situation in these two countries will be presented in detail.

2.2.1 Participation in Germany

In Germany, the Deutsche Schutzvereinigung für Wertpapierbesitz e.V. collects information regarding the participation of shareholders at general meetings of DAX30 companies. The following table shows the percentage of equity capital that participated at the various DAX30 companies from 1998-2005:

Table 1: Percentage of Equity Capital Represented in General Meetings of DAX30 Firms

Company	Listed in DAX since (seit) / until (bis)	Current Listing	1998	1999	2000	2001	2002	2003	2004	2005	3-Year Average
adidas-Salomon AG	seit 19.06.98	DAX	(35,10)	43,90	45,44	30,00	31,52	23,17	28,25	26,94	26,12
Allianz Holding AG		DAX	70,92	69,06	60,60	53,70	46,71	39,97	37,15	34,82	37,31
Altana AG	seit 23.09.02	DAX	(76,00)	(71,71)	(65,21)	(ca. 64,00)		63,00	67,22	64,78	65,00
BASF AG		DAX	53,03	49,48	46,02	43,59	36,82	31,31	34,99	34,39	33,56
Bayer AG		DAX	47,53	44,79	37,53	35,90	33,21	36,00	32,50	35,91	34,80
Bayerische HypoVereinsbank AG *		DAX	64,10	59,10	51,99	53,48	57,39	55,56	49,88	53,40	52,95
BMW AG		DAX	73,00	73,00	64,40	64,04	66,57	65,84	63,70	55,04	61,53
Commerzbank AG		DAX	46,54	43,91	55,97	56,07	58,93	57,31	46,53	39,39	47,74
Continental AG	seit 22.9.2003	DAX	-	-	-	-	41,66	33,57	34,44	23,55	30,52
DaimlerChrysler AG **		DAX	63,97	39,02	39,00	36,92	38,25	38,84	43,69	37,84	40,12
Degussa AG ***	bis 23.09.02	MDAX	69,51	70,86	82,82	75,86	76,24	-	-	-	-
Deutsche Bank AG		DAX	44,69	37,50	31,73	34,44	33,41	38,75	31,98	25,47	32,07
Deutsche Börse AG	seit 2003	DAX	-	-	-	-	-	44,53	31,55	59,76	45,28
Deutsche Lufthansa AG		DAX	31,90	34,60	35,25	34,90	41,14	46,37	41,09	41,40	42,95
Deutsche Post World Net AG	seit 19.03.01	DAX	-	-	-	76,18	77,37	79,35	72,71	74,19	75,42
Deutsche Telekom AG	seit 18.11.96	DAX	85,61	82,67	75,86	69,52	56,45	59,47	63,53	54,47	59,16
Dresdner Bank AG	bis 23.07.01	DAX	70,33	61,72	59,75	-	-	-	-	-	-
E.ON AG	seit 19.06.00	DAX	-	-	-	39,01	37,35	31,00	35,00	29,92	31,97
Epcos AG	bis 2003	DAX	-	-	42,60	44,88	54,54	-	-	-	-
Fresenius Medical Care AG ¹⁾	seit 17.09.99	DAX	(62,40)	(67,88)	64,79	61,06	62,59	64,97	65,00	63,80	64,59
Henkel AG ¹⁾		DAX	65,12	66,75	83,24	84,50	83,73	79,39	80,22	78,31	79,31
Hoechst AG	bis 17.09.99	DAX	65,86	62,68	-	-	-	-	-	-	-
Infinitec Technologies AG	seit 19.06.00	DAX	-	-	-	74,74	41,66	31,88	17,59	48,19	32,55
Karstadt-Quelle AG	bis 19.03.01	MDAX	64,90	65,65	68,46	-	-	-	-	-	-
Linde AG		DAX	59,00	56,46	54,40	53,67	54,19	50,08	50,72	49,75	50,18
MAN AG		DAX	61,00	59,81	55,80	50,62	52,80	48,41	45,51	34,31	42,74
Metro AG ****		DAX	78,49	77,72	87,53	66,93	66,38	65,86	65,27	67,40	66,18
MILP AG	bis 2003	MDAX	-	(77,89)	(79,22)	75,38	51,41	59,50	-	-	-
Münchener Rück AG	seit 20.09.96	DAX	75,80	72,33	69,80	65,60	53,45	57,49	44,89	42,49	48,29
RWE AG		DAX	75,01	67,15	63,90	65,09	66,08	39,06	59,03	56,52	51,54
SAP AG	seit 15.09.95	DAX	59,77	53,36	56,70	50,85	55,37	58,04	59,53	54,04	57,20
Schering AG		DAX	43,16	47,01	43,33	37,40	37,00	34,84	33,29	32,62	33,58
Siemens AG	seit 18.03.99	DAX	46,66	44,97	24,93	22,00	36,40	47,51	32,67	32,15	37,44
ThyssenKrupp AG *****		DAX	58,74	55,90	64,13	61,26	59,97	61,60	56,18	54,03	57,27
TUI AG (zuvor Preussag)	seit 03.09.90	DAX	65,41	66,87	39,30	37,21	37,21	54,18	54,30	37,18	48,55
Veaba AG *****	bis 17.06.00	DAX	45,33	46,44	40,41	-	-	-	-	-	-
Vlag AG *****	bis 17.06.00	DAX	66,39	54,99	65,47	-	-	-	-	-	-
Volkswagen AG		DAX	43,70	37,62	34,39	36,99	32,98	29,01	37,21	33,90	33,37
Average			60,95	56,36	54,85	53,03	51,23	49,14	47,19	45,87	47,40

Commas in the figure correspond to decimal points in US/UK.

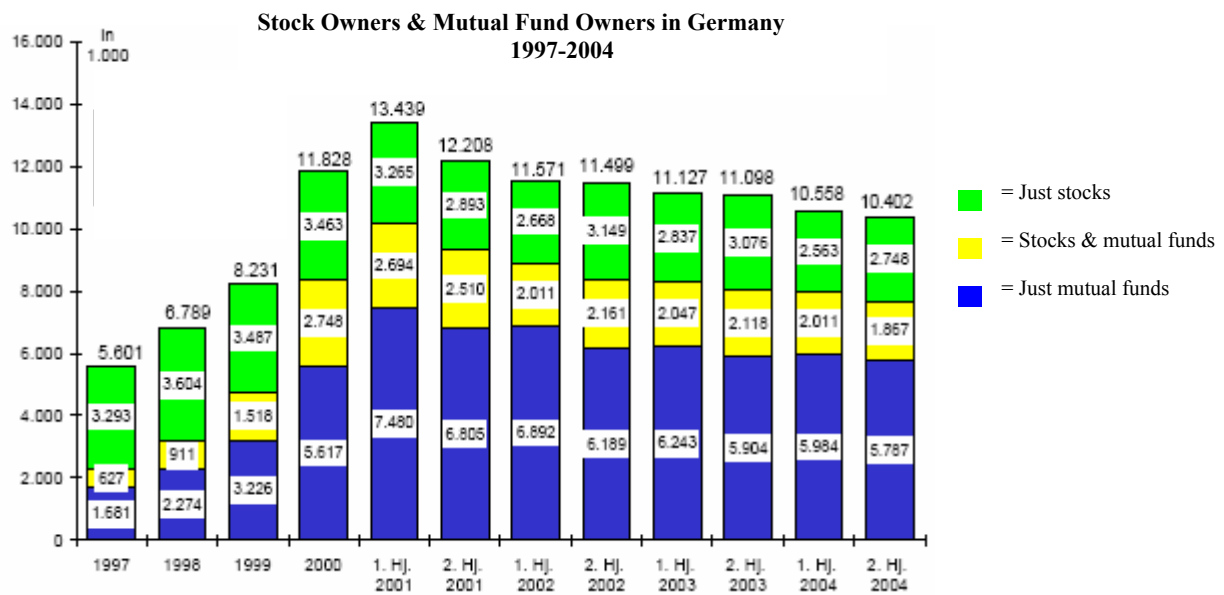
Source: Deutsche Schutzvereinigung für Wertpapierbesitz, 2005a.

The table above shows clearly that shareholder participation is quite low at many DAX30 firms. In 2005, there were 18 companies where less than 50% of shareholder capital participated in general meetings. Furthermore, average shareholder participation for all DAX30 firms has fallen consistently from 61% in 1998 to 46% in 2005, a decline of 25%. In 2005, the company with the lowest participation was Continental with 24%, and the company with the highest participation was Henkel with 78%. The table shows clearly that the majority of shareholders in DAX30 companies does not use the opportunity to participate in corporate governance and, according to Baums (1999), this applies to institutional investors as well as retail investors. As a consequence, the question might be asked how more shareholders can be encouraged to exercise their rights to monitor management and to participate in the corporate decision-making process.

At this point, it is vital to mention that participation in general meetings of smaller German companies is higher than at the large, international corporations that make up the DAX30. According to Schieber (2002), companies listed in the MDAX, the former NEMAX, and the SMAX have an average shareholder participation rate of 70% in their general meetings. German companies that are not listed in an index even achieve an average participation rate of 84%. Lower shareholder participation at large, public companies is partly due to the fact that their stock ownership is much more dispersed than that of smaller companies (Schieber, 2002).

The aforementioned decline in shareholder participation has occurred even though the number of Germans that own stocks and mutual funds increased between 1998 and 2005. The following graphs illustrate this development:

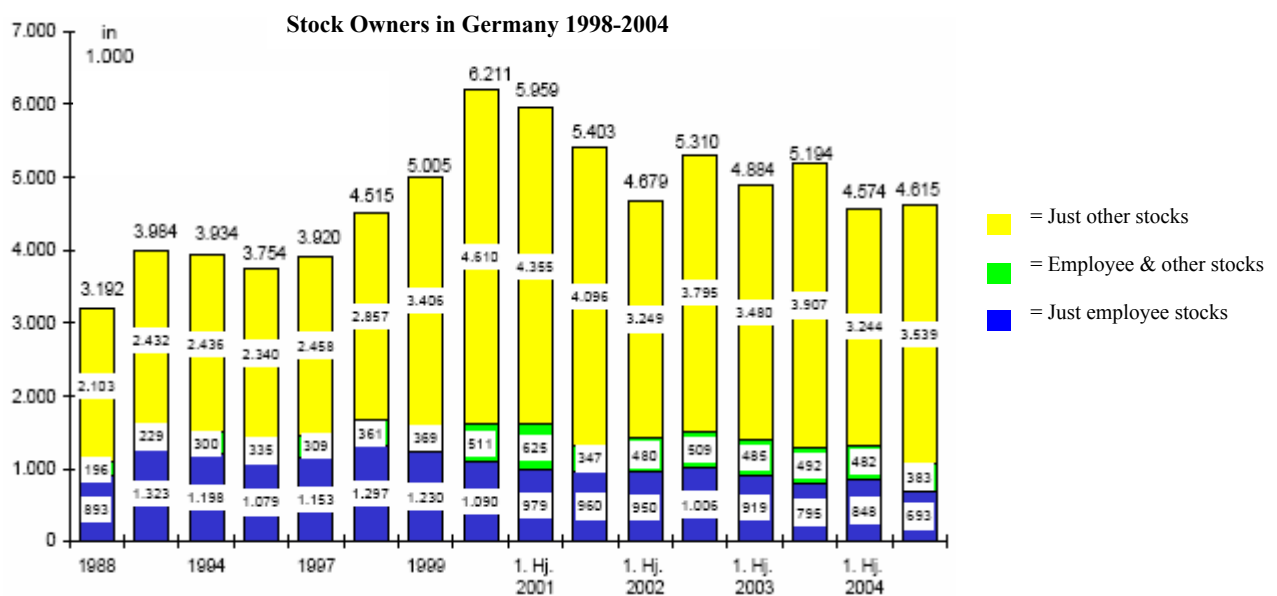
Figure 3: Number of Stock Owners and Mutual Fund Owners in Germany⁶



Decimal points in the figure correspond to commas in US/UK.

Source: DAI, 2005b.

Figure 4: Number of Shareholders in Germany⁷



Decimal points in the figure correspond to commas in US/UK.

Source: DAI, 2005b.

⁶ After the first six months of 2005, the number of stock and mutual fund owners in Germany was 10,795,000 (DAI, 2005c).

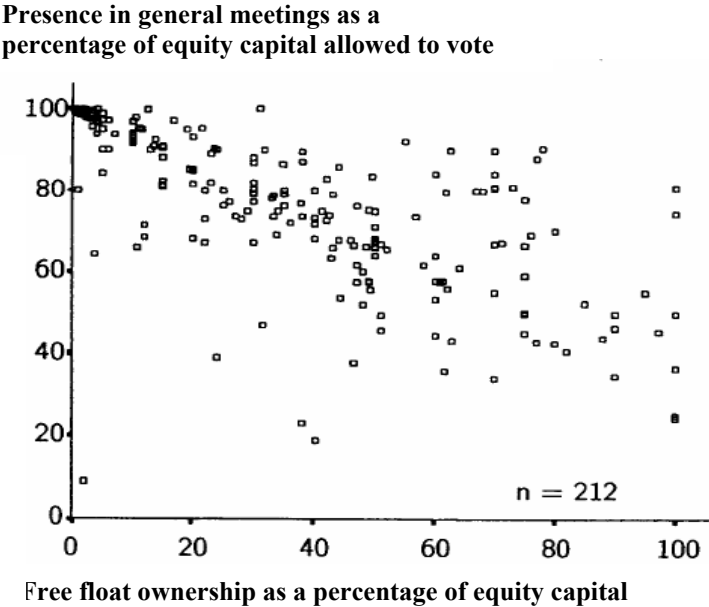
⁷ After the first six months of 2005, the number of stock owners in Germany was 4,737,000 (DAI, 2005c).

From 1998 to the end of the first six months of 2005, the combined number of shareholders and mutual fund owners in Germany increased from 6,789,000 to 10,795,000 (+59%), whereas the number of pure shareholders increased from 4,515,000 to 4,737,000 (+5%). It is important to recall that over the same time period, the percentage of shareholder capital represented in general meetings of DAX30 firms fell by 25%.

2.2.2 Reasons for Low Participation in Germany

There are several possible reasons for low shareholder participation in general meetings of large, public companies in Germany. Schieber (2002) states that dispersed ownership is a key reason for the observed lack of participation. The following graph illustrates this issue:

Figure 5: Participation in German General Meetings vs. Dispersion of Equity Ownership



Source: Schieber, 2002.

Schieber (2002) also points out that the dispersion of foreign ownership is a major factor behind low shareholder participation in general meetings of DAX30 companies. This underlines the earlier-raised point that it is frequently too cumbersome for foreign owners of German equities to exercise their voting rights and, as a consequence, their participation in general meetings is low.

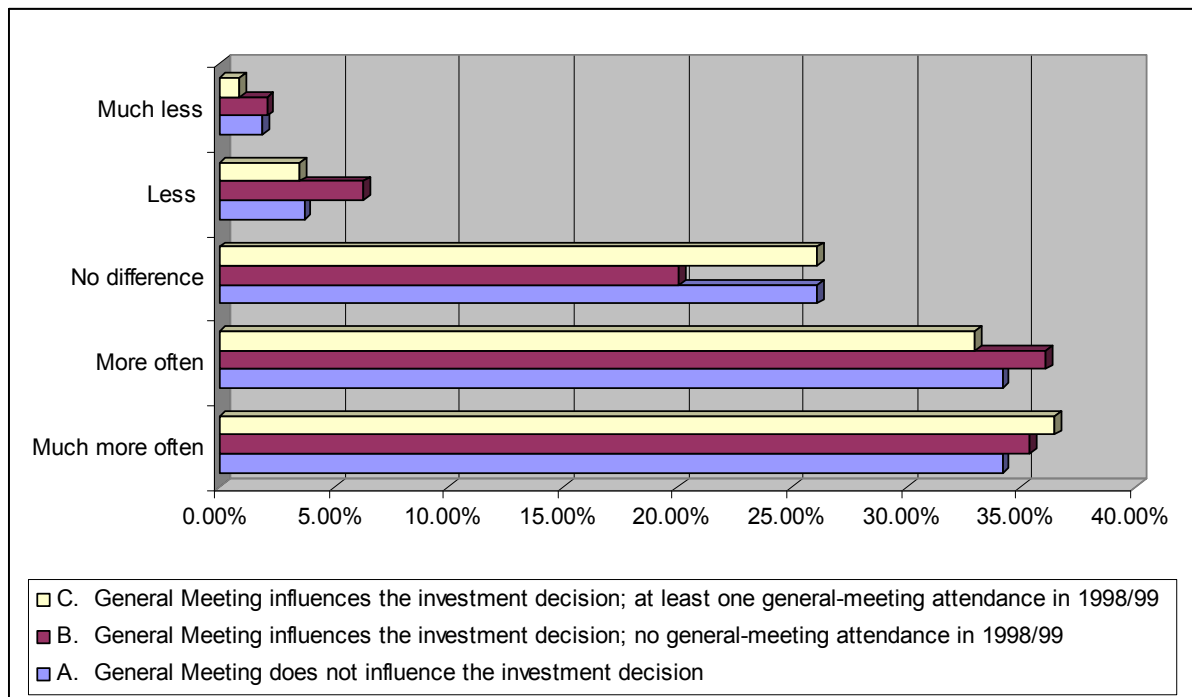
Seeger (2002) mentions the following reasons for low shareholder participation in Germany: (1) limited interest, (2) time pressure, (3) high costs, (4) lack of information, and (5) increase in the number of foreign stock owners. Shareholders' limited interest in exercising their shareholder rights can be partly explained by the circumstance that many small investors feel powerless due to the small number of shares they own. Furthermore, for investors with only a small ownership stake, it is not economically rational to spend a large amount of time and money on researching the business situation of a company. Time and cost aspects also come into play when considering attendance at the annual meeting because this will usually consume half a day or more and will lead to traveling expenses. This point is relevant for retail investors but also for institutional investors with diversified portfolios. As the number of securities in a portfolio increases, it becomes increasingly work intensive to participate in general meetings and, as a result, the willingness to participate might decline. Of course, time and cost aspects are especially relevant for foreign investors. As mentioned earlier, foreign investors have increased their ownership of German companies from 10% in 1997 to 15% in 2004 (+50%) (DAI, 2005a) and at numerous DAX30 companies, foreign ownership is over 50%. Foreign equity owners also face problems when they want a third party to represent them in the annual shareholder meeting. This is the case because it is a basic necessity that the banks, where foreign investors hold their securities, have branches in Germany. If this requirement is not met, foreign banks do not need to inform shareholders of the general meeting, which decreases the chance of participation since someone who does not know about a meeting will most likely not participate (Seeger, 2002). In addition, one needs to account for post delivery times, which leave foreign shareholders only a limited amount of time to make their voting decisions and send these to their banks.

As a result, it is reasonable to expect that foreign owners could benefit from a simplified voting process over the Internet. Looking at the other reasons for low shareholder participation, one can also see that the possibility of exercising shareholder rights via the Internet can help to alleviate at least two other problems: high costs and time pressure. Voting via the Internet is cheap, easy, and fast.

(a) Impact of the Internet on Shareholder Participation in Germany

According to research conducted by Schieber (2002), German shareholders claim that they would indeed exercise their shareholder rights more frequently if they had the chance to participate in general meetings via the Internet:

Figure 6: Change in the Exercising of Shareholder Rights if Internet Option was Available



Source: Schieber, 2002.

Based on the survey results, all three types of investors (A, B, and C) would increase their participation in general meetings: (1) 68% of type-A investors (general meeting does not influence the investment decision) would participate much more often or more often, (2) 72% of type-B investors (general meeting influences the investment decision; no general-meeting attendance in 1998/99) would participate much more often or more often, and (3) 70% of type-C investors (general meeting influences the investment decision; at least one general-meeting attendance in 1998/99) would participate much more often or more often. These figures indicate that offering shareholders the opportunity to participate online might increase participation in general meetings of large, German corporations – at least to some extent.

2.2.3 Participation in Switzerland

Similar to the situation at DAX30 companies in Germany, shareholder participation in annual shareholder meetings in Switzerland is quite low. In 2005, only around 47% of equity capital was represented in general meetings of companies listed in the SMI. There were 15 companies where less than 50% of equity capital was present in the general meeting. The company with the lowest participation was Baloise with 20.45% and the company with the highest participation was Roche with 91%. The following table shows the situation in 2005 by company:

Table 2: Percentage of Equity Capital Represented in General Meetings of SMI Firms⁸

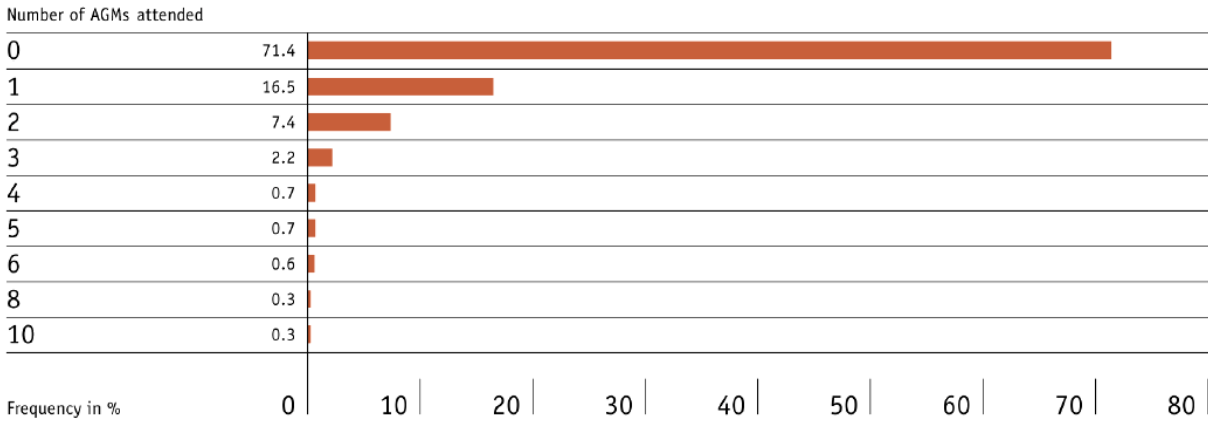
ABB N	47.90%
ADECCO	52.85%
JULIUS BAER	60.63%
BALOISE	20.45%
RICHEMONT	No info
CIBA	21.33%
CLARIANT	30.00%
CREDIT SUISSE GROUP	37.58%
GIVAUDAN	42.52%
HOLCIM	45.00%
KUDELSKI	60.00%
LONZA	69.80%
NESTLE	38.91%
NOVARTIS	35.10%
ROCHE	90.55%
SWISS RE	46.37%
SWISSCOM	70.71%
SERONO	No info
SGS	59.33%
SWISS LIFE	33.00%
SYNGENTA	29.46%
SYNTHES	71.80%
UBS	45.45%
THE SWATCH GROUP	55.00%
UNAXIS	49.90%
ZURICH FINANCIAL SERVICES	22.40%
AVERAGE	47.34%

Source: Author's survey of investor relations departments of SMI companies.

⁸ The investor relations departments of Richemont and Serono did not supply any data even after several requests.

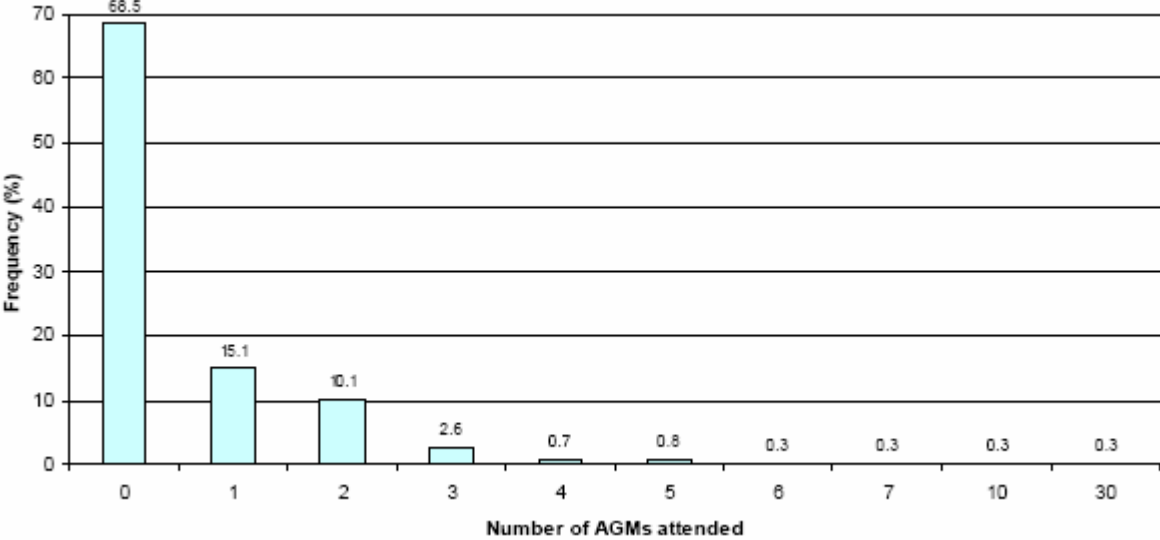
A survey conducted by the Swiss Banking Institute at the University of Zürich (Cocca and Volkart, 2004) underlines the point that shareholder participation in Switzerland is quite low. Based on this survey, 71% of shareholders in Switzerland did not participate in any shareholder meeting in 2003, and only 17% of shareholders in Switzerland participated in one meeting in 2003. The percentage of shareholders that do not attend a single annual meeting has actually increased from 69% in 2001 to 71% in 2004. Furthermore, in 2004, 34% of the survey’s respondents stated that they were interested in exercising their shareholder rights, but 64% stated that they had no time to do so.

Figure 7: Participation in Shareholder Meetings in Switzerland in 2003



Source: Cocca and Volkart, 2004.

Figure 8: Participation in Shareholder Meetings in Switzerland in 2001



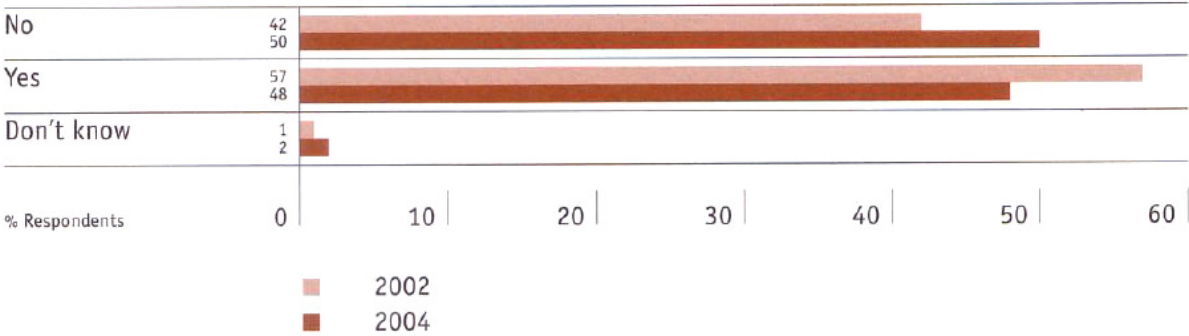
Source: Cocca and Volkart, 2002.

(a) Impact of the Internet on Shareholder Participation in Switzerland

Interestingly, in the survey by Cocca and Volkart (2004), 48% of respondents stated that they would vote more often in general meetings if it was possible to vote online. Especially younger shareholders, shareholders with higher income, and shareholders with good or very good financial knowledge (based on their self-assessment) stated that they would vote more often if they had the chance to do so by Internet. These findings seem to support the view that increased shareholder participation in annual meetings and, consequently, in corporate governance, might be achieved through offering the possibility of online voting. The following figures present the aforementioned findings in detail.

Figure 9: Possibility of Internet Voting and Shareholder Participation in Switzerland (I)

If it were possible for you to vote via the Internet, would you use your voting rights more often?



Source: Cocca and Volkart, 2004.

Figure 10: Possibility of Internet Voting and Shareholder Participation in Switzerland (II)

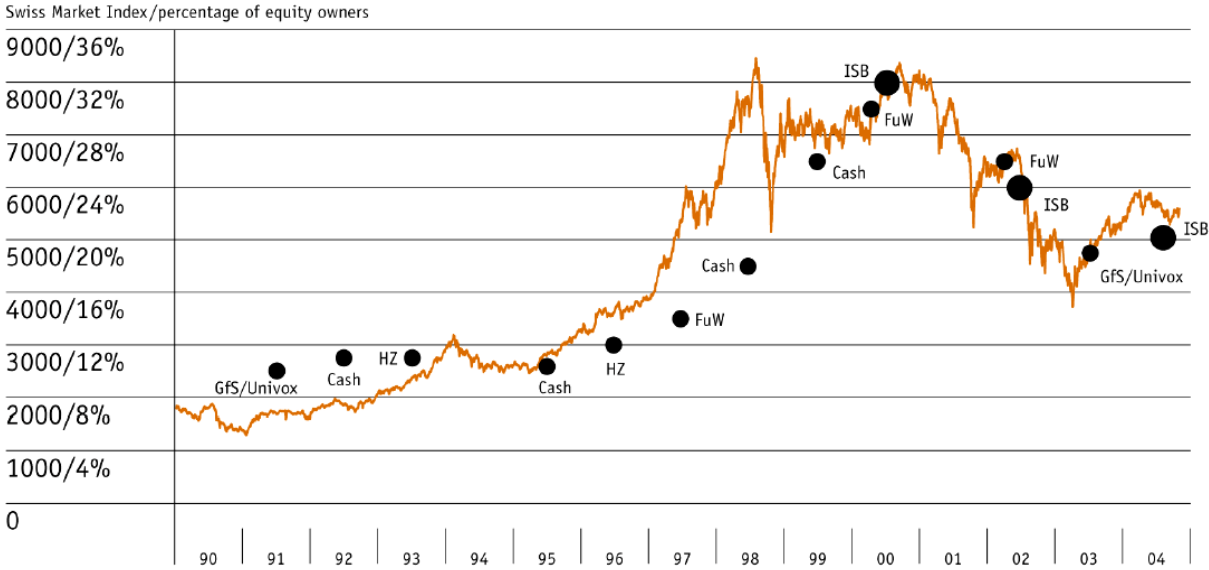
If it were possible for you to vote via the Internet, would you use your voting rights more often?

% Respondents	Yes 2004	Yes 2002
All	48	57
Gender		
Male	52	59
Female	43	52
Age		
18–29	61	67
30–39	48	57
40–49	55	63
50–59	48	55
60–74	36	42
Income		
Less than CHF 3,000	39	50
CHF 3,000 to 4,500	44	58
CHF 4,500 to 6,000	41	60
CHF 6,000 to 8,000	47	48
CHF 8,000 to 10,000	48	67
CHF 10,000 to 15,000	54	49
CHF 15,000 to 20,000	73	70
CHF 20,000 and over	63	68
Knowledge		
No knowledge	31	34
Basic knowledge	47	59
Good knowledge	61	56
Very good knowledge	50	70

Source: Cocca and Volkart, 2004.

Comparing the development of the number of shareholders in Germany and Switzerland reveals interesting parallels between the two countries. According to Cocca and Volkart (2004) and Deutsches Aktieninstitut (DAI, 2005b), the number of direct and indirect shareholders in Switzerland and Germany increased between 1997 and 2004. In Germany, the number of direct and indirect shareholders increased from 5,601,000 in 1997 to 10,402,000 in 2004 (+86%). In Switzerland, the percentage of direct and indirect shareowners increased from 16% in 1997 to 21% in 2004 (+31%). However, due to the downturn in equity markets in the early 2000s, share ownership has fallen considerably in both countries over the last five years. In 2004, direct and indirect share ownership in Switzerland was 21% vs. 16% in Germany (Cocca and Volkart, 2004).

Figure 11: Development of Share Ownership in Switzerland



FuW: Finanz und Wirtschaft, HZ: Handelszeitung, ISB: Institut für schweizerisches Bankwesen (Swiss Banking Institute)

Source: Cocca and Volkart, 2004.

2.2.4 Reasons for Low Participation in Switzerland

There are similar reasons for low participation in shareholder meetings in Switzerland and Germany. According to the study conducted by Cocca and Volkart (2004) of the Swiss Banking Institute at the University of Zürich, there are the following reasons for low participation in Switzerland:

Figure 12: Reasons for Low Shareholder Participation in General Meetings in Switzerland

% Respondents	2002	2004
Not interested	27	70
No time	45	64
As a small investor my vote doesn't count anyway	21	16
Don't have the specialist knowledge	4	4
Governance by exit	1	<1

Source: Cocca and Volkart, 2004.

As can be seen in the figure above, the three key reasons for low participation are (1) no interest, (2) no time, and (3) perceived lack of influence. In addition, a high percentage of foreign ownership is most likely also a factor in Switzerland. For foreign investors, it might not always be convenient to participate in person or to mail instructions to their banks. As a

result, it is sensible to expect that foreign owners of Swiss equities could benefit from a simplified voting process over the Internet. Moreover, looking at the other reasons for low shareholder participation in Switzerland, one can see that the possibility of exercising shareholder rights via the Internet can help with the “no time” problem. Additionally, as presented earlier, the Internet might serve as a medium for the organization of small investors and might help to bundle their voting power. Over time, this could help to reduce small investors’ perceived lack of influence. Finally, the claim that shareholders are simply not interested in participating in general meetings needs to be seen in relation to the decline in the Swiss stock market at the beginning of the 21st century. This has probably disappointed many equity owners and has decreased their interest in participating more actively.

2.2.5 Shareholder Participation in Other Countries

a) USA

At general meetings of US companies, around 80% of equity capital is represented, whereas in Australia this figure stands at around 30-35% (Dolin, 2002) and in the UK it stands at approximately 57% (CRESTCo, 2005). Participation in the US is so high for several reasons. First of all, the US has a well-established proxy-voting system in place and investors are accustomed to using it. Second, as the E-Trade example in section 2.3.3 illustrates, it is quite convenient for Americans with brokerage accounts to vote their shares via the Internet. Third, the US requires a shareholder resolution to be passed by at least 50% of outstanding equity capital⁹ and, due to Department of Labor regulations, it is mandatory for US pension funds to vote their proxies (Baums, 2000; Dolin, 2002; US Department of Labor, 1994). The relevant law is the Employee Retirement Income Security Act (ERISA), which establishes fiduciary duties for managers of pension-plan assets. Part of these fiduciary duties is the responsibility to vote proxies (US Department of Labor, 1994). This means, for example, that large pension funds like CALPERS or TIAA-CREF are required to vote their shares in general meetings. Even if small shareholders do not vote their shares to a significant extent in the USA (e.g. Latham, 1999c), the required participation of pension funds alone already serves to increase the percentage of equity capital that is represented in general meetings. It is important to remember that the fiduciary duties established by ERISA require pension-plan trustees to vote in the best interest of beneficiaries and to focus on the consequences that their voting will

⁹ In Delaware, for example, this is the case unless the certificate of incorporation or the bylaws of a company specify another number of shares with voting power that must be represented in a general meeting to constitute a quorum. However, it is not permissible that a quorum consists of less than one third of outstanding shares.

have on plans' investments. It is forbidden that investment managers subordinate the interests of participants and beneficiaries in their retirement income to unrelated objectives.

CALPERS actually publishes its proxy-voting decisions for over 300 companies on its Website, and this information is accessible to anybody who is interested in it about two weeks before the meetings. Hence, individual shareholders or even other institutional shareholders can go to CALPERS' Website, examine how it intends to vote its shares in a certain general meeting, and then vote similarly to CALPERS. CALPERS presents its proxy-voting decisions in the following way on its Website (www.calpers-governance.org/alert/proxy/default.asp):

Proxy Voting Decisions - Microsoft Internet Explorer

Adresse: <http://www.calpers-governance.org/alert/proxy/default.asp>

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Proxy Voting Decisions

In an effort to more effectively communicate with other shareowners and market participants, CalPERS will provide over 300 of its proxy voting decisions during the 2004 proxy season. CalPERS voting decisions are posted approximately two weeks prior to a company's annual meeting.

To view voting decisions for a specific company, please enter the company's ticker symbol OR the company's name in the appropriate field below. You do not need to fill in both fields.

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This is provided for informational purposes only and does not constitute investment advice.

Ticker: C

Shareholder Meeting Date: 4/19/2005
(Approximate based on 2004 date)

Total Shares Voted: 39,026,383

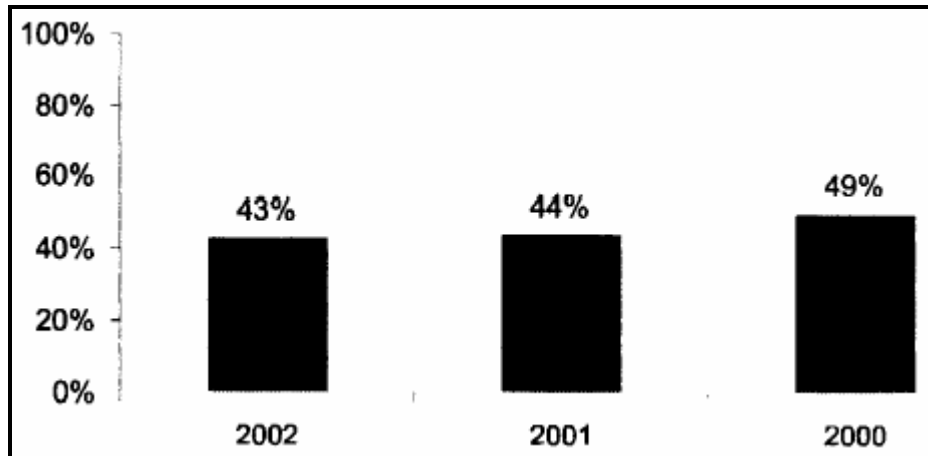
Number	Description / Reason	Vote
1.	Elect directors	For
2.	Ratify auditor	For
3.	Amend 1999 Stock Incentive Plan The plan does not specify performance goals or hurdle rates for performance based awards.	Against
4.	Shareholder Proposal Restricting executive compensation CalPERS believes this proposal would unfairly restrict the company's ability to attract and retain key employees.	Against
5.	Shareholder Proposal Report on political contributions CalPERS believes this would not pose long-term harm to the company.	For
6.	Shareholder Proposal Regarding Independent Board Chairman CalPERS is a firm supporter of this concept.	For
7.	Shareholder Proposal Capping executive pay CalPERS believes this proposal would unfairly restrict the company's ability to attract and retain key employees.	Against
8.	Shareholder Proposal Election of directors with simple majority vote CalPERS is a firm supporter of this concept.	For
9.	Shareholder Proposal Non-deductible executive compensation CalPERS believes this proposal would unfairly	Against

Fertig Internet

b) Europe

In general, participation rates at large, public companies in Europe are rather low. DWS and Deminor¹⁰ have examined shareholder voting at large corporations listed in the Dow Jones EURO STOXX 50 index and have come to the following results:

Figure 13: Participation in General Meetings of Firms listed in the EURO STOXX 50



Source: DWS, 2002.

As the above figure shows, the average participation rate at large companies across Europe is comparable to the average rate at DAX30 companies in Germany. Furthermore, similar to what has happened at DAX30 companies, there has been a steady decline in shareholder participation across Europe. DWS and Deminor argue that this may be due to an increase in the size of free-float capital and increased institutional ownership of equities (DWS, 2002). According to DWS and Deminor, institutional owners often take an arms-length approach to corporate governance and do not exercise their voting rights abroad because of their fiduciary duty as trustees of their clients' capital (DWS, 2002). This claim appears to be somewhat counterintuitive since one would expect that it is in a client's best interest that his/her shares are voted. This helps to increase the likelihood that a company is truly run in the shareholder's best interest. Additionally, it has been presented earlier that in the US it is part of pension funds' fiduciary duties to vote their shares. DWS and Deminor also state that too few shareholders participate in general meetings across Europe and that this circumstance can threaten shareholder democracy in the long run (DWS, 2002).

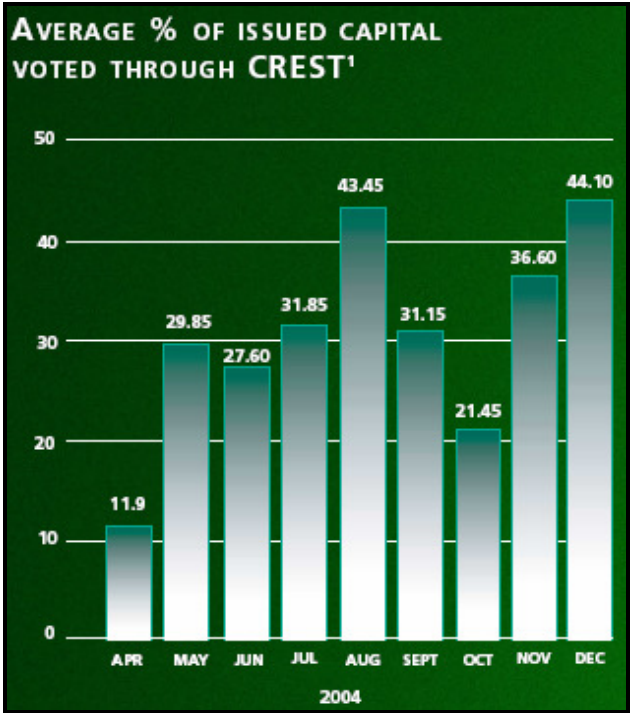
¹⁰ DWS is a German investment company and Deminor is a Belgian consulting company specializing in corporate governance.

As a result, it seems reasonable to try to increase shareholder participation and to make it as convenient as possible for retail and institutional shareholders in European companies to exercise their voting rights. This requires uniform legal standards across the EU concerning the exercise of shareholder rights via the Internet, and European companies should make the effort to offer their shareholders the opportunity for exercising their rights online. Even though this will not fundamentally change the European equity culture over night, it might still lead to a noticeable increase in participation in the long run and to greater legitimacy of decisions taken during general meetings. In addition, it might also be necessary to consider if it makes sense to require that institutional investors exercise their voting rights during general meetings. As mentioned above, this is already the case in the USA.

c) UK

In order to get a better idea of the positive impact that electronic voting can have on shareholder participation, one needs to examine the recent developments that have taken place in the UK. In January of 2004, Paul Myners issued a report to the Shareholder Voting Working Group that reviewed the impediments to voting UK shares (Myners, 2004). One key point that he raised in the report was that paper-based voting is too cumbersome and that electronic voting for institutional investors should be implemented via a system like CREST. So far, the results of offering electronic voting via CREST are encouraging and participation in British shareholder meetings has indeed increased significantly, just as Mr. Myners predicted. CRESTCo provides the following information regarding participation in general meetings in 2004 (CRESTCo, 2005, p.2): “CREST Voting Service Providers ADP-ICS and ISS are lodging their votes through CREST for eligible meetings. Coupled with direct voting by institutions, this has resulted in an increase of over 30 times 2003 voting levels. Several issuers saw over 60% of issued capital voted through CREST. One FTSE250 issuer was pleased to see 71.5%.”

Figure 14: Electronic Voting via CREST in the UK



¹ Around 85% of UK issued share capital is held by shareholders in secure dematerialised form within the CREST system. The average level of voting for FTSE350 companies in 2004 was in the region of 57% (source PIRC). Therefore, CRESTCo does not expect to attain 100% voting of dematerialised shares.

Source: CRESTCo, 2005.

Usually, according to MacBryde and Watts (2004), a typical split-up of voting at a company listed in the FTSE 100 looks like this:

Table 3: Split-Up of Voting at a Typical FTSE-100 Company

	Holding %	Voted * % category	Implied % total
UK	50%	75%	38%
North America	20%	72%	14%
Europe	8%	13%	1%
Other Overseas	1%	8%	0%
Market Makers	5%	0%	0%
Individuals/Corporate/Other	16%	25%	4%
Total	100%		57%

* Based on an analysis of the voting patterns at seven FTSE 100 2004 AGMs.

Source: MacBryde and Watts, 2004.¹¹

¹¹ Even though the sample is based on seven companies, MacBryde and Watts (2004) state that their results approximate what they have witnessed at other general meetings of FTSE-100 companies.

The table above provides the following key information. The first four rows list voting participation by institutional investors from the UK, North America, Europe, and Other Overseas. Rows five and six list the voting pattern of Market Makers and Individuals/Corporate/Other investors. As one can see in the table, institutional investors from the UK and North America own about 70% of an average FTSE-100 company and vote around 75% of their shares. Hence, taken together, these two types of institutional investors usually represent around 50% of equity capital in general meetings of FTSE-100 companies and hold a dominant position. The voting power of other investors is almost negligible. Looking at the last category, it becomes clear that individual investors own at most 16% of equity capital and only represent at most 4% of votes in general meetings.

These data make clear that even if individual investors own 16% of outstanding shares of a FTSE-100 company, achieving a high rate of shareholder voting in general meetings demands that institutional investors vote their shares. Hence, any strategy to increase voting must include both parties, individual and institutional investors.

A comparison of the situation in the UK to the one in Germany leads to similar results. In Germany, stock ownership is split up as follows (DAI, 2005a):

1. Companies: 33%
2. Foreign investors: 15%
3. Investment funds: 14%
4. Insurance companies: 13%
5. Private investors: 13%
6. Banks (including real estate financing firms): 11%
7. State: 1%.

An important consequence of the share-ownership pattern in Germany is that it is clearly not enough to just encourage private investors in Germany to vote. Even though this is a crucial first step, it is also necessary to increase voting by professional investors (including investment funds, insurance companies, foreign institutional investors, and banks) as well as companies.

Based on the experience in the UK so far, institutional shareholder participation might indeed be increased considerably through offering electronic-voting facilities, but it is probably not realistic to expect that participation by private investors would increase by the same magnitude through offering online voting. Nonetheless, 48% of surveyed private investors in Switzerland claimed that they would vote more often if they could do so by Internet (Cocca and Volkart, 2004). In Germany, around 70% of surveyed private investors claimed that they would vote more often if they had a chance to do so via the Internet (Schieber, 2002). Overall then, current evidence indicates that both types of investors, institutional and private, would increase their participation in general meetings if online voting was possible.

2.2.6 Outlook

The low shareholder participation rates that can be witnessed at large companies in Germany and Switzerland are actually not a new phenomenon. Already in 1932 in the USA, Berle and Means (1932) came to the conclusion that the distance and passivity of the shareholder increases as the size of the corporation gets larger. Furthermore, in the 19th century, German companies tried to encourage shareholder participation in annual meetings by offering free trips to the location of the meeting and by paying shareholders (Seeger, 2002).

According to Seeger (2002), a higher shareholder participation in the general meeting is desirable for several reasons. First of all, a high participation in the shareholder meeting leads to a democratic legitimization of decisions taken during the meeting. Second, a higher participation of shareholders would help to limit the criticism that banks sometimes use their proxy votes to rubber stamp supervisory board proposals. Appendices F and G present the voting results for the year 2005 at all DAX30 firms and several SMI firms. The information presented there shows clearly that most voting proposals are accepted with far over 90% of cast votes. This indicates that voters at general meetings of the largest Swiss and German companies might be too uncritical of managements' proposals. Third, in order to secure minority rights in the shareholder meeting, it is necessary that individual shareholders combine their power during the annual meeting. Again, this is only possible if participation of individual shareholders is high. Fourth, a high participation decreases the possibility of chance majorities that do not reflect the will of the majority of shareholders.

Given the increase in share ownership on the one hand and low participation rates on the other hand, the question needs to be asked how shareholder participation in Germany and Switzerland might be increased in the future in order to involve more owners in corporate governance. One option that has been advanced by several scholars (e.g. Kim, 2003; Latham, 2000; Seeger, 2002; Seitz, 2003; Zetzsche, 2002) is to offer shareholders the opportunity to participate in shareholder meetings via the Internet. This view was supported to some extent by the survey results of Schieber (2002) in Germany and Cocca and Volkart (2004) in Switzerland as well as the positive experience in the UK. As a consequence, shareholder participation via the Internet will be examined in more detail in the following section.

2.3 Online and Virtual Shareholder Meetings

Given the high Internet penetration rates in Germany and Switzerland, shareholder participation might be increased through offering the opportunity to participate online. Furthermore, an online shareholder meeting does not only offer the chance to reduce information asymmetries between owners and managers through increased participation but also offers the chance to lower transaction costs. For example, this is the case because shareholders that can participate online do not need to incur travel costs. This is especially relevant for foreign investors in Germany and Switzerland, whose number has increased considerably in the past.

It was pointed out earlier that the shareholder meeting serves three key purposes (1) giving account to owners, (2) discussing of important corporate issues, and (3) making decisions (Noack, 2002). Theoretically, due to the availability of sophisticated information technology, these three functions do not need to be executed in one specific physical location at the same time anymore. First of all, this is the case because shareholders are not really dependent on the annual meeting to provide them with critical information about their company. Noack (2002) points out that shareholders do not learn anything new by attending the annual meeting in person because today important information is distributed to all capital market participants at the same time. Hence, if there is something critical to be known, this information will be distributed via various information channels throughout the whole year. Second, important corporate issues are usually not discussed at the annual meeting for the first time. The big shareholders know beforehand what the important issues are and will have made up their minds before they attend the general meeting. Third, information technology also makes it

unnecessary to meet in person to cast a vote. For example, decisions can easily be made via online voting.

2.3.1 Design Options for Technology-Supported Shareholder Meetings

a) Basic Types

In general, one can distinguish among three types of technologically supported shareholder meetings (e.g. Kim, 2003; Seeger, 2002; Seitz, 2003; Von der Crone, 2003):

- (1) Tele Shareholder Meeting
- (2) Online Shareholder Meeting (physical meeting plus indirect or direct online voting)
- (3) Virtual Shareholder Meeting.

The tele shareholder meeting is a physical general meeting taking place at two (or more) separate geographical locations at the same time. These locations are connected via a video link and participants, who attend the meeting in person, can follow what is happening at the other locations via a large screen. The board and management are usually present at one of the locations. If shareholders want to ask questions, for example, they can be seen on a large screen by the participants at the other locations. ABB has conducted such a meeting in the past by offering its shareholders the opportunity to attend a physical meeting in Sweden or Switzerland.

The online shareholder meeting equals a physical general meeting plus the opportunity to vote online indirectly or directly. In the case of indirect online voting, shareholders can vote electronically either before or during the meeting via a representative that participates in person in the physical meeting. For example, this is similar to the electronic proxy voting system in the USA. In the case of direct online voting, shareholders do not need to vote via a representative that participates physically in the meeting. Their votes are directly transmitted to the general meeting. Both forms of meetings can be supplemented with a broadcast of the general meeting over the Internet so that online participants can follow what is happening at the meeting and, if possible, can even participate in the meeting by asking questions and by voting during the meeting.

The virtual shareholder meeting is a general meeting that takes place entirely in cyberspace without any physical counterpart. This can happen in the form of an audio transmission or in the form of an audio-visual transmission. It is also possible to imagine that such a meeting can be conducted in writing via a chat room. Nonetheless, given the capabilities of modern communication technology, the most advanced option appears to be a virtual meeting where shareholders can see and hear the company leadership and ask questions online in writing (e.g. via e-mail). It is also imaginable that participating shareholders have the option to install a camera and a microphone on their computers so that they can be seen and heard by the other participants. Similar to the online meeting, the virtual shareholder meeting also allows shareholders to vote online before the meeting. There does not need to be the requirement that shareholders participate in the actual meeting.

b) Mobile Participation in Corporate Governance

The availability of mobile technology devices like BlackBerrys, Palms, or mobile phones add an additional dimension to shareholder participation in general meetings. These tools make it possible for shareholders to access the Internet from almost anywhere and participate in general meetings on the go. This phenomenon might be called mobile corporate governance or m-corporate governance. By freeing shareholders from having to use a personal computer at a fixed location, mobile technology provides them with additional convenience and flexibility. High-capacity mobile phone networks not only facilitate electronic voting but also make it possible to stay up-to-date by following a Webcast of a general meeting via, for example, a BlackBerry.

c) Shareholder Meeting Processes

There are several shareholder meeting processes that can be executed online: (1) Announcement, invitation, and registration; (2) Admissions control; (3) Determination of represented shares; (4) Explanations concerning the annual report, financial statements, utilization of income, etc.; (5) Voting on the acceptance of the annual report, financial statements, utilization of income, and discharge of the board members; (6) Elections of the board of directors; and (7) In-between questions or proposals by shareholders. In a traditional general meeting, these processes are either executed in person, via a representative, or in writing via the postal system. Today, companies differ in how many processes they execute online. Some companies, like Allianz from Germany, are quite advanced and already offer

almost everything online. The following table provides an overview of the key processes that could be conducted over the Internet:

Table 4: Shareholder Meeting Processes that could be Conducted over the Internet

Shareholder Meeting Processes	Characterization	Traditional Meeting	Online/Virtual Meeting
<i>Announcement, invitation, and registration</i>	Correspondence	Paper-based via postal system	Online via e-mail, company homepage, and electronic publications like the electronic <i>Bundesanzeiger</i> in Germany
<i>Admissions control</i>	Control	In person at the physical meeting	Online via a specific authentication process like PIN/TAN
<i>Determination of represented shares</i>	Determination	In person at the physical meeting	Online registration via special software
<i>Explanations concerning the annual report, financial statements, utilization of income; Also report of the auditors</i>	Presentations	In person at the physical meeting	Broadcast in form of picture and sound via the Internet
<i>Voting on the acceptance of the annual report, financial statements, utilization of income, and discharge of the board members</i>	Voting	In person at the physical meeting or via a representative	Direct or indirect online voting and online transmission of results
<i>Elections of the board of directors and the auditors</i>	Elections	In person at the physical meeting or via a representative	Direct or indirect online voting and online transmission of results
<i>In-between questions or proposals by shareholders</i>	Comments/questions	In person at the physical meeting or via a representative	Online transmission of question via e.g. e-mail, audio broadcast, or audio/video broadcast

Source: Adapted from Meier, 1994.

A closer inspection of the above table makes clear that online and virtual shareholder meetings do not change the basic shareholder meeting processes. They just provide alternative means to conduct them, which can lead to a considerable increase in convenience for some shareholders. The result might be that more shareholders can be encouraged to participate in the corporate governance of the firms they own. The necessary technologies to conduct online or virtual shareholder meetings exist today, but in several countries the law has not kept pace with technological developments. Therefore, in later sections, the legal situation in Switzerland and Germany as well as several other countries will be examined in

depth. Before that, the dissertation will take a look at technological issues and an example will be provided of how electronic proxy voting works in practice in the USA.

2.3.2 Security Issues and Available Technology

When companies offer their owners the opportunity to participate online in general meetings, it is important to ensure the robustness and security of the utilized technology. For example, if a company employs a technological system that fails during the meeting, so that online participants cannot cast their votes properly, then these shareholders might sue the firm. The result can be that the decisions that have been taken at the general meeting are void. As a result, the utilized system needs to ensure that shareholders receive the invitation to the meeting (e.g. by e-mail), that only shareholders are permitted to participate online (e.g. via PINs, digital signature, biometric signature, or chip card), that the represented shares are counted correctly (via special software), that the broadcast of the meeting over the Internet is of high quality (via special software), that online votes are counted correctly (via special software), and that shareholders can ask questions online during the meeting (if permitted) (via special software). A company that wants to offer online voting or online shareholder meetings does not have to develop a system that fulfills all the aforementioned functions by itself. Rather, it can work together with firms like Registrar Services, ADEUS, Computershare, ADP, and DST Systems that offer technological solutions. .

In order to better understand what kinds of services these firms offer, it is helpful to look at a concrete example. One company that offers online solutions is DST Systems from the USA. This firm markets a customized communication tool called eProxy, which provides electronic proxy voting over the Internet and telephone. Furthermore, the tool offers combined reporting of Internet and telephone voting results. eProxy's voting process adheres to SEC guidelines governing consent to receive proxy voting materials electronically and vote reporting. In addition to eProxy, DST Systems offers eConsent, which facilitates electronic consent collection over the Internet, resulting in the electronic distribution of companies' annual reports and proxy materials. Hence, both automated online tools help companies to set up customized proxy voting and consent Websites. Since the implementation of a good technological platform is a key element of facilitating electronic shareholder participation in corporate governance, the research section of this dissertation will investigate this issue in more detail.

2.3.3 Electronic Proxy Voting and Online/Virtual Shareholder Meetings in the USA

For the purpose of illustrating how online participation by shareholders in general meetings can be facilitated and encouraged in practice, the situation in the USA will be covered as an example here.¹²

In the United States, it is not customary anymore that individual shareholder attend general meetings, and the country has a well-established electronic proxy voting system in place, which resembles the one now available in Germany. Due to progressive laws and regulations, which will be discussed in detail later on, it is possible in the US to (1) Deliver shareholder materials electronically (e.g. annual reports, proxy statements, etc.), (2) Exercise shareholder votes electronically via a proxy (i.e. electronic proxy voting), (3) Conduct a physical general meeting supplemented by electronic participation and transmission over the Internet, and (4) Conduct a virtual general meeting without any physical meeting. Hence, in the USA, a wide variety of possibilities exists for informing shareholders and letting them participate in corporate governance via the Internet. Online information provision as well as online shareholder participation were facilitated in the USA to achieve the key aim of increasing participation in general meetings. A secondary reason was the opportunity to achieve cost savings.

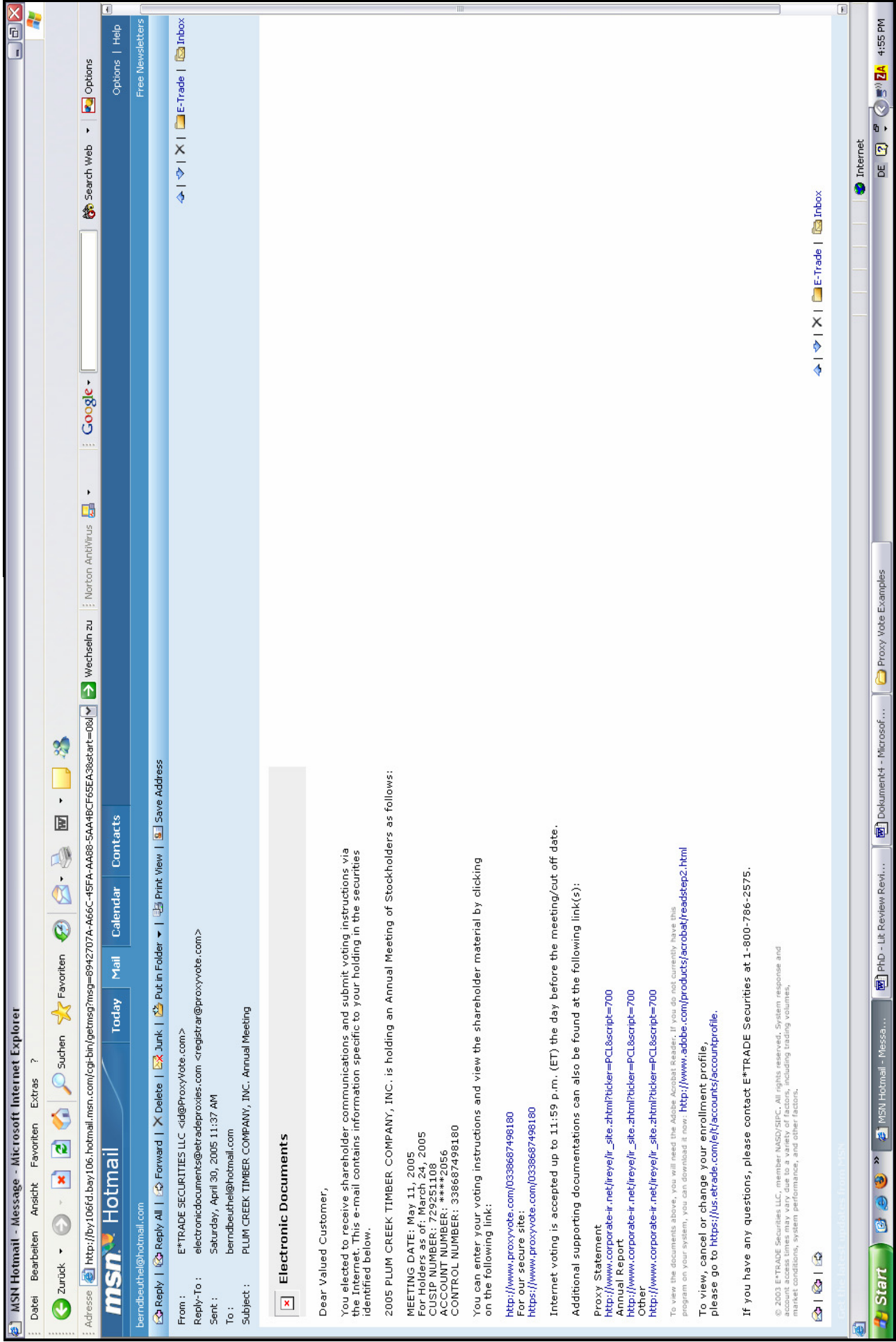
The most commonly used process in the USA is electronic proxy voting. In this process, the shareholder accesses the proxy statement and gives voting instructions over the Internet. A representative, who participates in the physical meeting, will then exercise the votes as instructed. In essence, the process is similar to the electronic proxy voting process that is now available in Germany.

On the following pages, an example of the American proxy voting system in action will be given. It shows how the system is implemented practically and how it facilitates online voting for shareholders. The example is based on materials provided to customers of E-Trade, an American online brokerage. It is important to highlight that it is very convenient and quick to vote one's shares in this way. Electronic voting can be completed with only a few mouse clicks and usually does not take longer than a few minutes, depending on the number of proposals to be evaluated. The whole electronic voting process consists of five

¹² The exact legal situation in the USA will be covered in depth in section 2.3.6 Legal Situation in Other Countries.

steps: (1) Electronic notification by e-mail, (2) Electronic voting via the Internet (a link is provided in the e-mail), (3) Verification of voting instructions before final submission, (4) Confirmation of executed voting on screen, and (5) Confirmation of executed voting by e-mail. If a shareholder wishes to change his/her voting instructions, then he/she can do this as often as he/she likes until the electronic proxy voting process closes before the general meeting.

1. Step: Electronic Notification by E-Mail



2. Step: Electronic Voting via the Internet

Internet Proxy Voting - Microsoft Internet Explorer

Adresse: <https://central.proxyvote.com/proxyvote/login.do?e=s&controlNumber=338687498180>

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Meeting Materials

- ANNUAL REPORT
- PROXY STATEMENT

PLUM CREEK TIMBER COMPANY, INC. Annual Meeting

Meeting Date: 05/11/2005 for holders as of 03/24/2005
CUSIP: 729251-108 Your Control Number: 3386 8749 8180

➤ **Scroll down for proxy instructions and voting.**

If you plan to attend the meeting [click here](#).

Directors' Recommendations:

Choose this if you would like to vote your shares following directors' recommendations.
See below or refer to the proxy statement for the detailed recommendations. Please read them carefully.

[Vote my shares per directors' recommendations](#)

Proxy Ballot:

■ **DIRECTOR(S):**

- ▶ Directors recommend a vote **FOR** election of the following nominee(s):
RICK R. HOLLEY ; IAN B. DAVIDSON ; ROBIN JOSEPHS ;
JOHN G. MCDONALD ; ROBERT B. MCLEOD ; HAMID R. MOGHADAM ;
JOHN H. SCULLY ; STEPHEN C. TOBIAS ; CARL B. WEBB
- For all nominees Withhold all nominees For all EXCEPT those selected below:
- RICK R. HOLLEY
- IAN B. DAVIDSON
- ROBIN JOSEPHS
- JOHN G. MCDONALD
- ROBERT B. MCLEOD
- HAMID R. MOGHADAM
- JOHN H. SCULLY
- STEPHEN C. TOBIAS
- CARL B. WEBB

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GO

SEARCH

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Internet

DE

Hilfe- und S...

Proxy Vote ...

Dokument3 ...

Dokument2 ...

Washington...

Plum Creek ...

phD - Lit Re...

Internet Pr...

MSN Hebma...

Start

4:40 PM

Proposal(s): Please indicate your proposal selections by clicking on the fields below.

02. PROPOSAL TO RATIFY APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS.

Directors Recommend : **FOR**

For Against Abstain

03. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO INCREASE THE VOTING THRESHOLD BY WHICH INDIVIDUALS ARE ELECTED TO THE BOARD OF DIRECTORS.

Directors Recommend : **AGAINST**

For Against Abstain

04. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO REQUIRE THE COMPENSATION COMMITTEE TO ADOPT A POLICY PROVIDING THAT A SIGNIFICANT AMOUNT OF FUTURE STOCK OPTION GRANTS BE PREMIUM PRICED OR MARKET INDEX PRICED STOCK OPTIONS, OR STOCK OPTIONS WITH PERFORMANCE BASED VESTING TERMS.

Directors Recommend : **AGAINST**

For Against Abstain

05. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO REQUIRE THE COMPANY TO ANNUALLY SUBMIT TO STOCKHOLDERS A REPORT RELATING TO THE COMPANY'S POLITICAL CONTRIBUTIONS.

Directors Recommend : **AGAINST**

For Against Abstain

Legal Proxy:

Choose this only if you plan to attend and vote your shares at the meeting.

IMPORTANT: By choosing this option, we are precluded from voting your shares on your behalf. A Legal Proxy covering your securities will be issued to you. Your Legal Proxy must be presented at the meeting for your shares to be represented. Do not make any other marks on this ballot.

DO NOT use this option if you **hold shares directly with the issuer**, rather than through a bank or broker.

3. Step: Verification of Voting Instructions before Final Submission

Internet Proxy Voting - Microsoft Internet Explorer

Adresse: <https://central.proxyvote.com/proxyvote/login.do?e=controlNumber=338687498180>

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PLUM CREEK TIMBER COMPANY, INC.: Annual Meeting

Meeting Date: 05/11/2005 for holders as of 03/24/2005
CUSIP: 729251-108 Your Control Number: 3386 8749 8180

Proxy Final Submission. Please check all of the information below for accuracy.
See instructions below and click on the Final Submission button.

[Final Submission](#)

DIRECTORS:
You Voted: **For all nominees.**

For RICK R. HOLLEY
For IAN B. DAVIDSON
For ROBIN JOSEPHS
For JOHN G. McDONALD
For ROBERT B. MCLEOD
For HAMID R. MOGHADAM
For JOHN H. SCULLY
For STEPHEN C. TOBIAS
For CARL B. WEBB

Proposal(s):

02. PROPOSAL TO RATIFY APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS.
You Voted: **For This Proposal.**

03. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO INCREASE THE VOTING THRESHOLD BY WHICH INDIVIDUALS ARE ELECTED TO THE BOARD OF DIRECTORS.
You Voted: **For This Proposal.**

04. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO REQUIRE THE COMPENSATION COMMITTEE TO ADOPT A POLICY PROVIDING THAT A SIGNIFICANT AMOUNT OF FUTURE STOCK OPTION GRANTS BE PREMIUM PRICED OR MARKET INDEX PRICED STOCK OPTIONS, OR STOCK OPTIONS WITH PERFORMANCE BASED VESTING TERMS.
You Voted: **For This Proposal.**

Fertig Start | MSN Holmes... | Internet Pr... | Plum Creek... | Washington... | Dokument2... | Dokument3... | Proxy Vote... | Hilfe- und S... | Internet | 4:42 PM

Internet Proxy Voting - Microsoft Internet Explorer

Adresse: <https://central.proxyvote.com/proxyvote/login.do?e=es&controlNumber=338687498180>

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Links

04. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO REQUIRE THE COMPENSATION COMMITTEE TO ADOPT A POLICY PROVIDING THAT A SIGNIFICANT AMOUNT OF FUTURE STOCK OPTION GRANTS BE PREMIUM PRICED OR MARKET INDEX PRICED STOCK OPTIONS, OR STOCK OPTIONS WITH PERFORMANCE BASED VESTING TERMS.

You Voted: For This Proposal.

05. TO CONSIDER AND ACT UPON A STOCKHOLDER PROPOSAL, IF IT IS PROPERLY PRESENTED AT THE MEETING, TO REQUIRE THE COMPANY TO ANNUALLY SUBMIT TO STOCKHOLDERS A REPORT RELATING TO THE COMPANY'S POLITICAL CONTRIBUTIONS.

You Voted: For This Proposal.

If you would like to receive an electronic confirmation when this vote is recorded, enter your e-mail address here: jdbeutheil@hotmail.com

If any of the above information is incorrect, return to the Proxy Ballot form by using the **Back** button of your Browser.

If all of the above information is correct and to vote your proxy, click on the Final Submission button below.

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DE 4:43 PM

4. Step: Confirmation of Executed Voting on Screen

The screenshot shows a Microsoft Internet Explorer browser window displaying the E*TRADE Financial website. The address bar shows the URL: <https://central.proxyvote.com/proxyvote/login.do?e=es&controlNumber=338687498180>. The website header includes the E*TRADE Financial logo and navigation links: Home, Trading & Portfolios, Quotes & Research, Mutual Funds & ETFs, Retirement & Planning, Banking & Credit Cards, and Mortgages & Home Equity. A search bar and a 'LOG ON' button are also visible. The main content area features a 'Thank You For Voting' message with a 'GET STARTED' button. Below the message, there is a 'Privacy Statement' link and a detailed disclaimer about the services offered by E*TRADE Securities, Incorporated.

Thank You For Voting

To enter your next Control Number [Click Here](#)

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5. Step: Confirmation of Executed Voting by E-Mail

The screenshot shows a Microsoft Internet Explorer browser window with the address bar displaying a URL from Hotmail. The page content is an email confirmation from ProxyVote.com. The email header includes the sender's name and email address, the date and time sent, the recipient's email address, and the subject line. The main body of the email contains instructions on how to confirm the voting, including a meeting date and time, and a confirmation link. The browser interface includes a search bar, navigation buttons, and a taskbar at the bottom.

MSN Hotmail - Message - Microsoft Internet Explorer

Adresse: <http://by106fd.bay106.hotmail.msn.com/cgi-bin/getmsg?msg=7EB894DE-EB96-466C-BAY7-45CE0F8D3E59&start=08le>

MSN Home | My MSN | Hotmail | Shopping | Money | People & Chat

msn Hotmail

berndbeuthe@hotmail.com

From: <registrar@proxyvote.com>
Sent: Monday, May 9, 2005 3:27 PM
To: berndbeuthe@hotmail.com
Subject: Proxyvote Confirmation %3386874981%

Your voting instructions have been received and recorded for:

PLUM CREEK TIMBER COMPANY, INC.
Meeting to be held on: 05/11/2005
For shareholders of record as of: 03/24/2005
CUSIP: 729251-108

This confirmation has been sent from www.ProxyVote.com.
Thank you for voting.

Get the latest updates from MSN

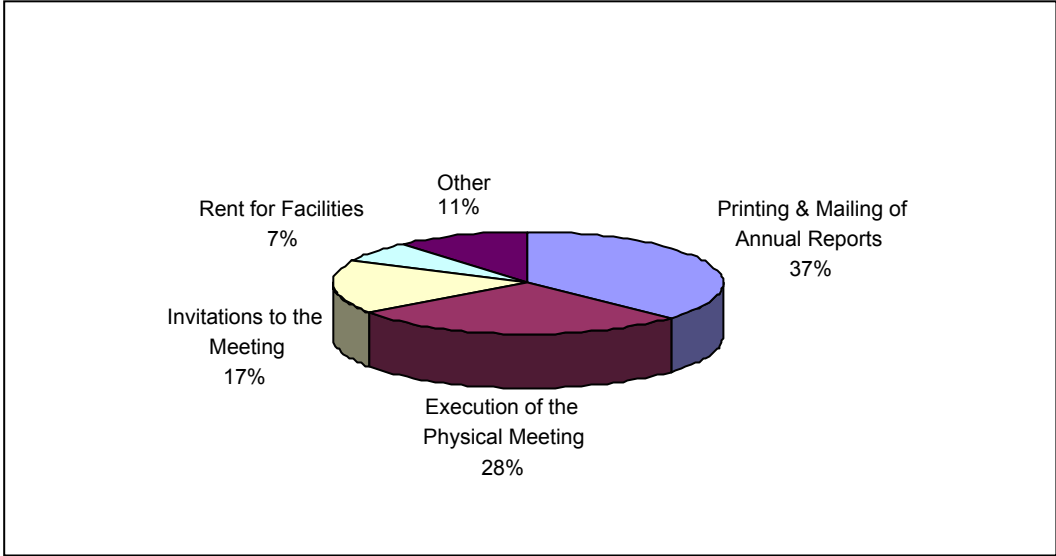
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2.3.4 Cost Structure of General Meetings and Potential Cost Savings

Based on the example of Germany, this section presents a typical cost structure of general meetings and outlines potential cost savings that might be achieved through a greater utilization of the Internet for shareholder meeting processes. The main cost positions for general meetings in Germany are: (1) Printing and mailing of annual reports = 37%, (2) Execution of the meeting = 28%, (3) Invitations to the meeting = 17%, (4) Rent for facilities = 7%, and (5) Other = 11%.

Figure 15: Cost Structure of General Meetings in Germany



Source: Schieber, 2002.

The execution of annual meetings requires a significant number of human resources. Schieber (2002) estimates that a company needs to employ 11 people per 100 participants. He provides the following statistic:

Table 5: Number of People Needed for Conducting General Meetings

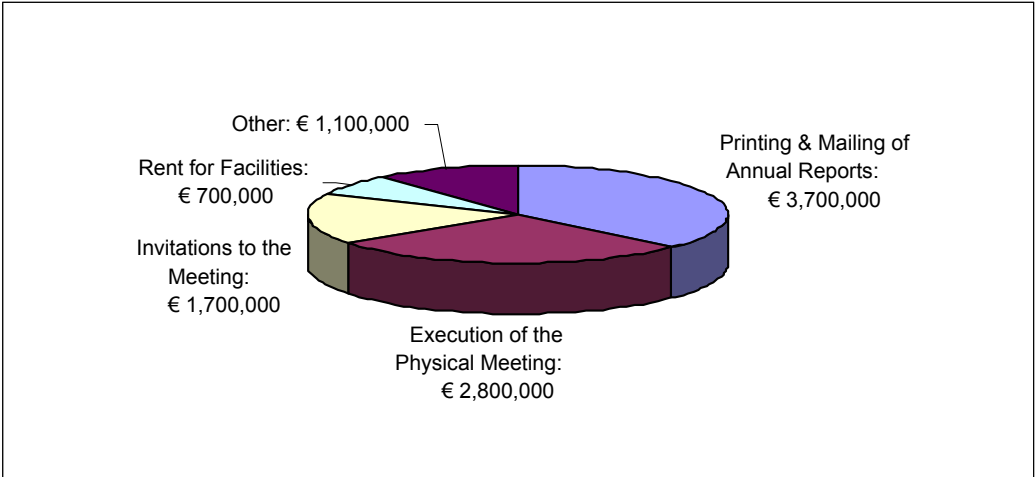
Number of People Required for:	Average	DAX30	MDAX	NEMAX	SMAX	Others
Security	18	93	21	6	9	7
Access Control	9	26	15	7	7	5
Vote Counters	9	46	16	4	5	4
Back Office	9	31	15	5	5	6
<i>TOTAL</i>	<i>45</i>	<i>196</i>	<i>67</i>	<i>22</i>	<i>26</i>	<i>22</i>

Source: Schieber, 2002.

After examining the aforementioned cost positions, one can conclude that an increased utilization of the Internet for shareholder meeting processes can help to lower costs in all listed areas. For example, the biggest cost is the printing and mailing of annual reports (37%). It is clear that sending links to annual reports by e-mail, e.g. as E-Trade does, is much cheaper than printing reports on paper and mailing them by regular mail. Increased Internet utilization can also help to lower the other aforementioned costs. If an increasing number of shareholders should switch from attending the physical meeting to participating in the meeting via the Internet (e.g. similar to Ford’s general meeting in 2005), then fewer resources are required to conduct the physical meeting and smaller facilities can be rented. Invitations to the meeting do not need to be printed on paper and sent by regular mail anymore but can also be sent by e-mail. Finally, one should not forget that an increased utilization of the Internet is beneficial for the environment because it reduces, for example, paper usage and energy consumption. Overall then, a smart employment of the Internet for general-meeting processes can lead to cost reductions and gains in efficiency.

An example can help to illustrate this point. Taking DaimlerChrysler and Deutsche Bank as examples, it becomes clear that significant amounts of money are involved in the preparation and execution of shareholder meetings at some large corporations. DaimlerChrysler spent about €9,000,000 for its general meeting in 1999 (Seeger, 2002) and Deutsche Bank spent approximately €10,000,000 for its general meeting in 2000 (Schieber, 2002). Assuming a total cost of €10,000,000 for illustrative purposes and applying the aforementioned cost positions to this figure leads to the following estimates:

Figure 16: Cost Estimates for Conducting a General Meeting at a Large, Public Company



Looking at the figures above, it appears to be reasonable to assume that an increased utilization of the Internet at large corporations can lead to considerable cost savings. For example, if 50% of annual reports and 50% of invitations to the meeting could be sent electronically, this might already lead to significant savings. Total savings should increase as more shareholders switch from receiving paper-based materials and attending general meetings in person to receiving electronic shareholder information and participating online. These financial issues will be investigated further in the research section of this dissertation.

2.3.5 Legal Situation in Germany

a) KonTraG

There are several laws in Germany that are important with regard to the shareholder meeting. First of all, there is the “Gesetz zur Kontrolle und Transparenz im Unternehmensbereich”¹³ (KonTraG), which led to better control of the supervisory board over management (Seeger, 2002). This law came into being after corporate scandals at Metallgesellschaft, Balsam, and Schneider led to demands for corporate governance reform. Nonetheless, the role of the shareholder meeting was not strengthened by the KonTraG and the law did not provide any means that might have served to increase shareholder participation (Seeger, 2002).

b) NaStraG

The introduction of the “Gesetz zur Namensaktie und zur Erleichterung der Stimmrechtsausübung”¹⁴ (NaStraG) in 2001 provided such means by making it possible to electronically delegate voting authority and provide voting instructions to a third party (Seeger, 2002; Seitz, 2003). Hence, through this law an important step was taken towards the feasibility of exercising shareholder rights via the Internet. Additionally, the NaStraG aimed to fulfill OECD guidelines regarding a facilitated exercise of shareholder voting rights (Seitz, 2003).

In particular, the NaStraG recognizes a shareholder’s e-mail address as equivalent to his/her regular address and, therefore, makes it possible for companies to send important messages to

¹³ “Gesetz zur Kontrolle und Transparenz im Unternehmensbereich” might be translated directly into English as law concerning the control and transparency of companies.

¹⁴ “Gesetz zur Namensaktie und zur Erleichterung der Stimmrechtsausübung” might be translated directly into English as law concerning registered shares and the facilitation of the exercise of voting rights.

shareholders via e-mail. Furthermore, it makes possible that shareholders can delegate voting authority and give voting instructions via the Internet, for example, as part of electronic banking (Seitz, 2003). This would be similar to the E-Trade example given earlier. Banks and shareholder associations do not need to obtain voting authority on paper anymore and online security issues need to be resolved by these parties. An important point is that the necessary documentation for the delegation of voting authority and voting instructions needs to be stored for three years. Finally, due to the introduction of the NaStraG, it is now also possible to electronically delegate voting authority to private persons and to give them voting instructions in this way. All in all, the NaStraG introduced a voting system to Germany that is quite similar to the American proxy voting system (Seitz, 2003).

c) TransPuG

The implementation of the “Transparenz und Publizitätsgesetz”¹⁵ (TransPuG) in 2002 was a further step towards the successful implementation of online shareholder meetings in Germany. The TransPuG made it possible to adjust company articles or statutes to allow for the transmission of the shareholder meeting in the form of picture and sound (Seitz, 2003). Such a transmission might occur via the Internet to all stockholders as well as other interested parties.

The TransPuG introduced several other changes to the German “Aktiengesetz”. In general, several changes have made it possible to use electronic means instead of paper to communicate with shareholders. Since the introduction of the TransPuG, German companies can publish vital information for their shareholders in the electronic “Bundesanzeiger” instead of in the paper-based version (§ 25 dAktG). Indeed, since January 2003, only the electronic version of the “Bundesanzeiger” exists (Seitz, 2003). This means, for example, that the announcement of a general meeting can now happen in electronic form. One of the hoped for consequences was that it would be easier to reach foreign stockholders in this way since they often did not receive traditional, paper-based information from companies (Seitz, 2003). Furthermore, the TransPuG also made it easier for companies to distribute various documents in electronic instead of paper-based form (§ 90, 170, 314 dAktG). As a result, the law strengthened the reforms introduced by the NaStraG.

¹⁵ “Transparenz und Publizitätsgesetz” might be translated directly into English as transparency and publication law.

The TransPuG also made it possible for members of the supervisory board to participate in general meetings in the form of picture and sound if a company's articles have been changed accordingly (§ 118 dAktG). The same paragraph also states that the general meeting can be transmitted in the form of picture and sound if a company's articles have been adjusted to permit this. Hence, this paved the way for the execution of online shareholder meetings in Germany. In this context, it is also important to mention that if company articles have been changed to permit a transmission of the annual meeting via the Internet, then it is not possible anymore for a shareholder to demand that his/her speech during the meeting will not be broadcast. Indeed, the clarification of this particular issue was one of the main intentions of the law (Seitz, 2003). A final noteworthy change that the TransPuG introduced was that shareholders' counter-proposals can be published on the Website of the electronic "Bundesanzeiger" (§ 126 dAktG).

d) Summary

Through the introduction of the NaStraG and the TransPuG, it is now legally possible in Germany to conduct an online shareholder meeting in addition to the regular, physical meeting. Shareholders have the opportunity to follow the general meeting online and cast their votes via the Internet. It is important to note that this is not a direct vote but an indirect vote similar to electronic proxy voting in the USA. A third party collects the online votes and then exercises them in the physical meeting. Two important intentions of the NaStraG and the TransPuG were (1) the replacement of paper-based modes of communication between companies and their shareholders with electronic modes and (2) the facilitation of participation by the increasing number of local and foreign shareholders in Germany.

In the short term, companies that choose to offer online voting and online meetings will be faced with more work and higher costs. They now have to conduct both a physical meeting as well as an online meeting or online voting. Over the medium to long term, participation might shift from the physical to the online meeting, which might eventually lead to cost savings and a smaller administrative burden. In any case, if the introduction of online shareholder meetings and voting can increase shareholders' participation in the governance of their firms, then an important step forward has been made. To find out if this has indeed been the case so far is one of the tasks of this dissertation.

Finally, a virtual shareholder meeting – i.e. a shareholder meeting conducted entirely via the Internet without any physical meeting – is not legally possible in Germany (Seeger, 2002; Seitz, 2003; Kim, 2003; Giedinghagen, 2005). Currently, such a shareholder meeting conducted exclusively in cyberspace is admissible in several locations including, for example, the very business-friendly US state of Delaware, Minnesota, Texas, Massachusetts, and Guernsey.

2.3.6 Legal Situation in Switzerland

The legal situation in Switzerland is not entirely clear and scholars have different opinions about the legitimacy of online voting and online shareholder meetings. Böckli (2004) states clearly that online shareholder meetings are currently not possible in Switzerland and that legal reforms would be necessary in order to be able to introduce them. He recommends that the Swiss government should set up a task force to investigate this matter in more detail.

Von der Crone (2003), on the other hand, states that Swiss legislation allows for online participation in Swiss shareholder meetings but that it would be helpful to have clear legal guidance concerning this issue. According to von der Crone (2003), there is currently somewhat of a grey zone and, as a consequence, companies might hesitate to introduce online voting and online shareholder meetings.

Von der Crone (2003) distinguishes among three types of technologically supported shareholder meetings:

- a) Multi-Local Shareholder Meeting¹⁶*
- b) General Meeting with Indirect or Direct Participation via the Internet¹⁷*
- c) Virtual Shareholder Meeting*

In the following, these three types of general meetings will be explained in detail with a special focus on relevant legal aspects. At this point, it should suffice to state that – according to von der Crone (2003) – the first two types of general meetings are permissible under Swiss

¹⁶ Similar to the tele shareholder meeting covered earlier.

¹⁷ Similar to the online shareholder meeting covered earlier.

law, whereas the third type is not. Tanner (2003) has a similar viewpoint on the matter. She states that a virtual shareholder meeting is currently not permissible under Swiss law but that it is permissible to broadcast the general meeting over the Internet and give shareholders the opportunity to provide online instructions to their proxies who physically attend the meetings.

a) Multi-Local Shareholder Meeting

First of all, there is the multi-local shareholder meeting. This type of meeting takes place at multiple locations at the same time, and shareholders are physically present at one of these locations. They can see what is happening at the other location(s) via a big screen. For example, ABB conducted such a general meeting in 2000 and 2001 where shareholders were able to attend a meeting in Switzerland or Sweden and follow what happened at the other location via a large screen. The reasoning behind conducting this type of meeting was that the company had a significant number of shareholders in Switzerland and Sweden and that it would have been too expensive as well as too inconvenient for small shareholders to travel to a location abroad. By conducting a general meeting in two connected locations at the same time, the company hoped that more shareholders would actually participate in the meeting.

Swiss law simultaneously views the general meeting as a place for forming opinions and, subsequently, for making decisions. In order to ensure the exercise of these two functions, the different locations need to be connected to each other so that shareholders in both locations can follow what happens at the other location(s) (Von der Crone, 2003). Otherwise, they could not truly form well-informed opinions and base their decisions upon them. As a result, a one-way transmission would not be permissible under Swiss law. If company articles or statutes do not specify a location for the general meeting, then the meeting can be conducted at any location, even abroad if good reasons exist. Nonetheless, if conducted abroad, Swiss law still applies to the shareholder meeting (Von der Crone, 2003). Even though Swiss lawmakers had one meeting location in mind, the literal phrasing of the law does not prohibit a multi-local general meeting (Von der Crone, 2003). Furthermore, if such a meeting fits a company's ownership structure well and shareholders can be encouraged to participate, then it also fulfills the requirement of the *Swiss Code of Best Practice for Corporate Governance* (Economiesuisse, 2003), which demands that as many shareholders as possible should have the opportunity to participate in general meetings.

b) General Meeting with Indirect or Direct Participation via the Internet

Second, there is the general meeting with the opportunity to participate via the Internet. This means that there is a regular physical meeting and, in addition, shareholders can follow the meeting via the Internet and cast their votes online. From a corporate governance point of view, this might lead to a higher participation in the meeting and to more representative decisions (Von der Crone, 2003). From an economic viewpoint, if participation increasingly shifts from the physical meeting to the online meeting, this can lead to considerable cost savings for companies (Von der Crone, 2003). One needs to distinguish between two forms of meetings here: Physical general meetings plus indirect participation via the Internet and Physical general meetings plus direct participation via the Internet (Von der Crone, 2003).

Physical general meetings plus indirect participation via the Internet

The first form is similar to the electronic proxy voting system in the USA and Germany. The shareholder delegates voting authority to a third party that physically participates in the annual meeting. Moreover, if offered by the company, the shareholder can also follow the meeting over the Internet. During the meeting, the shareholder has the opportunity to give his/her representative voting instruction via the Internet. It is important to point out that only the physically present representative is legitimized to vote in the meeting and the given voting instructions only concern the relationship between the shareholder and his/her representative. If the representative should ignore the shareholder's instructions and vote differently, the cast votes are still valid, but the representative might be liable to the shareholder (Von der Crone, 2003). The representative can take voting instruction before or during the meeting and can do so over the phone, orally, or over the Internet. In the end, from the perspective of the company that conducts the general meeting, it does not really matter when and how the representative receives the instructions. From a legal point of view, this matter only concerns the relationship between the shareholder and his/her representative (Von der Crone, 2003). It is also possible that the company offers this proxy-voting service to its shareholders. Then, the aforementioned points apply equally well. The company is now liable for the correct execution of the voting instructions and for the proper functioning of the computer system (Von der Crone, 2003).

Based on von der Crone (2003), this form of shareholder meeting – i.e. a physical meeting plus indirect participation via the Internet – is permissible under Swiss law.

Physical general meetings plus direct participation via the Internet

The physical general meeting plus direct participation via the Internet differs from the meeting described above in that shareholders can vote directly and do not need to rely on a representative who is physically present at the meeting. In this type of general meeting, it is important that shareholders have the opportunity to participate directly in the meeting. This might be achieved, for example, if Internet participants can ask questions, give comments, or make proposals via e-mail. Their participation can be made visible for the shareholders at the physical meeting by projection on a screen. A potential problem that might arise in this situation is that too many questions, comments, or proposals are received by e-mail and that it would take much too long to work through all of them during the meeting. Hence, if participation via the Internet should increase considerably in the future, the difficult legal question might need to be answered if only shareholders that achieve a certain threshold of ownership are allowed to speak up or e-mail contributions during the meeting.

There are several additional legal issues that need to be considered when a direct participation over the Internet is offered to shareholders. An important point is that the company needs to make sure that only shareholders have online access to the meeting (Von der Crone, 2003). This can be done with the help of access codes and the necessary security technology is available today. If this condition is violated, then it might be possible that legal action can be taken against the decisions of the shareholder meeting (Von der Crone, 2003). Since this issue falls under the responsibility of the board of directors, it is advisable that it hires an IT expert who certifies the functionality and reliability of the IT system. This also serves to limit the liability of the board of directors (Von der Crone, 2003). In this context, it is vital to emphasize that it is a top priority to ensure that the chosen IT system is robust and that the probability of malfunctioning is very low. If there should be a problem with the system and shareholders that participate online are not able to vote or participate properly in the meeting, then, as pointed out above, it might be possible to legally challenge the decisions of the general meeting. In contrast, the Internet participant carries the risk that a system outside the control of the company can break down (Von der Crone, 2003).

In order for shareholders to be able to participate online in the shareholder meeting it is crucial that they can follow the meeting in real time via the Internet. The necessary software and hardware are already available today, but it is also necessary that the participants in the physical meeting are filmed when they speak up during the meeting. This can raise legal

difficulties since not everyone might agree to be filmed. In Germany, after the implementation of the TransPuG in 2002, this issue has been solved and it is now possible to transmit the general meeting in the form of picture and sound over e.g. the Internet. According to von der Crone (2003), the transmission over the Internet is also permissible in Switzerland if the general meeting has decided in favor of it. Furthermore, it is advisable to specify the transmission over the Internet in the company's articles so that a vote on this issue does not need to be repeated every year.

Consequently, based on von der Crone (2003), this form of shareholder meeting – i.e. a physical meeting plus direct participation via the Internet – is also permissible under Swiss law. Nonetheless, von der Crone (2003) also states that there is still some legal insecurity regarding online participation in Swiss shareholder meetings and he therefore recommends that legislators should clarify this matter in the interest of Swiss companies.

c) Virtual Shareholder Meeting

Third, there is the virtual shareholder meeting, which is conducted entirely over the Internet without any physical meeting. There are two possibilities how a virtual shareholder meeting can be conducted: (a) via a chat room and (b) with the assistance of picture and sound.

In the first option, the general meeting is conducted in writing since it takes place in a chat room and participants can post their comments there. From a security standpoint, such a meeting seems feasible since modern technology can assure that only legitimate shareholders as well as directors can participate in the meeting. Nonetheless, a key problem with this form of meeting is that it is not possible for shareholders to ascertain that members of the board of directors are really participating in the meeting, which they are required to do by Swiss law (Von der Crone, 2003). This is the case because shareholders cannot see directors and, hence, do not know if they are posting comments or someone else is doing it for them. Furthermore, in the chat room meeting, it is also not possible for shareholders to gain a personal impression of board members, which is an important function of the general meeting (Von der Crone, 2003). As a result, given these problems, the chat-room-based general meeting is not permissible under Swiss law (Von der Crone, 2003).

In the second option, a virtual general meeting with the assistance of picture and sound, shareholders can see and hear board members and can communicate with them as well as

other shareholders in the form of e-mail or chat. It is also imaginable that shareholders attach a camera and a microphone to their computers so that the other participants can see and hear them. This form of meeting solves the two previously mentioned deficits of the chat-room meeting and, in general, appears to ensure that the shareholder meeting remains a proper place for forming opinions and for making well-informed decisions (Von der Crone, 2003). At this point, it is vital to recall that the Swiss “Aktienrecht” does not talk about a specific meeting place but only about a general meeting. Hence, according to von der Crone (2003), there is nothing in writing in the Swiss law that directly prohibits a virtual general meeting. Nonetheless, the virtual general meeting faces another problem. According to Swiss law, it needs to be ensured that shareholders have reasonably easy access to the place of the shareholder meeting (Von der Crone, 2003). If this is not the case, then the general meeting violates the law and is not permissible. Exactly here lies the problem with the virtual shareholder meeting because some shareholders might not be able to participate in the virtual meeting due to a lack of computer skills (Von der Crone, 2003). As a consequence, the virtual meeting would take place at a location – i.e. in cyberspace – that is difficult to reach for some shareholders. It is vital to note that the key problem seems to be the lack of computer skills and not the lack of a computer and Internet connection. The latter problem could be solved by visiting e.g. an Internet café. Overall then, given the aforementioned key problem, the virtual general meeting with the assistance of picture and sound is not permissible under Swiss law, even on the basis of a company’s statutes (Von der Crone, 2003).

d) Summary

There are three possible forms of technology-supported shareholder meetings: (1) Multi-Local Shareholder Meetings, (2) General Meetings with Indirect or Direct Participation via the Internet, and (3) Virtual Shareholder Meetings. The first two types of general meetings appear to be permissible under current Swiss law, whereas the third type is clearly not. Nonetheless, there is still some legal uncertainty surrounding the second type of meeting (i.e. general meeting with indirect or direct participation via the Internet), which probably discourages Swiss companies from employing this form of meeting. Comparing the situation in Switzerland to the ones in other countries presented earlier, one needs to draw the conclusion that Switzerland is currently lagging behind the developments that have taken place elsewhere (e.g. in Finland, the USA, the UK, or Germany). Given that Switzerland has an international capital market and that participation in Swiss shareholder meetings is quite

low, it should introduce the required legal reforms to make direct or indirect online participation clearly possible.

Another issue might also be particularly relevant for Switzerland: increased international competition with offshore locations for banking business, low corporate tax rates, and the registration of companies. For example, the Swiss city of Zug is well known as a location for registering companies. If offshore locations like the Cayman Islands, Bermuda, Guernsey, or The Bahamas move to offering the possibility of virtual general meetings – not necessarily only for large public companies but also for smaller companies – then Switzerland might be at a competitive disadvantage. Bermuda, for example, already offers the possibility of electronic voting and virtual shareholder meetings.

2.3.7 Legal Situation in Other Countries

In order to put the legal situation in Germany and Switzerland into perspective, it is necessary to look at developments in other countries. This will be done in depth here and direct quotes of relevant laws will frequently be provided in order to get an overview of how different countries or states have worded their laws to account for technological developments. This also serves the purpose of getting a better understanding of how countries that have not yet reformed their laws might phrase their changes in the future. Furthermore, some of the examples presented here might also benefit corporate governance codes that want to encourage firms to provide shareholders with the opportunity to participate over the Internet.

a) USA

A country that has been mentioned before is the USA. The American proxy voting system is a well-established one and will be covered in some depth here. This will include a detailed review of the legal aspects regarding electronic delivery of shareholder materials, electronic voting, and electronic shareholder meetings. Electronic voting and electronic shareholder meetings are broad terms that include voting over the Internet as well as general meetings conducted via the Internet. In addition, for example, electronic voting can also include voting by telephone. It was mentioned earlier that Germany changed its law in 2001 and 2002 in order to allow more online involvement of shareholders in corporate governance. In the USA, the SEC already dealt with this topic in 1995 and 1996 and issued two important releases in those years. A third SEC release followed in the year 2000.

In the USA, general meetings as well as the proxy voting process are governed by (1) state corporate laws, (2) federal securities laws¹⁸, (3) stock exchange rules, and (4) corporate charters and bylaws (Garner and Alonso, 2005). Hence, for the topic at hand, these laws, rules, and bylaws also cover the electronic distribution of shareholder information (e.g. annual reports, proxy voting materials, etc.), electronic voting, online shareholder meetings, and virtual shareholder meetings.

Delivery of Proxy Materials

The electronic delivery of proxy materials is governed primarily by federal securities laws (Fried, Frank, Harris, Shriver & Jacobson LLP, 1998). An important organization at the federal level is the Securities and Exchange Commission (SEC), which has issued three releases that address electronic communications. The first release was issued at the end of 1995 and covered how companies have to deliver shareholder materials electronically, including proxies, in compliance with federal securities laws (SEC, 1995). The second SEC release was issued in 1996 and complemented the first release (SEC, 1996). It covered the utilization of electronic media by broker-dealers, transfer agents, and investment advisors for the delivery of information. The third release followed in 2000. It updated previous guidance on the use of electronic media, discussed issuers' liability for Website content, and outlined basic legal principles that issuers as well as market intermediaries should consider in conducting online offerings (SEC, 2000).

Based on these SEC releases, US companies can deliver annual reports, proxy statements, and proxy voting materials to shareholders electronically if they comply with three basic criteria: (1) timely and adequate notice, (2) effective access, and (3) evidence of delivery (Garner and Alonso, 2005). The criteria of timely and adequate notice can be fulfilled by informing shareholders when and where electronic materials will be available. For example, an e-mail message that contains a link to proxy materials constitutes adequate notice. In order to fulfill the timeliness criteria, the notification should be sent to shareholders long enough before the annual meeting so that they have enough time to inform themselves adequately and to vote their shares. Stock exchanges in the US have rules regarding when shareholders should receive proxy materials. The criteria of effective access can be fulfilled by making it easy for shareholders to access electronic materials and download them. This means, for example, that

¹⁸ For the proxy voting process, Section 14 of the Securities Exchange Act of 1934 is particularly important.

companies have to employ technologies that are widely available and easy to use. It is also important to keep in mind that companies always have to provide shareholders with paper-based documents if they should request this; even if shareholders previously agreed to receive materials in electronic form. Additionally, the proxy statement should remain available online until voting at the general meeting is completed. Finally, the criteria of evidence of delivery can be fulfilled by e-mail return receipts, records of Website access, return or use of forms available only by accessing information electronically, consent by the shareholder to electronic delivery through a particular medium, or any other confirmation that a shareholder has accessed, downloaded, or printed materials.

Importance of State Law for Electronic Voting and General Meetings

In the U.S., individual states have great legislative powers and, as a consequence, have their own laws covering business corporations. It is important to point out that business corporations are covered by the laws of the state of their incorporation and not by the laws of the state where their headquarters are located (Giedinghagen, 2005). Due to the states' far reaching legal powers, the American proxy voting process is also mainly regulated by state law (Fried, Frank, Harris, Shriver & Jacobson LLP, 1998). Generally, state corporate statutes allow shareholders to vote at a meeting in person or by proxy. If a shareholder chooses to vote by proxy, the proxy must comply with the relevant state corporation statute. About 20 US states have flexible laws that permit some form of electronic voting for record holders, including, for example, voting by telephone or over the Internet. This number has increased over time as states have felt more pressure to modernize their corporate governance laws (Bell, 2001a). The remaining states that do not permit electronic voting either require manual proxy signatures, authentication of proxies, or are silent regarding the acceptability of electronic proxy voting (Bell, 2001a). It should be noted here that all states allow the transmission of general meetings over the Internet so that shareholders can follow what is happening at the physical meeting. Nonetheless, until Delaware changed its law in 2000, it had not been possible to follow a shareholder meeting over the Internet and then vote electronically during the meeting. Usually, in the US, electronic proxy voting closes at a specified point in time before the physical general meeting commences.

State laws differ from each other in that some prescribe the use of a specific electronic medium like a telephone for electronic voting while others permit any type of electronic medium (Bell, 2001a). Given this variety in state legislation, there seems to be a need for

reform in order to make electronic voting generally possible. Due to the availability of modern technology, it also does not make sense to restrict electronic voting to one specific medium like the telephone.

The General Corporation Law of the state of Delaware, for example, clearly permits electronic voting (State of Delaware, 2005). Besides Delaware, the following US states permit some form of electronic voting (based on Bell, 2001a, except for Massachusetts and Texas):

- California [California Corporations Code Cal. Corp. Code 178]
- Delaware [Delaware Corporation Laws Title 8. Chapter 1. Subchapter VII. 212]
- Indiana [Indiana Code Title 23. Article 1. Chapter 30. Section 3]
- Louisiana [Louisiana Revised Statutes Title 12. Section 75]
- Maryland [Maryland Code Article - Corporations and Associations Section 2-507]
- Massachusetts [General Laws of Massachusetts Part 1. Chapter 156D. Section 7.08]
- Minnesota [Minnesota Statutes Chapter 302 A. Section 449]
- Mississippi [Mississippi Code Title 79. Chapter 4. Section 7.22]
- Missouri [Missouri Revised Statues Chapter 351. Section 245. 5(2)]
- Nevada [Nevada Revised Statutes Chapter 78. Section 355. 2(b)]
- New York [NY State Consolidated Laws Chapter 4. Article 6. Section 609. I(2)]
- Oklahoma [Oklahoma Statutes Title 18. Chapter 22. Section 1057. (C)2]
- Rhode Island [Rhode Island General Laws Title 7. Chapter 1.1 Section 31. C 1(II)]
- Tennessee [Tennessee Code Title 48. Chapter 17. Section 203. (B)2]
- Texas [Texas Business Corporation Articles 2.24 and 2.29]
- Utah [Utah Code Title 16. Chapter 10a. Section 722. (2)]
- Virginia [Virginia Code Title 13.1 Chapter 9. Section 663. (B)2]
- Wyoming [Wyoming Statutes Title 17. Chapter 16. Article 7. Section 22. (B)]

In addition to electronic voting, the states of Delaware, Minnesota, Massachusetts, and Texas allow for general meetings conducted by means of remote communication, which includes virtual shareholder meetings, if this has been specified in companies' articles or bylaws. Regarding the legal situation in Massachusetts, only non-public companies are permitted to hold virtual meetings. In the following paragraphs, direct quotes from the relevant laws of these states will be given to show how they have phrased their laws to account for the capabilities offered by modern communication technology. If one examines the relevant

sections of the laws dealing with shareholder participation by means of remote communication, one can see that they are worded very similarly. This indicates that Minnesota, Texas, and Massachusetts borrowed from §211 of Delaware's General Corporation Law since Delaware was the first US state that changed its law.

In the case of Delaware, shareholder participation in the general meeting by means of remote communication is regulated in §211 of the General Corporation Law of the state of Delaware (key points are underlined for emphasis):

“(a)(1) Meetings of stockholders may be held at such place, either within or without this State as may be designated by or in the manner provided in the certificate of incorporation or bylaws, or if not so designated, as determined by the board of directors. If, pursuant to this paragraph or the certificate of incorporation or the bylaws of the corporation, the board of directors is authorized to determine the place of a meeting of stockholders, the board of directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as authorized by paragraph (a) (2) of this section.

(2) If authorized by the board of directors in its sole discretion, and subject to such guidelines and procedures as the board of directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication: a. Participate in a meeting of stockholders; and b. Be deemed present in person and vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.” (State of Delaware, 2005)

In the case of Minnesota, this issue is regulated in the Minnesota Statutes Chapter 302A Sections 431 and 436 (key points are underlined for emphasis):

“302A.431 Regular meetings of shareholders.

Subd. 3. *Time; place.* A regular meeting, if any, shall be held on the day or date and at the time and place fixed by, or in a manner authorized by, the articles or bylaws, except that a meeting called by or at the demand of a shareholder pursuant to subdivision 2 shall be held in the county where the principal executive office of the corporation is located. To the extent authorized in the articles or bylaws, the board of directors may determine that a regular meeting of the shareholders shall be held solely by means of remote communication in accordance with section 302A.436, subdivision 2.” (State of Minnesota, 2004)

“302A.436 Remote communications for shareholder meetings.

Subd. 1. *Construction and application.* This section shall be construed and applied to: (1) facilitate remote communication consistent with other applicable law; and (2) be consistent with reasonable practices concerning remote communication and with the continued expansion of those practices.

Subd. 2. *Shareholder meetings held solely by means of remote communication.* To the extent authorized in the articles or bylaws and determined by the board, a regular or special meeting of shareholders may be held solely by any combination of means of remote communication through which the shareholders may participate in the meeting, if notice of the meeting is given to every holder of shares entitled to vote required by this chapter for a meeting, and if the number of shares held by the shareholders participating in the meeting would be sufficient to constitute a quorum at a meeting. Participation by a shareholder by that means constitutes presence at the meeting in person or by proxy if all the other requirements of section 302A.449 are met.

Subd. 3. *Participation in shareholder meetings by means of remote communication.* To the extent authorized in the articles or bylaws and determined by the board, a shareholder not physically present in person or by proxy at a regular or special meeting of shareholders may, by means of remote communication, participate in a meeting of shareholders held at a designated place. Participation by a shareholder by

that means constitutes presence at the meeting in person or by proxy if all the other requirements of section 302A.449 are met.

Subd. 4. *Requirements for meetings held solely by means of remote communication and for participation by means of remote communication.* In any meeting of shareholders held solely by means of remote communication under subdivision 2 or in any meeting of shareholders held at a designated place in which one or more shareholders participate by means of remote communication under subdivision 3: (1) the corporation shall implement reasonable measures to verify that each person deemed present and entitled to vote at the meeting by means of remote communication is a shareholder; and (2) the corporation shall implement reasonable measures to provide each shareholder participating by means of remote communication with a reasonable opportunity to participate in the meeting, including an opportunity to: (i) read or hear the proceedings of the meeting substantially concurrently with those proceedings; (ii) if allowed by the procedures governing the meeting, have the shareholder's remarks heard or read by other participants in the meeting substantially concurrently with the making of those remarks; and (iii) if otherwise entitled, vote on matters submitted to the shareholders.” (State of Minnesota, 2005)

In the case of Texas, this issue is regulated in article 2.24 of Texas’ Business Corporation Act (key points are underlined for emphasis):

“Art. 2.24. Meetings of Shareholders

A. Meetings of shareholders may be held at such place within or without this State as may be stated in or fixed in accordance with the bylaws. If no other place is so stated or fixed, the board of directors of the corporation is not authorized to designate a place, or the board of directors chooses not to designate a place, meetings shall be held at the registered office of the corporation.

(1) If, under the articles of incorporation or the bylaws, the board of directors is authorized to determine the place of a meeting of shareholders, the board of directors may, in its discretion, determine that the meeting may be held solely by means of remote communication as provided by Subsection (2) of this section.

(2) If authorized by the board of directors, and subject to any guidelines and procedures adopted by the board of directors, shareholders not physically present at a meeting of shareholders, by means of remote communication: (a) may participate in a meeting of shareholders; and (b) may be considered present in person and may vote at a meeting of shareholders held at a designated place or held solely by means of remote communication if: (i) the corporation implements reasonable measures to verify that each person considered present and permitted to vote at the meeting by means of remote communication is a shareholder; (ii) the corporation implements reasonable measures to provide the shareholders at the meeting by means of remote communication a reasonable opportunity to participate in the meeting and to vote on matters submitted to the shareholders, including an opportunity to read or hear the proceedings of a meeting substantially concurrently with the proceedings; and (iii) the corporation maintains a record of any shareholder vote or other action taken at the meeting by means of remote communication.” (State of Texas, 2005)

In the case of Massachusetts, this issue is regulated in Chapter 156D, Section 7.08 of the General Laws of Massachusetts (key points are underlined for emphasis):

“Section 7.08. Meeting by Remote Communications; Remote Participation in Meetings
Unless otherwise provided in the articles of organization or bylaws, if authorized by the board of directors: any annual or special meeting of shareholders need not be held at any place but may instead be held solely by means of remote communication, unless the corporation is a public corporation¹⁹; and subject to such guidelines and procedures as the board of directors may adopt, shareholders and proxyholders not physically present at a meeting of shareholders may, by means of remote communications: (1) participate in a meeting of shareholders; and (2) be deemed present in person and vote at a meeting of shareholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that:(i) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder; (ii) the corporation shall implement reasonable measures to provide such shareholders and proxyholders a reasonable opportunity to participate in the

¹⁹ Consequently, in Massachusetts, virtual shareholder meetings are only possible for non-public companies.

meeting and to vote on matters submitted to the shareholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings; and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.” (State of Massachusetts, 2005)

As a result, Delaware, Minnesota, Massachusetts, and Texas are four of the most progressive locations regarding the online participation of shareholders in general meetings. In the case of Delaware, one of the factors that drives this progressiveness might be the competition that the state faces from other US states as well as offshore locations like Bermuda, Cayman Islands, and Guernsey. They all compete for the registration of companies and try to be as competitive as possible. In order to increase these locations’ competitiveness, the necessary legal frameworks need to be in place. In Delaware, this framework has been put partly into place by §211 of the General Corporation Law. Minnesota, Massachusetts, and Texas have followed the example set by Delaware to increase their attractiveness to businesses as well. The examples of Bermuda, Cayman Islands, and Guernsey will be discussed in detail later on, but it can already be said here that all allow shareholders to participate online in general meetings.

Criticism of Virtual Shareholder Meetings in the USA and an Example

However, the possibility that Delaware-registered companies can hold virtual shareholder meetings has also been criticized. For example, the AFL-CIO as well as the Council of Institutional Investors are against virtual meetings because they want to preserve their ability to confront a company’s leadership directly. Indeed, after Delaware’s legislation was changed in 2000, the Council of Institutional Investors wrote letters to companies registered in Delaware in order to discourage them from holding virtual shareholder meetings (Bell, 2001b). Many US companies broadcast their shareholder meetings over the Internet, albeit without the opportunity to vote electronically during the meeting. In 2001, Inforte became the first Delaware-based company to conduct a purely electronic shareholder meeting (Bell, 2001b). Inforte is a small company with around 280 employees and provides customer as well as business intelligence to its clients.

The company’s meeting in 2001 was not a sophisticated virtual meeting with transmission over the Internet and online voting during the meeting. Rather, Inforte’s general meeting was

transmitted over the Internet via an audio Webcast and shareholders had the opportunity to vote by fax (Bell, 2001b). Furthermore, shareholders had the chance to ask questions by e-mail, which were then supposed to be read aloud by the chairman so that the other shareholders could follow the questions via the audio Webcast. Even though Inforte's approach is not at the forefront of technological possibilities and appears somewhat cumbersome, it still represents a completely electronic meeting. The company implemented such a type of meeting because it saw the chance to achieve considerable time and cost savings. In 2001, the company spent \$2,000 for its general meeting, including such things as the Webcast and an election inspector (Bell, 2001b). This was considerably less than the \$20,000 that the company had originally budgeted for a physical meeting. The time savings consisted of simpler planning and no traveling for management and the board. Inforte had about 5,500 registered shareholders at the time, which made a purely electronic meeting still manageable (Bell, 2001b). At larger companies like General Electric, considerable coordination problems might easily arise due to their much higher number of shareholders. For example, if all GE shareholders were permitted to ask questions during an online or virtual meeting, there might be thousands of questions coming in via e-mail, which would be impossible to answer in a reasonable time.

It is also important to keep in mind that electronic voting has not yet been tested in the context of a hostile takeover. As a result, the rules and practices concerning electronic voting have not yet been subjected to the rigorous legal challenges that often accompany proxy fights.

Authentication and Security

Based on state law, another crucial issue for electronically submitted proxies is that some form of authentication is required to make sure that the shareholder really authorized the proxy (Bell, 2001a). In order to fulfill this requirement either unique identification numbers (e.g. PINs) or digital signature technology may be used. Digital signature technology adheres to a higher standard of security, which would be helpful in the case of a proxy contest. A drawback of this technology is that it is somewhat more cumbersome to use than ordinary PINs.

Companies' Articles of Association/Bylaws

A key issue for facilitating the utilization of electronic document delivery, electronic voting, as well as electronic shareholder meetings is to update a company's articles of incorporation

and/or bylaws. Bylaws might specify that proxies must be signed, written, or delivered by mail, which does not take account of recent technological developments. These issues need to be resolved so that they do not stand in the way of online shareholder participation.

Information of Shareholders

Finally, once companies decide to offer electronic document delivery as well as electronic participation in the general meeting, they have to inform shareholders of this and let them know how they can participate in the process. Furthermore, companies should also disclose the validity of electronic voting procedures under state corporate law (Bell, 2001a).

b) United Kingdom

In 2000, the Electronic Communications Act and the Electronic Communications Order were passed in the UK. Together, they legalized electronic proxy voting, and Lloyds TSB Group became the first company to offer electronic proxy voting to shareholders (Association of Investment Trust Companies, 2005). As a result, the United Kingdom has a similar electronic voting system to Germany. It is an indirect electronic voting system – i.e. shareholders delegate voting authority and give voting instructions via the Internet and then a representative physically participates in the general meeting to cast the votes. In 2004, Paul Myners (2004) issued a report to the Shareholder Voting Working Group in the UK that examined the key impediments to the process by which UK institutions like e.g. pension funds vote their shares in UK companies. His main conclusion was that an electronic voting system could bring a significant increase in participation and efficiency. One year after the issuance of the Myners report, every FTSE 100 company now offers electronic voting to shareholders or is taking steps to do so (Governance Publishing & Information Services, 2005). Furthermore, according to Seitz (2003), there is a legislative proposal on the table in the United Kingdom that would permit virtual shareholder meetings.

An example can illustrate how the electronic proxy voting system works in the UK. One company that offers online voting to shareholders in UK companies is Computershare.²⁰ In order to vote their shares, shareholders of UK companies go the Computershare Website (either directly or via a link on their companies' Websites) and then click on the proxy voting

²⁰ Another service provider in the UK is, for example, Lloyds TSB Registrars. The company acts as a registrar for over 800 companies including more than 60 of the FTSE 100. Lloyds TSB Registrars manages around 24 million shareholder accounts and also offers electronic proxy voting to shareholders.

link. From there, they get to a menu where they can select their companies and vote their shares online after they have identified themselves. Comparing this process to the one offered by E-Trade, it seems to be a little more cumbersome because shareholders have to go to a specific Website and identify themselves to vote their shares. In the case of E-Trade, the shareholder simply receives an e-mail which contains a direct link to the online proxy voting form. No further identification is necessary. However, security might be lower in the E-Trade example if an unauthorized person gets access to the shareholder's e-mail account and votes his/her shares. This might be a particularly relevant problem if someone holds a large block of shares that can influence the voting outcome at the general meeting. This situation might also raise interesting legal questions since, as mentioned earlier, the company that offers online voting is usually only responsible for the security of its own IT systems and not for the ones of other providers. The following pages provide an illustration of how shareholders in UK companies can vote their shares via the Website of Computershare.

Computershare - Home - Microsoft Internet Explorer

Adresse: http://www-uk.computershare.com/default.asp

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- 19 May 2005: Computershare acquires Acciontec and strengthens its share registry core business
- 9 May 2005: Computershare completes acquisition of absreports.com from Mourant
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Computershare : Corporate Site (Release 5.80.116 - A2 - 19-May-2005)

Computershare - Investors - Proxy Voting - Microsoft Internet Explorer

Adresse: https://www.uk.computershare.com/Investor/Proxy/Default.aspx?cc=uk&lang=en&hjs=1&fla=1&exp=true&theme=c

United Kingdom / English / Change

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Proxy Voting

Please select a company from the list below.

Current Meetings in the United Kingdom

Company Name

Please select...

Please select...

ALLIANCE TRUST PLC (THE)
 AMLIN PLC
 ANGLO & OVERSEAS TRUST PLC
 ANTOFAGASTA PLC
 BAILLIE GIFFORD SHIN NIPPON
 BALFOUR BEATTY PLC
 BHP BILLITON PLC - UK REGISTER
 BOVIS HOMES GROUP PLC
 CADBURY SCHWEPPEES PLC
 CATTILES PLC
 HENDERSON GROUP PLC
 HILTON GROUP PLC
 HSBC HOLDINGS PLC
 INCHCAPE PRESS PLC
 KINGSBURY GROUP PLC
 KISA ELECTRICALS PLC
 KINGFISHER PLC
 M & C SAATCHI PLC
 MEGGITT PLC
 P & O STEAM NAVIGATION COMPANY
 P A HOLDINGS LIMITED
 PREMIER OIL PLC
 RECKITT BENCKISER PLC
 ROLLS-ROYCE GROUP PLC
 SECOND ALLIANCE TRUST PLC (THE)
 SLOUGH ESTATES PLC
 ST JAMES'S PLACE CAPITAL PLC
 STANDARD CHARTERED PLC
 TAYLOR NELSON SOFRES PLC

If the company you are looking for is not on this list, please click on the Country Name (indicated by a dashed arrow) to select a different Country by Country.

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Register
 Forgotten Password

portfolio
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Computershare : Registry Services (Release 5.80.114 - A1 - 17-May-2005)

Computershare - Investors - Proxy Voting - Microsoft Internet Explorer

Adresse: https://www.uk.computershare.com/Investor/Proxy/Meetings.asp

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Proxy Voting

Please select a meeting from the list below.

Please select a meeting from the list below and click the 'vote' link to proceed.

HENDERSON GROUP PLC

Meeting	Voting Deadline(GMT/UTC)	Central Time Deadline
Annual General Meeting 2005	07 Jun 2005 09:00:00	07 Jun 2005 10:00:00
		Vote Here

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Computershare : Registry Services (Release 5.80.114 - A1 - 17-May-2005)

Computershare - Electronic Proxy Appointment - Microsoft Internet Explorer

Adresse: <https://www-uk.computershare.com/Investor/Proxy/Login.asp?lang=en&MeetingStatus=01&RegIssuerCode=H>

Henderson Group plc
Online Proxy Form

Proxy Login
 1. Please enter your Shareholder Reference Number and PII below.
 These can be found on your Proxy Form or if you have registered for Electronic Shareholder Communications, these details are displayed in the e-mail you were sent on 9 May 2005.

Shareholder Reference Number:
 PII:

2. Please select one of the following:

If you wish to vote your total holding:
 If you wish to split your vote:

Registrars Postal Address
 Henderson Group Share Registry
 PO Box 82
 The Pavilions
 Bridgewater Road
 Bristol
 BS99 7NH
 Phone 0800 073 3916
 Fax +44 (0)870 703 6119
 Email web.queries@computershare.co.uk

services provided by
Computershare

To check your shareholding details and/or register for electronic communications.
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c) Canada

In 2001, Canada amended its Canada Business Corporations Act (CBCA) with the passing of Bill S-11. The goal was to improve the legal framework for corporations by increasing shareholder input in the corporate decision-making process and by providing companies with more flexibility in taking advantage of marketplace opportunities (Industry Canada, 2005). The more significant changes introduced by Bill S-11 cover the following areas (key points are underlined for emphasis):

- definition of "distributing corporation" and "going private transaction"
- electronic documents
- directors' residency
- corporate interrelationships
- insider trading
- electronic shareholder meetings
- shareholder proposals
- proxy solicitation and proxy circular exemptions
- modified proportionate liability
- cancellation of certificates.

As can be seen above, Bill S-11 covered two areas that are important for online participation in shareholder meetings (1) Electronic documents and (2) Electronic shareholder meetings. The changes concerning electronic documents are described as follows by Industry Canada (2005): "The amendments to the CBCA permit corporations to use electronic documents in communicating with their shareholders. The regulations fix the manner in which consent to electronic communication may be given (and revoked) and allow documents to be posted on web sites provided the addressee receives notice about the location of the document. ... Documents may also be sent to a specific information system instead of the specific place established in the CBCA, such as the registered office of the corporation. Finally, the regulations clarify that an electronic document is considered to have been received when it enters an information system, such as a server, or if it is made available through a web site or other electronic source, when the notice of the availability is received by the addressee. The

notice could be sent electronically and is considered received when it enters an information system designated by the addressee.”

The changes concerning electronic shareholder meetings are described as follows by Industry Canada (2005): “The regulations specify that shareholders may also vote by telephonic or electronic means provided that the voting mechanism allows a verification of the votes cast while preventing the corporation from finding out how a particular shareholder voted.”

Looking at these changes introduced in 2001 by Bill S-11, it becomes clear that they are similar to the ones introduced by the NaStraG and TransPuG in Germany. In essence, they make it easier for companies to communicate in electronic form with their shareholders and to let shareholders participate online in shareholder meetings. Moreover, the changes were introduced at roughly the same time in Canada and Germany, and two of their key aims were (1) to make the Canadian as well as German capital markets more attractive and (2) to facilitate shareholder participation in corporate governance.

It is helpful to look at an example of how the electronic voting process works in Canada after the passage of Bill S-11. This will be illustrated by the example of TransCanada, which is a Canadian energy company. In general, the electronic proxy voting process in Canada is similar to the ones employed, for example, in the UK and the US. It was mentioned earlier that Bill S-11 introduced changes in two relevant areas: electronic documents and electronic shareholder meetings. In practice, this works the following way. Shareholders of TransCanada go to the Website of the company and sign up for electronic document delivery. TransCanada offers this service because it is more convenient for shareholders, benefits the environment, and reduces mailing as well as printing costs. There are two options for electronic document delivery: (1) for registered shareholders and (2) for non-registered shareholders. Shareholders that are registered with TransCanada can click on a link that redirects them to the Website of Computershare, the same company that also offers electronic voting services in the UK, and vote their share from there. The process is exactly the same as the one shown above for UK companies. Computershare’s Canadian operation offers electronic proxy voting for numerous Canadian companies. Registered shareholders can receive the following documents electronically: (a) Annual shareholder information (annual report, notice of the meeting, information circular and proxy-related materials, and any other information in connection with an annual and/or special meeting), (b) Quarterly financial

reports, and (c) Statements (direct deposit advices and dividend reinvestment plan statements).

Non-registered shareholders are those that own TransCanada stock via a brokerage account and are not registered with TransCanada. Similar to the process outlined for registered shareholders, non-registered shareholders click on a link on TransCanada's Website that takes them to the Website of InvestorDeliveryCanada.com, which is an online service provider that replaces conventionally mailed investor information with electronic communication. Shareholders can log onto the Website with a control number and then enter the required information. InvestorDeliveryCanada.com works the following way. When a corporation sends out information, then the shareholders that have signed up for the company's service will receive an e-mail that shareholder material is available online. The e-mail will also contain a direct link to the material. If the e-mail concerns proxy voting, then shareholders will receive unique control numbers and an instruction to go to www.proxyvotecanada.com to execute their votes.

d) New Zealand

New Zealand explicitly allows for virtual shareholder meetings in its law. In the Companies Act 1993 Schedule 1 it is stated:

“3. Methods of holding meetings. A meeting of shareholders may be held either (a) By a number of shareholders, who constitute a quorum, being assembled together at the place, date, and time appointed for the meeting; or (b) Subject to the constitution of the company, by means of audio, or audio and visual, communication by which all shareholders participating and constituting a quorum, can simultaneously hear each other throughout the meeting.” (New Zealand, 2005)

Even though the cited legislation allows for virtual shareholder meetings, it is surprising that shareholders have to cast their votes by voice:

“5. Voting. ... (2) In the case of a meeting of shareholders held under clause 3(b) of this Schedule, unless a poll is demanded, voting at the meeting shall be by the shareholders signifying individually their assent or dissent by voice.” (New Zealand, 2005)

Given the capabilities of modern technology, this requirement seems to be rather outdated and complicates shareholder participation. Hence, it would appear to be necessary that New Zealand reforms its legislation to account for recent technological developments. In particular, in addition to virtual meetings, it should allow for electronic voting in various forms before and during the meeting. By doing that, it would give investors a higher degree of flexibility (similar to Delaware).

e) Australia

Australia allows for electronic proxy voting in its Corporations Act 2001 (key points are underlined for emphasis):

“Division 5—Holding meetings of members

249Q Purpose

A meeting of a company’s members must be held for a proper purpose.

249R Time and place for meetings of members

A meeting of a company’s members must be held at a reasonable time and place.

249S Technology

A company may hold a meeting of its members at 2 or more venues using any technology that gives the members as a whole a reasonable opportunity to participate.

Note: See section 1322 for the consequences of a member not being given a reasonable opportunity to participate.

250A Appointing a proxy

(1) An appointment of a proxy is valid if it is signed, or otherwise authenticated in a manner prescribed by the regulations, by the member of the company making the appointment and contains the following information: (a) the member’s name and address; (b) the company’s name; (c) the proxy’s name or the name of the office held by the proxy; (d) the meetings at which the appointment may be used. An appointment may be a standing one.

(1A) The regulations made for the purposes of subsection (1) may prescribe different requirements for the authentication of an appointment given to the company by different means (electronic or otherwise).

250BA Proxy documents—listed companies

- (1) In a notice of meeting for a meeting of the members of the company, the company:
 - (a) must specify a place and a fax number for the purposes of receipt of proxy appointments and proxy appointment authorities; and (b) may specify: (i) an electronic address for the purposes of receipt of proxy appointments and proxy appointment authorities; and (ii) other electronic means by which a member may give the company a proxy appointment or proxy appointment authority.
- (2) This section only applies to a company that is listed.
- (3) This section applies despite anything in the company's constitution.” (Australia, 2001)

Besides electronic proxy voting, it is also possible in Australia to broadcast a general meeting over the Internet so that shareholders can follow it online (ASX, 2003). All in all, the current situation in Australia with regard to online voting and general meetings is comparable to the one in Germany.

f) Finland

Finland reformed its law covering public companies from 1997 to 2001 in order to (1) provide Finnish companies with better financing options, (2) secure the position of creditors, (3) strengthen the equality among shareholders, and (4) provide Finnish companies with more flexibility to change their legal forms (Wilske, Miettinen, and Kocher, 2002). The overarching goal of the Finnish reforms was to increase the transparency of Finnish companies, thereby also making them more attractive for foreign shareholders. This approach seems to have worked quite well given that the percentage of foreign ownership of Finnish public companies has increased from 30% in 1996 to 72% in October of 2000 (Wilske, Miettinen, and Kocher, 2002).

In Finland, public companies have to hold their general meeting at their headquarters unless their articles specify something else. Management can decide that it is permissible for shareholders to participate in the meeting via technological means, but the law does not specify these technological means any further. Hence, one option is that shareholders can participate in the general meeting via the Internet and cast their votes online if this has been written down in the company's articles. In the case where an online shareholder meeting and online voting are offered to shareholders, Finnish companies are required by law to take

precautions in order to ensure that people are really allowed to participate in the meeting and that online votes are counted correctly (Wilske, Miettinen, and Kocher, 2002). A key idea behind allowing online shareholder meetings was to increase the attractiveness of Finnish companies to foreign shareholders by making it easier for them to participate in the governance of these firms.

g) France

Many of the electronic proxy voting systems mentioned so far (e.g. in the UK and Germany) are all indirect voting systems because shareholders authorize a representative to vote for them and give him/her voting instructions. The representative participates physically in the general meeting and casts the votes as instructed. In France, online voting is also permitted, but the situation there differs because direct online voting is also possible (Zetzsche, 2003). Hence, one could say that France is more progressive than the aforementioned countries since it already allows direct online voting. Zetzsche (2003) points out that indirect online voting via a representative is actually a compromise between the physical, 19th century general meeting and today's general meeting taking place in an age of modern technology. Today's technology would already allow for direct online voting if desired and if permitted by law. Direct voting might also serve to lower costs since the middleman in the form of the representative is not needed anymore.

h) Bermuda

Bermuda allows electronic proxy voting and also explicitly allows for electronic meetings – e.g. in the form of virtual meetings – in its Companies Act (Bermuda Laws Online, 2005; Securities and Exchange Commission of Brazil, 2005). In section 75A of this act it is stated:

“Unless the bye-laws otherwise provide, a meeting of directors or of a committee of directors or of the members or any class thereof may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting” (Bermuda Laws Online, 2005).

Hence, Bermuda is as advanced as the US states of Delaware, Massachusetts, Minnesota, and Texas as well as New Zealand, which all permit virtual general meetings.

i) The Bahamas

The Bahamas permit electronic voting as well as electronic meetings in the International Business Companies Act 2000 (The Bahamas, 2000; Alexiou, Knowles & Co., 2005). There, it is stated that a shareholder meeting can be held within or outside The Bahamas and that shareholders can attend such a meeting in person, by proxy, by telephone, or by other electronic methods. As a consequence of the reformed International Business Companies Act, direct online voting and even virtual meetings seem to be possible for companies that are registered in The Bahamas. In the International Business Companies Act 2000, this is phrased in the following manner:

“PROTECTION OF MEMBERS AND CREDITORS

Meetings of members.

60. ... (3) Subject to any limitations in the Memorandum or Articles, a member shall be deemed to be present at a meeting of members if –

(a) he participates by telephone or other electronic means; and

(b) all members participating in the meeting are able to hear each other and recognise each other's voice and for this purpose participation constitutes prima facie proof of recognition.” (The Bahamas, 2000)

Point (b) of the above legislation is a problem since it is stated there that members (i.e. shareholders) have to be able to recognize each other's voice when participating electronically. This might be possible in the case of a company with only a few major shareholders that know each other well but in the case of a large company with dispersed ownership, this restriction makes an electronic participation difficult. Hence, even though The Bahamas allow for online voting and virtual meetings in principle, the legislative framework is not as flexible as in Delaware.

j) Cayman Islands

In the Cayman Islands, a company's articles of association are relevant when it comes to electronic voting and virtual general meetings because they contain provisions about conducting and voting at general meetings. If the articles of association of a Cayman Islands company provide for electronic voting and virtual general meetings, then they are permitted (Cayman Islands Monetary Authority, 2005). The Cayman Islands Companies Law as well as

the Electronic Transactions Law (2003 Revision) are important sources of information regarding general meetings and electronic transactions.

k) Guernsey

Electronic proxy voting and even virtual general meetings appear to be possible in Guernsey. Article 69 of Guernsey's Companies Law states the following with regard to general meetings:

“69. The following provisions apply to any annual general meeting or other general meeting of a company-

- (a) the meeting may, if the company's articles so permit, be held at any place in Guernsey or elsewhere;
- (b) unless the company's articles provide otherwise, a person may attend the meeting in person or by proxy;” (States of Guernsey, 2005)

Furthermore, Article 73B of Guernsey's Companies Law concerns participation in meetings and states the following:

“73B. (1) Subject to any provision to the contrary in a company's memorandum or articles, if a member is, by any means, in communication with one or more other members so that each member participating in the communication can hear or read what is said or communicated by each of the others, each member so participating is deemed to be present at a meeting with the other members so participating.

(2) A meeting of members conducted pursuant to subsection (1) shall be deemed to be held in the place in which the chairman of the meeting is present.

(3) Subsections (1) and (2) apply in relation to meetings of directors or committees of directors as they apply in relation to meetings of members.” (States of Guernsey, 2005)

As a result, the situation in Guernsey is similar to the one in Bermuda and Delaware since all three locations permit online voting as well as virtual general meetings. This circumstance reflects their very business friendly legislations as well as their attractiveness for registering companies. It is also clear that these locations compete with each other for business and,

hence, have to stay on par with what the others are doing if they do not want to end up at a competitive disadvantage.

l) Position of Germany and Switzerland vis-à-vis Other Countries

After evaluating the legal situation in Germany and Switzerland in the context of the other countries presented in this section, the conclusion can be drawn that Germany has taken important steps forward with the implementation of the NaStraG and the TransPuG. In Germany, online shareholder meetings and online voting are possible today, which brings the country up to the advanced level of countries like Finland and the USA.

In Switzerland, the situation is still different today. Here, due to the insecure legal situation outlined earlier, it does not seem likely that public companies will offer online shareholder meetings or online voting to their owners in the near future. As a result, Switzerland is currently behind other countries in this regard and should think about reforming its law in order to keep up with developments taking place elsewhere. In the case of Switzerland, this would appear to be especially important since it has an equity market that is characterized by a high fraction of international participation and since it is facing increased competition from offshore locations.

National company laws are important because they determine to what extent electronic shareholder information and participation are possible. Going beyond the law, corporate governance codes are also significant because they not only describe what is legally possible but also try to encourage good corporate governance in practice. Hence, in addition to national company laws, these codes are playing an increasingly important function when it comes to best practices in corporate governance and they mostly target public companies. Since it has been shown earlier that increased shareholder participation in corporate governance is desirable and that electronic means like the Internet offer the potential to increase participation, a part of the upcoming research section will investigate to what extent corporate governance codes encourage electronic shareholder participation and will develop a best practice example that Switzerland and Germany could follow.

2.3.8 EU-Wide Legislation

One of the aims of the EU is to establish a common capital market across all member states. In order to achieve this goal, it seems plausible to establish at least minimum corporate governance requirements for all member states. As a consequence, the EU Commission has proposed a directive concerning the harmonization of transparency requirements for companies whose securities are traded on a regulated market within the EU. This directive was adopted by the European Parliament and the Council on December 15, 2004 and is called Directive 2004/109/EC (amending Directive 2001/34/EC). In article 17 of this directive it is stated (key points are underlined for emphasis):

“Information requirements for issuers whose shares are admitted to trading on a regulated market

1. The issuer of shares admitted to trading on a regulated market shall ensure equal treatment for all holders of shares who are in the same position.
2. The issuer shall ensure that all the facilities and information necessary to enable holders of shares to exercise their rights are available in the home Member State and that the integrity of data is preserved. Shareholders shall not be prevented from exercising their rights by proxy, subject to the law of the country in which the issuer is incorporated. In particular, the issuer shall: (a) provide information on the place, time and agenda of meetings, the total number of shares and voting rights and the rights of holders to participate in meetings; (b) make available a proxy form, on paper or, where applicable, by electronic means, to each person entitled to vote at a shareholders' meeting, together with the notice concerning the meeting or, on request, after an announcement of the meeting; (c) designate as its agent a financial institution through which shareholders may exercise their financial rights; and (d) publish notices or distribute circulars concerning the allocation and payment of dividends and the issue of new shares, including information on any arrangements for allotment, subscription, cancellation or conversion.

3. For the purposes of conveying information to shareholders, the home Member State shall allow issuers the use of electronic means, provided such a decision is taken in a general meeting and meets at least the following conditions: (a) the use of electronic means shall in no way depend upon the location of the seat or residence of the shareholder or, in the cases referred to in Article 10(a) to (h), of the natural persons or legal entities; (b) identification arrangements shall be put in place so that the shareholders, or the natural persons or legal entities entitled to exercise or to direct the exercise of voting rights, are effectively informed; (c) shareholders, or in the cases referred to in Article 10(a) to (e) the natural persons or legal entities entitled to acquire, dispose of or exercise voting rights, shall be contacted in writing to request their consent for the use of electronic means for conveying information and, if they do not object within a reasonable period of time, their consent shall be deemed to be given. They shall be able to request, at any time in the future, that information be conveyed in writing, and (d) any apportionment of the costs entailed in the conveyance of such information by electronic means shall be determined by the issuer in compliance with the principle of equal treatment laid down in paragraph 1.

4. The Commission shall, in accordance with the procedure provided for in Article 27(2), adopt implementing measures in order to take account of technical developments in financial markets, to take account of developments in information and communication technology and to ensure the uniform application of paragraphs 1, 2 and 3. It shall, in particular, specify the types of financial institution through which a shareholder may exercise the financial rights provided for in paragraph 2(c).” (EU, 2004)

The aforementioned EU directive does the following key things: (1) It facilitates electronic communication between companies and their shareholders, (2) It opens up the possibility of electronic proxy voting, and (3) It tries to accomplish points (1) and (2) on a European level. With the help of this directive, the EU has taken one step in the direction of facilitating shareholder participation in the corporate governance of their companies. Allowing for electronic shareholder information and participation appears to be a logical step that complements the electronic acquisition of shareholder rights. Today, it is possible to trade shares electronically, thereby acquiring the shareholder rights that come with the acquisition, but it is not always possible to exercise these right electronically even though that might often

be more efficient. As mentioned earlier, especially for international investors, it is not always convenient to participate in general meetings in person or via traditional proxy voting forms on paper. In particular, there are two problems with this approach: (1) International investors might not receive any information at all if they hold their shares with a bank that has no offices in the country where the company is registered and (2) International mail can slow down the whole voting process and might lead to the problem that proxy forms are not received in time. In addition, one needs to remember that most individual investors are probably working and will not have the time to attend a general meeting in another EU country in person during a regular work day. This problem increases as the number of international securities in a shareholder's portfolio increases. Therefore, changes targeted by Directive 2004/109/EC should be appreciated since they try to make it easier for shareholders to manage their investments and facilitate shareholder participation across EU borders. One idea behind the directive is to make EU capital markets more competitive and increase their attractiveness to international investors. This, for example, was also the motivation behind the changes introduced to German law by the NaStraG and TransPuG in 2001 and 2002.

In the future, one might need to go a step further than Directive 2004/109/EC and think about direct electronic voting without the utilization of a representative and the possibility of virtual shareholder meetings. The directive does not cover these two points even though modern technology would make both feasible. For example, direct electronic voting is already possible in France and virtual shareholder meetings are permissible in Delaware. In addition, shareholders should not only be able to exercise their voting rights via Internet proxy voting but should also be able to follow AGMs via Webcasts. This is important because it ensures that online participants have the same information as participants in the physical meeting when they exercise their voting rights. If the shareholders of a company can only exercise their votes by Internet proxy voting without being able to follow the debate at the AGM, then they might miss important information that could influence their voting decisions. As a result, Directive 2004/109/EC does not account for the most recent technological and legislative developments and could be more comprehensive.

2.3.9 Desirability of Online versus Virtual Shareholder Meetings

a) Online Voting and Online Shareholder Meetings

It is also necessary to think about the desirability of online versus virtual shareholder meetings. The key benefit of offering an online shareholder meeting or online voting is that it becomes more convenient for shareholders to participate in the general meeting and to influence the governance of their firms. In this way, shareholder participation in the meeting might be increased (Gröpler, Huberle, and Jürgens, 2002; Garner and Alonso, 2005) even though costs can be higher in the short term because a physical meeting as well as online participation need to be executed in parallel. Over the medium to long term, as more shareholders potentially shift to exercising their shareholder rights online, costs might decline (Claussen, 2002; Von der Crone, 2003; Garner and Alonso, 2005). This issue seems to be especially relevant for large public companies like DaimlerChrysler that have to accommodate thousands of shareholders at their annual meetings and face costs in the millions of Euros (Seeger, 2002).

Given the capability of modern technology, offering shareholders a full online general meeting in addition to a physical meeting seems to make more sense than just offering online voting. This is the case because it gives shareholders more flexibility. They can follow what is happening at the physical meeting over the Internet and can also communicate with the persons present at the physical meeting. For example, their comments might be beamed on a large screen where all participants can see them. Based on the discussions that occur during the meeting, shareholders can form their opinions and then vote over the Internet. If a company is just offering online voting, options are more limited since shareholders cannot follow what is being discussed at the physical meeting and, hence, might not make as informed decisions as under the first alternative. Nonetheless, online voting still represents a considerable increase in convenience compared to ordinary paper-based proxy voting.

b) Virtual Shareholder Meetings

Besides legal constraints in Germany and Switzerland, the desirability of virtual shareholder meetings is less clear. Even though they might lead to considerably lower costs compared to large-scale physical meetings, they do not offer the opportunity for a direct exchange and confrontation among shareholders, board of directors, and management. This might lower shareholders' power to control and hold directors as well as managers directly responsible in

front of a room full of other significant shareholders. Furthermore, a virtual meeting (but also an online meeting) with a large number of participants faces the problem of how to coordinate shareholders' questions during the general meeting. Shareholders are usually permitted to ask questions during the meeting and in the context of a virtual meeting, shareholders might be more willing to ask questions since they can stay relatively anonymous. This might have the consequence that a huge number of questions will be asked via the Internet and answering them all during the meeting would take unreasonably long. In order to ensure the efficiency of general meetings, solutions to these problems will need to be found. One possibility might be that shareholders can ask questions before the meeting so that similar questions can be pooled and either answered during the meeting or already before the meeting on the company's Website. Another possibility might be to tie the right to ask questions during the meeting to a certain amount of share ownership, which would necessitate legal changes. Nonetheless, even though there are problems with virtual meetings, for some small companies with only a handful of shareholders, a virtual general meeting might be a viable alternative. For offshore locations, permitting virtual shareholder meetings can also make sense because it further increases the flexibility that they offer to companies registered there. Various types of companies can be set up quite easily there (e.g. Cayman Islands, 2005) and the possibility of holding a virtual shareholder meeting can facilitate the administration of the company since, for example, it frees shareholders from travel requirements. Furthermore, one should not forget about the power of technological progress, which might make the experience of attending a virtual meeting quite similar to the experience of attending a physical meeting.

In the end, given our current technology, the best alternative today for large public companies seems to be the combination of online and physical shareholder meetings. In this way, small shareholders can participate conveniently via the Internet and larger, more significant shareholders can participate in the physical meeting, which gives them the chance to face a company's leadership directly. This corresponds to the situation that one finds at large corporations in the US today. For example, at Ford's general meeting in Delaware in 2005 only 50 shareholders participated in person and a far larger number participated via the proxy voting process (Durbin, 2005). In order to get an idea of the potential gains in efficiency, one needs to compare that figure to the 20,000 shareholders that participated in person in DaimlerChrysler's general meeting in 1999 (Seeger, 2002).

Offering shareholders the opportunity to participate online in general meetings might also lead to increased shareholder activism since the Internet can facilitate the proxy solicitation process and make it easier for shareholders to combine their power. Unless, of course, companies like Nestle have restrictions in place that limit shareholders' voting power to 3% of equity capital (Nestle S.A., 2001). The opportunity to participate online might also make the outcome of general meetings less certain because shareholders that vote electronically have the chance to change their minds up to the last minute. This might place more weight again on the discussions during the meeting and give some power back to smaller shareholders.

2.4 Research Questions

The literature review presented above has made clear that participation rates at shareholder meetings in Switzerland and Germany are quite low. Since so few shareholders actually participate in the corporate decision-making process, the legitimacy of the resulting decisions might be questioned. Furthermore, the possibility was presented that online voting and online shareholder meetings might increase shareholder participation. Based on these considerations, the following research questions will be investigated:

- 1. Do large German and Swiss corporations view high shareholder participation in their general meetings as desirable and is there a connection between companies' views on this issue and the actual participation in their general meetings?*
- 2. What do experts view as the key benefits of increased shareholder participation in general meetings of large, publicly listed companies?*
- 3. What is the current situation at large German and Swiss corporations regarding the utilization of the Internet for their shareholder meetings?*
- 4. What are the key advantages and disadvantages of utilizing the Internet for shareholder meetings?*
- 5. What are the key implementation issues regarding the utilization of the Internet for shareholder meetings and which technological systems are currently available?*

6. *What are the financial aspects of utilizing the Internet for shareholder meetings?*
7. *For which companies does a utilization of the Internet for shareholder meetings make the most sense?*
8. *To what extent do corporate governance codes cover electronic shareholder participation in general meetings?*
9. *What does a best practice example of a corporate governance code that covers electronic shareholder participation in general meetings look like?*
10. *Is a virtual shareholder meeting a viable option for the future?*
11. *Can Internet proxy voting be used to increase shareholder participation in AGMs?*
12. *In general, how can companies employ the Internet to encourage more shareholders in Switzerland and Germany to participate in the corporate governance of their firms?*

3. Research Methodology

3.1 Goal of the Research

The goal of the research section is to answer the aforementioned, logically connected research questions in detail by drawing on the practical experiences of large German and Swiss corporations and the opinions of various experts on the subject matter. The generated insights will then serve as the basis for making recommendations to companies, lawmakers, and authors of corporate governance codes in Germany and Switzerland.

3.2 Population of the Research

The population of the research consisted of:

a) Survey Population

- 26 SMI-listed firms in Switzerland.
- 30 DAX-listed firms in Germany.

b) Interview Partners

- Dr. Roland Waibel, former CFO and now Head of Business Development at Lonza Ltd. in Switzerland. In his position as CFO, Dr. Waibel was involved in numerous shareholder meetings.
- Mr. Werner Grauwiler, Head of Corporate Communications at Lonza. He is responsible for corporate governance issues at Lonza Ltd. in Switzerland.
- Mr. Vinzenz Mathys, an expert on the topic of corporate governance. He is an analyst at the Swiss investment foundation Ethos.

- Mr. Thomas Licharz, an expert on the topic of general meetings and online shareholder participation. He is a member of the management team of Registrar Services, which is a leading AGM service provider in Germany.²¹
- Mr. Björn Dobrzewski, an expert on the topic of general meetings and online shareholder participation. He works for ADEUS, which is a leading AGM service provider in Germany.
- Mr. Alexander Balling, an expert on the topic of general meetings and online shareholder participation. He is a member of the management team of SLS HV-Management, which is a leading AGM service provider in Germany.
- Mr. Raphael Gassmann, an expert on the topic of shareholder meetings. He works for NIMBUS, which is a leading AGM service provider in Switzerland.
- Mrs. Franziska Hertel, an expert on the topic of investor relations. She works in the investor relations department of Allianz in Germany.
- Mr. Thomas Hechtfischer, an expert on the topic of shareholder meetings. He is managing director at the Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) Nordrhein-Westfalen in Germany.
- Mr. Willi Bender, an expert on the topic of shareholder meetings. He is a member of the board of the Schutzgemeinschaft der Kapitalanleger (SdK) in Germany.
- Mrs. Reinhild Keitel, an expert on the topic of shareholder meetings. She is a member of the board of the Schutzgemeinschaft der Kapitalanleger (SdK) in Germany.
- Dr. Christine Helbig, an expert on the topic of corporate governance. She works for the Deutsches Aktieninstitut in Germany.

c) Corporate Governance Codes

- Content analysis of 63 corporate governance codes.

²¹ Information about Registrar Services as well as the other AGM service providers can be found in Appendix B.

3.3 Method of the Research

The investor relations departments of SMI and DAX30 companies were contacted by telephone in order to find out if they would be willing to participate in a survey covering their AGMs and shareholder participation.²² After that, questionnaires were sent out by e-mail directly to the responsible persons or to the investor relations departments, which then forwarded the questionnaires internally. A few times, instead of sending a questionnaire by e-mail, the questions were covered in a telephone interview since some participants preferred this mode. The questionnaires consisted of open-ended questions in order to give respondents a high degree of flexibility when answering the questions.

The expert interviews with Dr. Waibel and Mr. Grauwiler were conducted face to face at Lonza headquarters in Basel.²³ The ten remaining expert interviews were conducted via the telephone. The questionnaires for the experts also consisted of open-ended questions in order to give them a high degree of flexibility and to discuss certain issues in more depth. Furthermore, the questions asked and the topics discussed were sometimes modified to account for the interviewees' expertise in different areas.

The 63 corporate governance codes were obtained from the Website of the European Corporate Governance Institute (www.ecgi.org), and it was examined to what extent they cover shareholder participation in AGMs via the Internet.²⁴

Concerning the method of the research, a combination of a company survey and expert interviews was selected because this helps to examine the subject matter from two different angles. On the one hand, it is informative to find out what the largest Swiss and German corporations are currently offering in the area of online shareholder participation in AGMs and what their views on the subject matter are. On the other hand, it is informative to speak with practitioners who are all involved in general meetings on a regular basis. For example, the interviewed experts from the shareholder associations frequently attend general meetings and have a good knowledge of what some of the critical issues concerning AGMs are. Furthermore, they can represent the interests of private shareholders and can contribute from

²² Copies of the questionnaires for SMI and DAX30 companies can be found in Appendices C and D.

²³ Copies of the questionnaires for the experts can be found in Appendix E.

²⁴ Sections of corporate governance codes that cover participation in AGMs via electronic means are quoted in Appendix A.

this perspective to the research. In addition, the interviewed experts from the AGM service providers have implemented online services for many different companies and know the practical side of the topic well. Moreover, since they work with numerous German companies, they have a good overview of what these companies are currently offering to their shareholders and know what the most important trends in the area are. As a consequence, their answers can be combined with the responses to the company survey in order to get a more detailed picture of the current situation. Overall, it is hoped that the combination of different methods will lead to more informative and interesting results and to more useful recommendations.

4. Results of the Research

The presentation of the research results is structured in the following manner. First, the response rates of the surveys of DAX30 and SMI companies will be presented in detail. Second, the research questions derived from the literature review will be answered one after another. For some research questions, information based on the company survey as well as the expert interviews is available. In this case, the responses provided by the companies will be presented first and the responses provided by the experts will be presented after that. For the other research questions, only the information based on the company survey or the expert interviews will be presented.

4.1 Responses Received to the Survey

4.1.1 Survey of German Companies

Twenty-three of the companies listed in the DAX30 responded to the survey.²⁵ This yields a response rate of 77%. The following table lists the companies that did and did not respond to the survey:

²⁵ A copy of the questionnaire for the DAX30 companies can be found in Appendix C.

Table 6: Survey Responses by DAX30 Companies

Company	Response Received?
1. Adidas-Salomon	Yes
2. Allianz	Yes
3. Altana	No
4. BASF	No
5. Bayer	Yes
6. BMW	No
7. Commerzbank	No
8. Continental	Yes
9. DaimlerChrysler	Yes
10. Deutsche Bank	Yes
11. Deutsche Börse	Yes
12. Deutsche Post	Yes
13. Deutsche Telekom	Yes
14. EON	Yes
15. Fresenius	Yes
16. Henkel	Yes
17. HVB	Yes
18. Infineon	No
19. Linde	Yes
20. Lufthansa	Yes
21. MAN	Yes
22. Metro	No
23. Munich Re	Yes
24. RWE	Yes
25. SAP	Yes
26. Schering	Yes
27. Siemens	Yes
28. ThyssenKrupp	Yes
29. TUI	No
30. VW	Yes
Total Responses Received	23 out of 30 (= 77%)

4.1.2 Survey of Swiss Companies

Eighteen of the companies listed in the SMI responded to the survey.²⁶ This yields a response rate of 69%. The following table lists the companies that did and did not respond to the survey:

Table 7: Survey Responses by SMI Companies

Company	Response Received?
1. ABB	Yes
2. Adecco	Yes
3. Julius Bär	Yes
4. Baloise	Yes
5. Richemont	No
6. Ciba	No
7. Clariant	Yes
8. Credit Suisse	No
9. Givaudan	No
10. Holcim	Yes
11. Kudelski	Yes
12. Lonza	Yes
13. Nestle	Yes
14. Novartis	Yes
15. Roche	Yes
16. Swiss Re	Yes
17. Swisscom	Yes
18. Serono	No
19. SGS	Yes
20. Swiss Life	Yes
21. Syngenta	No
22. Synthes	Yes
23. UBS	Yes
24. Swatch	No
25. Unaxis	No
26. Zurich Financial Services	Yes
Total Responses Received	18 out of 26 (= 69%)

²⁶ A copy of the questionnaire for the SMI companies can be found in Appendix D.

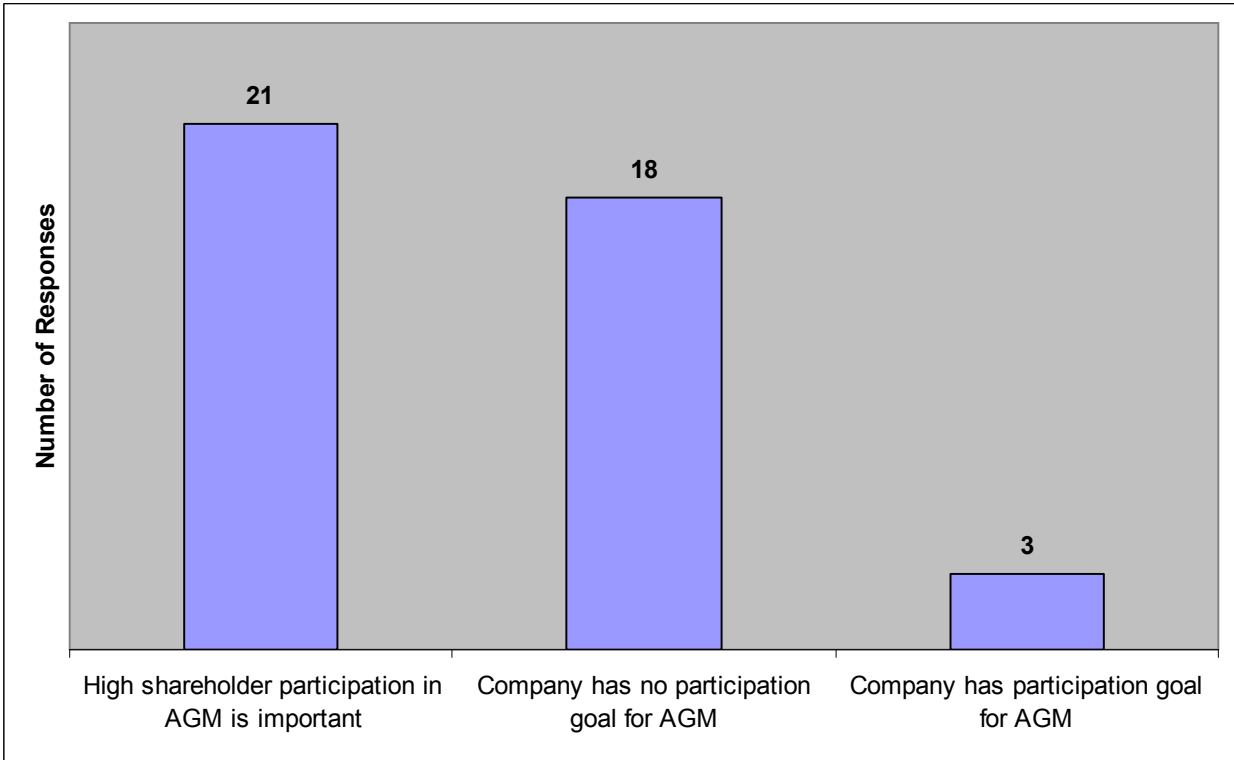
4.2 Answers to the Research Questions

1. Do large German and Swiss corporations view high shareholder participation in their general meetings as desirable and is there a connection between companies' views on this issue and the actual participation in their general meetings?

a) Aggregate Results for Germany

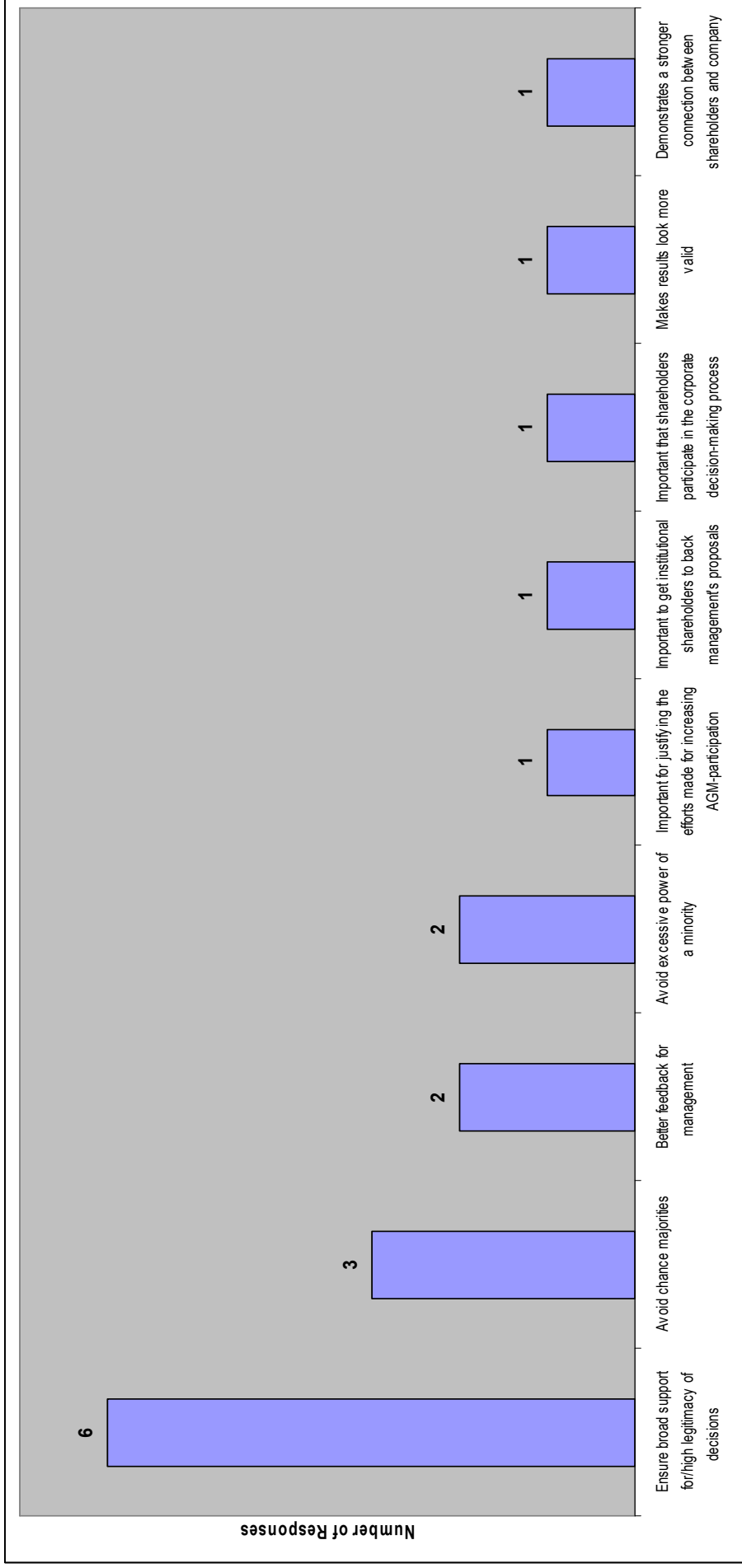
This section presents the survey results for DAX30 companies in the aggregate. In general, one can state that many companies view high participation in their general meetings as desirable, but only three companies actually have a participation goal in mind. One company stated clearly that its current AGM presence is too low and that it is a major challenge for it to increase the level of participation in its AGM. One can assume that several other DAX30 companies face the same challenge given their low levels of AGM-participation. Furthermore, companies gave different reasons for why they view high shareholder participation in their AGMs as important.

Figure 17: Desirability of Shareholder Participation & Participation Goals for DAX30²⁷



²⁷ Twenty-one responses are listed in the figure above because two companies out of the 23 that answered the questionnaire chose not to provide information regarding this point.

Figure 18: Why is High AGM-Presence Desirable for DAX30 Firms?²⁸



²⁸ Less than 23 responses are shown in the figure above because some companies chose not to provide a reason why they view high shareholder participation in their AGMs as important. Multiple responses were possible to this question.

b) Detailed Results for Germany

This section presents the survey responses regarding the above research question by company. This is done in an anonymous format since the participating companies were guaranteed anonymity.

Table 8: Desirability of Shareholder Participation & Participation Goals for DAX30

Company	High AGM-Participation Important?	Company has AGM-Participation Goal?	Why is High Participation in AGMs Important?
Company 1	Yes	No	Avoid chance majorities
Company 2	Yes	No	Better feedback for management
Company 3	Yes	Yes (min. of 74%)	-
Company 4	Yes	No	Better feedback on strategic, financial, operational decisions
Company 5	Yes	No	Avoid risk that proposal can be refused by minority
Company 6	Yes	No	-
Company 7	Yes	No	Important to get institutional shareholders to back management's proposals
Company 8	Yes	Yes (70%)	Important that shareholders participate in the corporate decision-making process and important for justifying the efforts made for increasing AGM-participation
Company 9	Yes	No	Avoid that a minority makes key decisions
Company 10	-	-	-
Company 11	-	-	Participation is of no great concern since founding family holds large stake
Company 12	Yes	No	-
Company 13	Yes	No	Decisions should be supported by as many shareholders as possible
Company 14	Yes	No	-
Company 15	Yes	Yes (38-40%)	Ensure high legitimacy of decisions
Company 16	Yes	No	Ensure high representativeness of decisions and avoid chance majorities
Company 17	Yes	No	No great concern due to ownership structure
Company 18	Yes	No	-
Company 19	Yes	No	Makes the results look more valid
Company 20	Yes	No	Higher legitimacy of decisions and demonstration of a stronger connection between shareholders and company
Company 21	Yes	No	-
Company 22	Yes	No	Ensure broad support for decisions
Company 23	Yes	No	Avoid risk of random decisions

It is interesting to compare the above results to the actual participation in AGMs of DAX30 companies. In 2005, there were 18 companies in the DAX where less than 50% of equity capital participated in general meetings and, furthermore, average shareholder participation for all DAX30 firms has fallen consistently from 61% in 1998 to 46% in 2005, a decline of

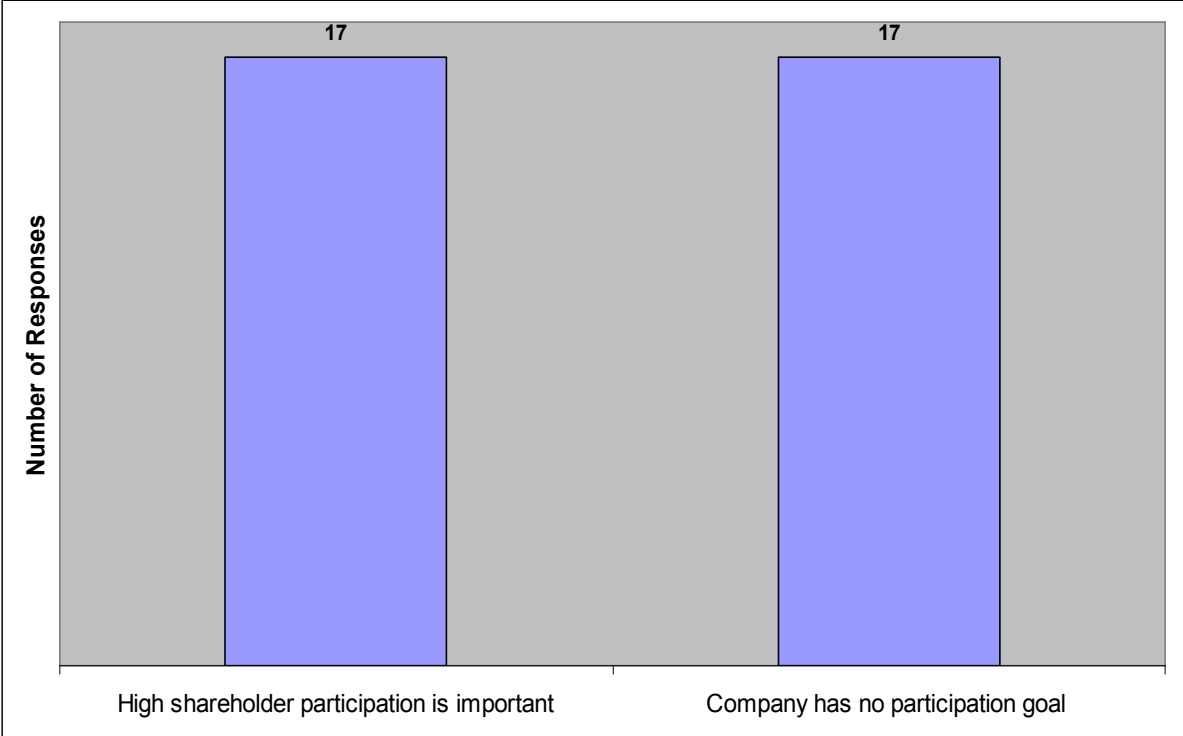
25% (Deutsche Schutzvereinigung für Wertpapierbesitz, 2005a). Hence, there is a discrepancy between the companies' survey responses and the actual participation rates that they achieve in their AGMs. Assuming that most DAX30 companies truly view high participation in their AGMs as important, it does not appear possible for a large number of them to actually achieve high participation in practice. Unless, someone wants to argue that an average AGM-presence of around 46% constitutes high participation.

As a result, there is only a weak connection between the expressed view that high shareholder participation is important and actual participation rates in general meetings of the largest German companies. It seems like new ways need to be found to increase the presence in their AGMs. Especially with regard to the increased power of hedge funds this would seem to be an important goal for companies with low participation. For example, at Continental's general meeting in 2005 only 23.55% of equity capital was present (Deutsche Schutzvereinigung für Wertpapierbesitz, 2005a). Assuming that participation remains at this level, a hedge fund would only need to acquire around 12% of the company in order to make the key decisions at the company's AGM and to take control of its business affairs.

c) Aggregate Results for Switzerland

This section presents the survey results for SMI companies in the aggregate. In general, one can state that many companies view high participation in their general meetings as desirable, but not a single company actually has a participation goal in mind. One company stated that it does not make sense to have a participation goal in the first place because each investor decides individually if he/she wants to attend the AGM. Several Swiss companies also referred to regulations or Swiss law. They stated that they have paragraphs in their articles of association which regulate the issue of participation and that no absolute level of participation is required under Swiss law. Moreover, some SMI companies stated that they have a majority owner and that the presence of this majority owner in the AGM already ensures a satisfactory level of participation. Hence, achieving a high AGM-presence is important for these companies, but as long as the majority owner exercises his/her voting rights, there is a satisfactory level of participation. Companies also gave different reasons for why they view high shareholder participation in their AGMs as important.

Figure 19: Desirability of Shareholder Participation & Participation Goals for SMI²⁹



²⁹ Seventeen responses are listed in the figure above because one company out of the 18 companies that answered the questionnaire chose not to provide information regarding this point.

Table 9: Why is High AGM-Presence Desirable for SMI-Firms?³⁰

Why is High Participation Important?	Number of Responses
Ensures more representative decisions	3
Majority shareholder already ensures high presence	2
Swiss law or regulations deal with issue of participation	2
Avoids chance majorities	1
Avoids that minority makes key decisions	1
Provides a better system of checks and balances	1
Provides high credibility for board and management	1
Provides representative feedback for board's strategic plans	1
Shows commitment of shareholders to company	1
Ensures solid support for board's proposals	1
Provides better control over management and board	1
Provides support of large investors	1
Provides support of international investors	1
AGM can make decisions regardless of participation	1
Ensures quorum with qualified majority	1

Looking at the above survey results for SMI companies and comparing them to the actual level of participation in their AGMs reveals that there is a discrepancy. Almost all of the respondents stated that high shareholder participation in their AGMs is important for them but, in 2005, the average level of participation in SMI-AGMs was only around 47%. Furthermore, there were 15 companies where less than 50% of equity capital was present in the general meeting and in the case of seven companies, the presence was only between 20-35%. This can clearly not be regarded as high AGM-presence. Furthermore, one always needs to remember that an investor only needs to acquire a relatively small equity stake in order to take control of a company with low AGM-participation. For example, in the cases of Baloise, Ciba, and Zurich Financial Services, an equity stake of 12% would already have been enough to control key decisions at the companies' AGMs in 2005. If an investor's business interest is primarily focused on maximizing return in the short-term, then the possibility clearly exists that the respective company's long-term business prospects will suffer.

Overall, the situation in Switzerland is similar to the one in Germany. Assuming that most SMI companies truly view high participation in their AGMs as important, it does not appear possible for several of them to actually achieve high participation in practice. As a result, there is only a weak connection between the expressed view that high shareholder participation is important and actual participation rates in general meetings of the largest

³⁰ More than 18 responses are listed in the table since multiple responses per company were possible.

Swiss companies. This indicates that new ways need to be found to increase the AGM-presence at several SMI companies.

d) Detailed Results for Switzerland

This section presents the survey responses regarding the above research question by company. This is done in an anonymous format since the participating companies were guaranteed anonymity.

Table 10: Desirability of Shareholder Participation & Participation Goals for SMI

Company	High AGM-Participation Important?	Company has AGM-Participation Goal?	Why is High Participation in AGMs Important?
Company 1	Yes	No	Shareholders should express their opinions on management's proposals
Company 2	Yes	No	Avoid chance majorities; important to get support of international investors; avoid that minority makes key decisions
Company 3	Yes	No	-
Company 4	Yes	No	Provides an appropriate system of checks and balances; articles of association regulate required votes for majority
Company 5	Yes	No	High credibility for board and management
Company 6	Yes	No	-
Company 7	Yes	No	Ensure quorum with a qualified majority
Company 8	Yes	No	Majority shareholder ensures high presence and valid quorum
Company 9	Yes	No	Representative feedback for board's strategic plans, but by law no absolute level of participation is required
Company 10	-	-	General meeting can make decisions regardless of participation
Company 11	Yes	No	-
Company 12	Yes	No	Shows commitment of shareholders to company; owners of the company have to participate in decision-making process
Company 13	Yes	No	Ensure solid support for board's proposals
Company 14	Yes	No	-
Company 15	Yes	No	Majority shareholder ensures high presence
Company 16	Yes	No	-
Company 17	Yes	No	Important to get support of large investors
Company 18	Yes	No	Better control over management and board; more representative decisions

2. What do experts view as the key benefits of increased shareholder participation in general meetings of large, publicly listed companies?

The above section has shown that companies have different reasons for why they view high shareholder participation in their AGMs as important. Important reasons for the companies listed in the DAX30 and the SMI were that high participation ensures a greater legitimacy of decisions and helps to avoid chance majorities as well as the undue power of a minority. This section will answer the question what experts view as the key benefits of increased shareholder participation in AGMs and compare the results to the answers found in the company survey.

Answers to Research Question 2 based on Expert Interviews

a) Aggregate Results of the Expert Interviews

The following table presents what the interviewed experts viewed as the key benefits of higher shareholder participation in general meetings:

Table 11: Benefits of High AGM-Participation according to Expert Interviews

Benefit of Higher Participation	Number of Times Mentioned
Provides more effective system of checks and balances	2
Prevents chance majorities	2
Avoids self-interested control by minority	2
Ensures that many owners influence important corporate decisions	1
Prevents self-interested decisions by management and directors	1
Ensures a more representative meeting and decisions	1
Curtails hedge funds' power	1
Not mass is important but quality of participation	1
Ensures support of institutional investors	1
Counterweight to banks' proxy votes in favor of management	1
Counterweight to family-voting-power and "Germany-AG"	1
Improves a company's public image	1
Improves perceived quality of corporate governance in Germany	1

As one can see above, according to the experts, there are several different benefits due to higher AGM-presence. Some of the benefits are similar to the ones mentioned by the companies surveyed. For example, experts as well as companies stated that higher AGM-presence helps to prevent chance majorities and self-interested domination by a minority. Furthermore, both stated that higher participation in shareholder meetings leads to more representative decisions.

However, the experts also mentioned some advantages of higher participation that the surveyed companies did not mention. According to some of the experts, a higher AGM-presence can lead to a more effective system of checks and balances and can help to prevent management and directors from lining their own pockets at the expense of shareholders. Furthermore, especially with regard to the current situation in Germany, a higher AGM-presence can help to curtail the power of hedge funds. If shareholder participation in general meetings is low, these funds can control companies with only a small equity stake and can make self-interested decisions that are to the detriment of other shareholders as well as the company in the long run. Another benefit of higher shareholder participation in general meetings is that it helps to reduce the influence of banks' proxy votes, which are frequently exercised in management's favor. As outlined earlier, this can lead to the situation that banks rubber-stamp management's proposals in order to ensure the continuity of their business relationships with the respective company. Some other interesting benefits that the experts mentioned were that higher AGM-participation can serve as a counter-weight to family-voting-power as well as the influence of the "Germany-AG". Finally, higher participation in a company's general meeting can help to improve the public image of a company and, on a national level, higher participation in AGMs can improve the perceived quality of a country's corporate governance; especially if participation is high at the largest and most visible national companies like the ones listed in the DAX30 and the SMI.

b) Detailed Results from the Expert Interviews

This section presents the detailed results of the expert interviews.

Mr. Mathys, an analyst at the Swiss investment foundation Ethos, stated that high shareholder participation in general meetings is desirable because it ensures that the owners of a company get the opportunity to influence important corporate decisions. This also helps to prevent management and directors from simply making key business decisions by themselves that are to their own advantage but to the disadvantage of shareholders. Hence, according to Mr. Mathys, a general meeting where a large number of owners participates provides a system of checks and balances and gives due weight to the AGM as a control and decision-making mechanism.

Dr. Waibel, former CFO and now Head of Business Development at Lonza, stated that higher shareholder participation in AGMs would be desirable because it increases the control function of shareholders over various issues like, for example, executive payments. Dr. Waibel mentioned GlaxoSmithKline as an example, where shareholders voted against executive pay deals that they perceived to be excessive. Furthermore, higher participation in AGMs is also desirable because it leads to more representative meetings and decisions. It is not so nice if a company has a general meeting with a participation of only 30% since this is not really representative.

Mr. Hechtfisher, a managing director at Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) Nordrhein-Westfalen, said that a key benefit of a high equity presence in AGMs is that chance majorities are avoided. In the case of a company where AGM-presence is low, it is possible for an investor with a relatively small equity stake – like e.g. a hedge fund – to make the key decisions during a general meeting. Such an investor could then, for instance, insist on a higher dividend from the company at the expense of investing in projects that pay off over a longer time period. As a consequence, increasing the presence of shareholders in AGMs can help to prevent such a situation and is to the advantage of most owners of the firm in the long run.

Mr. Grauwiler, who is head of corporate communications at Lonza and responsible for corporate governance issues at the company, said that it is important that shareholders who attend an AGM are familiar with the agenda. It does not help a company much if many

shareholders attend its AGM, but the attendees are not very knowledgeable about the subject matter. Furthermore, it is very important to get institutional investors to vote because they usually are the ones that matter more in terms of equity ownership than retail investors. With regard to the last point, Mr. Grauwiler stated that a requirement to vote for institutional investors is not necessary, but that it would make sense from a corporate governance point of view if these investors more frequently exercised their voting rights. Legislation might only be an option if voting by institutional investors fell to a very low level.

Mrs. Keitel, a board member at Schutzgemeinschaft der Kapitalanleger e.V. (SdK), stated that small groups of shareholders can control decision-making in general meetings if participation is low. Hence, increased presence of equity capital in AGMs is primarily desirable to prevent a minority from making key decisions that can be to the detriment of the majority of shareholders and the company in the long run.

Mr. Bender, also a board member at Schutzgemeinschaft der Kapitalanleger e.V. (SdK), said that every private shareholder should use his/her right to vote at AGMs in his own personal interest to influence corporate decisions or to prevent resolutions proposed by management or minority shareholders that are to the disadvantage of the majority of shareholders. For example, if a minority dominates decision-making at the AGM because of a low presence, it has the power to nominate all supervisory board members (with the exception of those elected according to the “Mitbestimmungsgesetz”³¹). These board members might in turn approve management actions that are to the disadvantage of most company owners, like buying assets from a group of shareholders at too high a price or selling assets at too low a price. Disadvantageous proposals by management might also include proposals for the transfer of shares and/or share options from shareholders to management or excessive management compensation. These problems can be reduced by having more shareholders participate in AGMs. In addition, Mr. Bender stated that banks in Germany tend to exercise proxy votes from private clients in the interest of company management rather than in the interest of their clients/private shareholders. Furthermore, Sparkassen and Volksbanken³² recently discontinued offering proxy voting services to their private clients because they do not want to incur the associated effort and costs anymore. Taken together, these two aforementioned

³¹ The so-called “Mitbestimmungsgesetz” is a law that determines that the supervisory boards of German companies need to consist of an equal number of worker representatives and owner representatives.

³² Sparkassen and Volksbanken are banks in Germany.

developments reduce the control that shareholders have over public companies, and an increase in shareholder participation in AGMs via Internet proxy voting can potentially help to improve this situation.

Dr. Helbig, an expert on corporate governance from the Deutsches Aktieninstitut (DAI), stated that high participation in general meetings is important since it helps to prevent chance majorities. Moreover, owners with a comparatively large equity holding can more easily abuse their power to the detriment of smaller investors and the long-term development of the company if AGM-participation is low. This issue is particularly important for Germany where families and the “Germany-AG” are still quite influential. Hence, increased participation by shareholders can act as a counterweight to this situation. In addition, Dr. Helbig stated that high AGM-participation can help to improve a company’s public image because it shows that the company ties in shareholders to a greater extent in the decision-making process and corporate governance. On a national scale, higher participation in the AGMs of large German corporations can also help to improve the perceived quality of corporate governance in Germany.

Overall, based on the answers provided by the surveyed companies as well as the interviewed experts, there are a number of considerable benefits to high shareholder participation in general meetings. However, even though the results for research questions one and two make clear that DAX30 and SMI companies are aware of the benefits of high shareholder participation in their AGMs, many of them do not achieve high participation in reality. It is important to remember that in 2005 there were 18 companies in the DAX and 15 companies in the SMI where less than 50% of equity capital participated in the general meeting, and there were several companies in both indexes where participation was below 30%.

3. What is the current situation at large German and Swiss corporations regarding the utilization of the Internet for their shareholder meetings?

Before answering this research question in depth, it is important to point out that only an active utilization of the Internet for encouraging higher shareholder participation in general meetings will be considered here. This means that the simple posting of AGM-related information on a company's Website is not enough to qualify for further analysis since it does little to encourage greater shareholder participation.

Answers to Research Question 3 based on Company Responses and Public Information

a) Aggregate Results for Germany

Twenty-three responses relating to this research question were received (response rate = 77%). For the DAX30 companies that did not provide an answer to this question, the necessary information was looked up on their Websites and in their general-meeting invitations. Hence, information on all companies in the DAX30 was analyzed. Since all of the presented information is publicly available, the results are presented in the aggregate and also by company.

Figure 20: Utilization of the Internet for General Meetings at DAX30 Companies

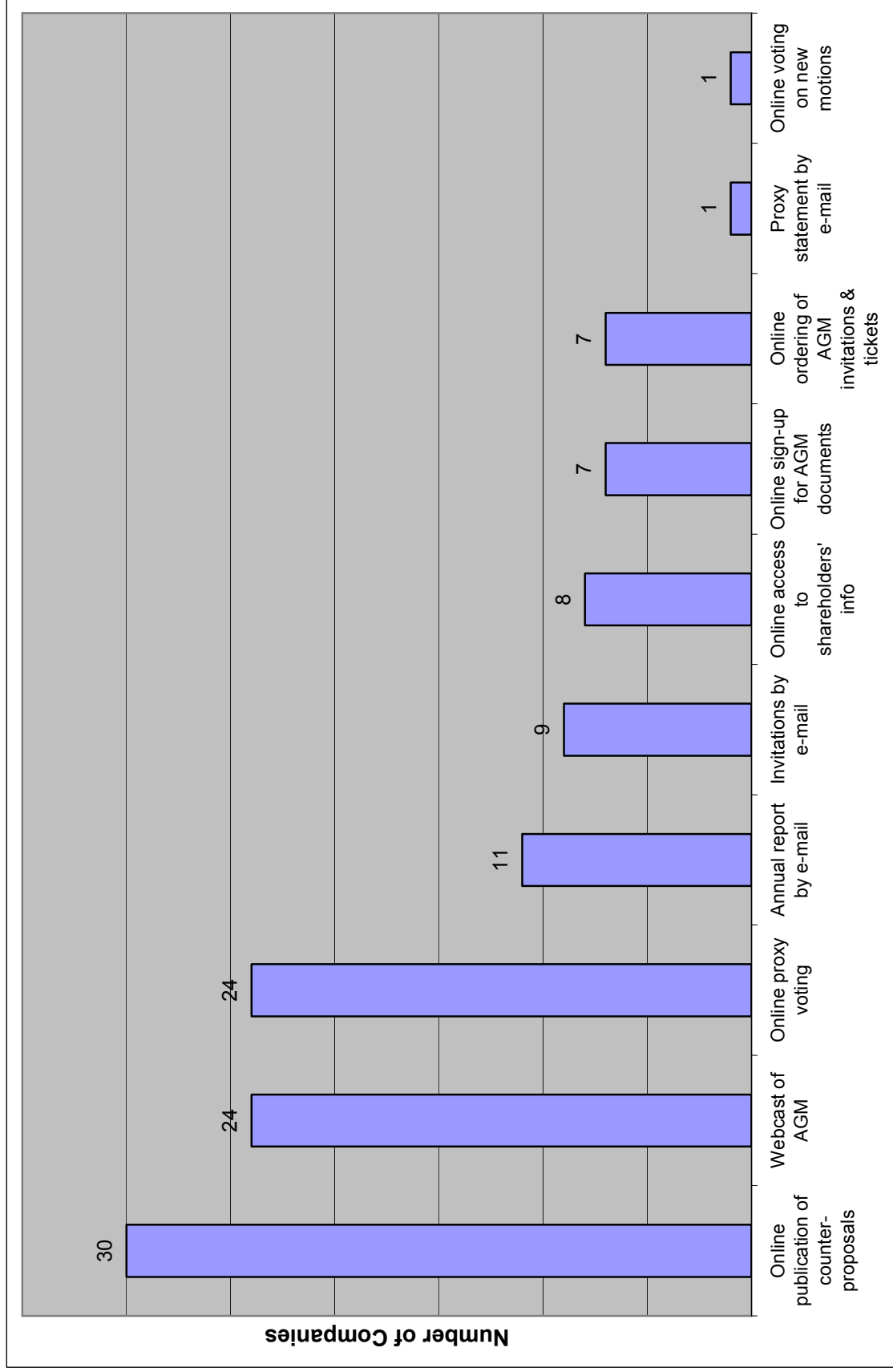


Figure 21: Online Proxy Voting at DAX30 Companies

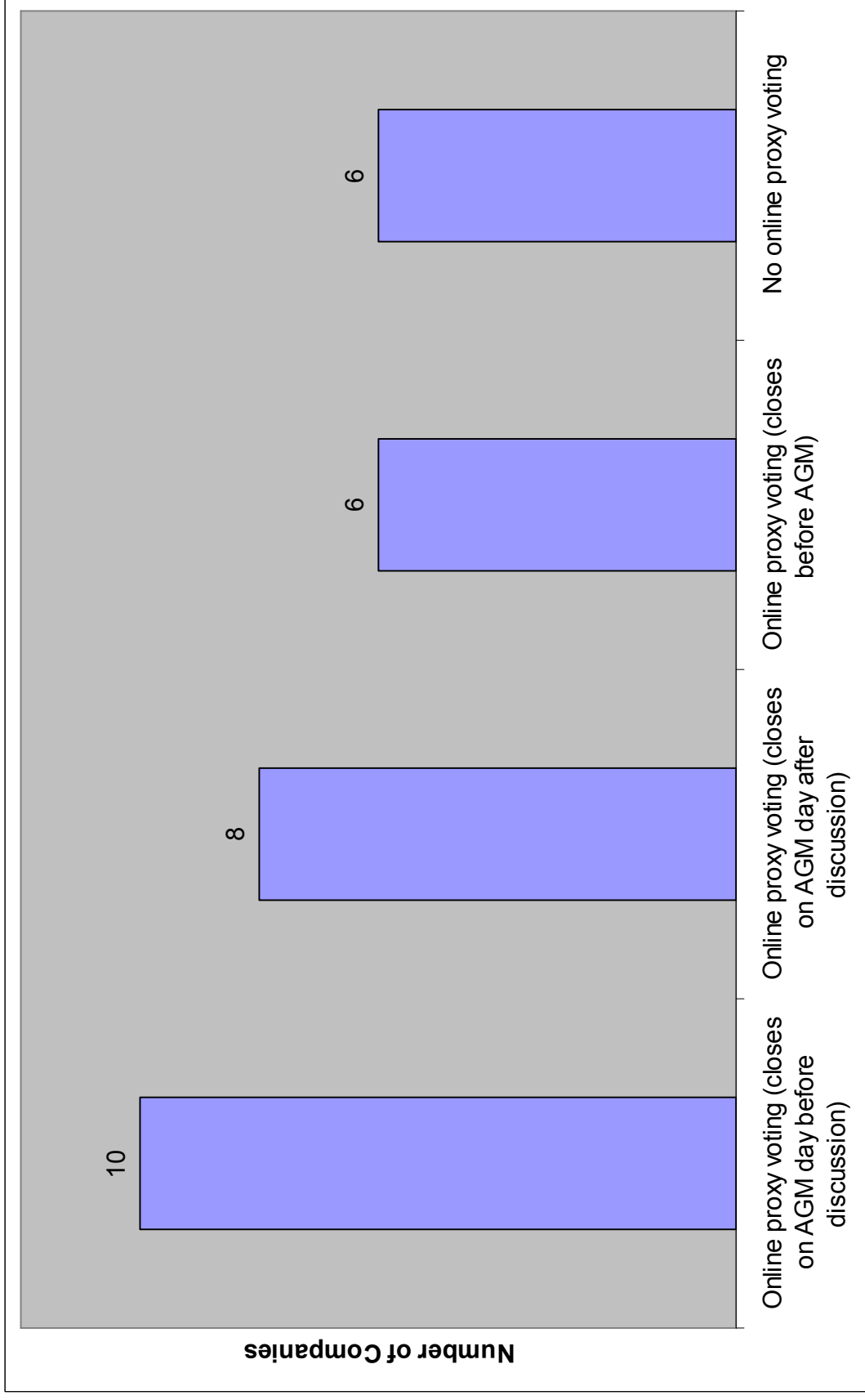
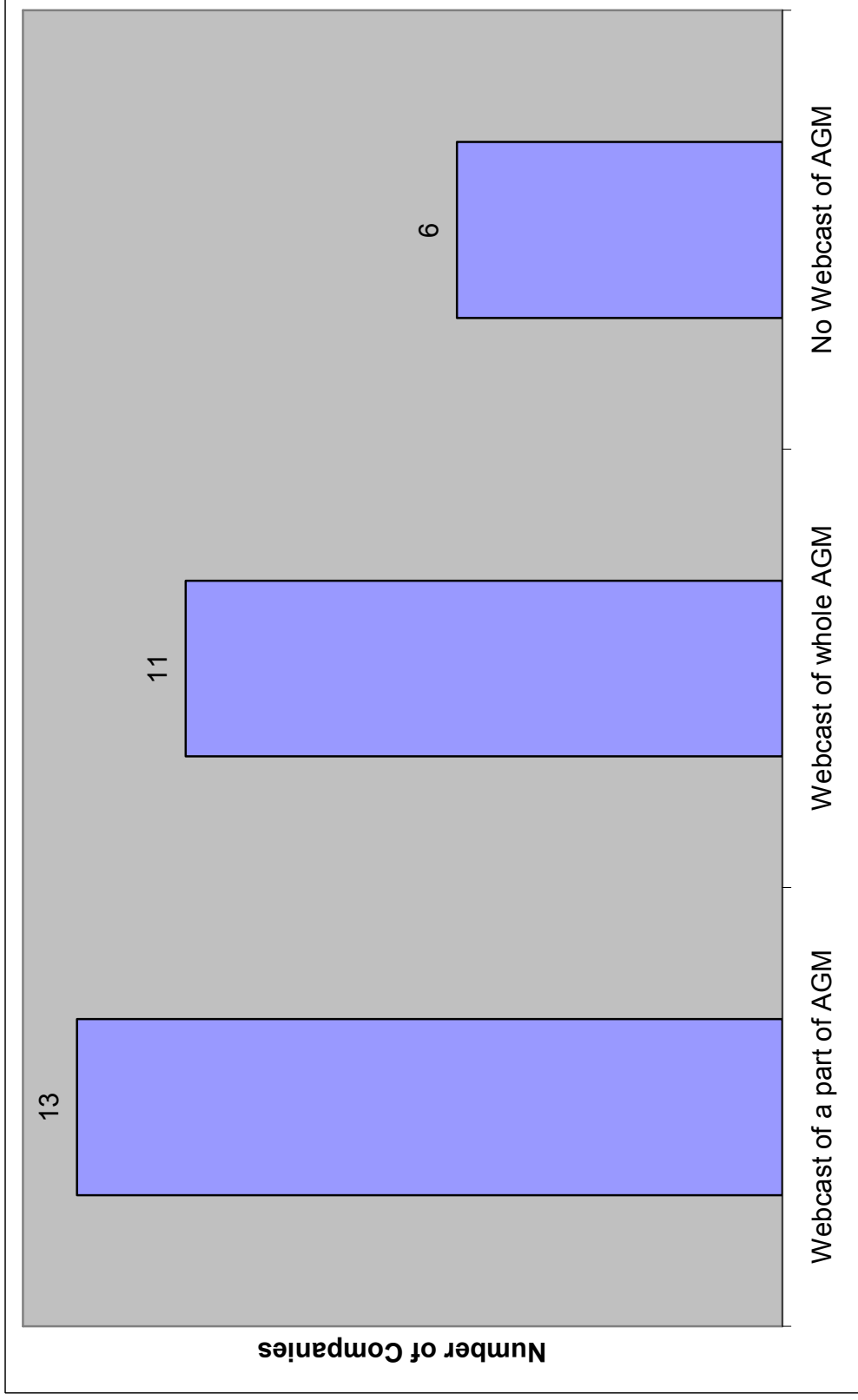


Figure 22: General-Meeting Webcasts at DAX30 Companies



b) Detailed Results for Germany

This section presents publicly available information regarding the utilization of the Internet for general meetings at DAX30 companies. The information is presented by company so that an overview can be gained of what individual companies offer to their shareholders.

1. Adidas-Salomon

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

2. Allianz → Best Case Company

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting tickets
- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

3. Altana

- Online proxy voting (close before the general meeting)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

4. BASF

- Online proxy voting (close before the general meeting)
- Webcast of a part of the general meeting (CEO's speech)
- Publication of shareholders' counter-proposals on company's Website

5. Bayer

- Online proxy voting (close before the general meeting)

- Webcast of a part of the general meeting (speech by CEO)
- Publication of shareholders' counter-proposals on company's Website

6. BMW

- Publication of shareholders' counter-proposals on company's Website

7. Commerzbank

- Annual report or link to annual report by e-mail
- Publication of shareholders' counter-proposals on company's Website

8. Conti

- Annual report or link to annual report by e-mail
- Online proxy voting (close before the general meeting)
- Publication of shareholders' counter-proposals on company's Website

9. DaimlerChrysler

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Proxy statement as an attachment to e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting tickets
- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of a part of the general meeting (speeches by CEO and Chairman)
- Publication of shareholders' counter-proposals on company's Website

10. Deutsche Bank

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of a part of the general meeting (speeches by CEO and Chairman)
- Publication of shareholders' counter-proposals on company's Website

11. Deutsche Börse

- Online access to shareholders' personal information and possibility of changing it
- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

12. Deutsche Post

- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting tickets
- Online proxy voting (close before the general meeting)
- Webcast of a part of the general meeting (speech by Chairman)
- Publication of shareholders' counter-proposals on company's Website

13. Deutsche Telekom → Best Case Company

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting tickets
- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website
- Possibility of voting on motions regarding the procedure during the general meeting or other motions not announced prior to the meeting

14. EON

- Online proxy voting (close on the day of the general meeting but before the discussion)
- Publication of shareholders' counter-proposals on company's Website

15. Fresenius

- Webcast of a part of the general meeting (speech by CEO)
- Publication of shareholders' counter-proposals on company's Website

16. Henkel

- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of a part of the general meeting (speech by CEO)
- Publication of shareholders' counter-proposals on company's Website

17. HVB

- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

18. Infineon

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting tickets
- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of a part of the general meeting (speeches by CEO, Chairman, and CFO)
- Publication of shareholders' counter-proposals on company's Website

19. Linde

- Online proxy voting (close before the general meeting)
- Webcast of a part of the general meeting (speeches by CEO and Chairman)
- Publication of shareholders' counter-proposals on company's Website

20. Lufthansa

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online proxy voting (close before the general meeting)
- Webcast of a part of the general meeting (speeches by CEO and Chairman)
- Publication of shareholders' counter-proposals on company's Website

21. *Metro*

- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of a part of the general meeting (speech by CEO)
- Publication of shareholders' counter-proposals on company's Website

22. *Munich Re* → *Best Case Company*

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting tickets
- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

23. *RWE*

- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

24. *MAN*

- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

25. *SAP*

- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

26. *Schering*

- Webcast of a part of the general meeting (speeches by CEO and Chairman)
- Publication of shareholders' counter-proposals on company's Website

27. Siemens

- Invitations to the general meeting by e-mail
- Annual report or link to annual report by e-mail
- Online access to shareholders' personal information and possibility of changing it
- Online sign-up for general-meeting documents sent by e-mail or regular mail
- Online ordering of general-meeting invitations and tickets
- Online proxy voting (close on the day of the general meeting but before the discussion)
- Webcast of a part of the general meeting (speeches by CEO, Chairman, and CFO)
- Publication of shareholders' counter-proposals on company's Website

28. ThyssenKrupp

- Online proxy voting (close on the day of the general meeting after the discussion)
- Webcast of the whole general meeting
- Publication of shareholders' counter-proposals on company's Website

29. TUI

- Publication of shareholders' counter-proposals on company's Website

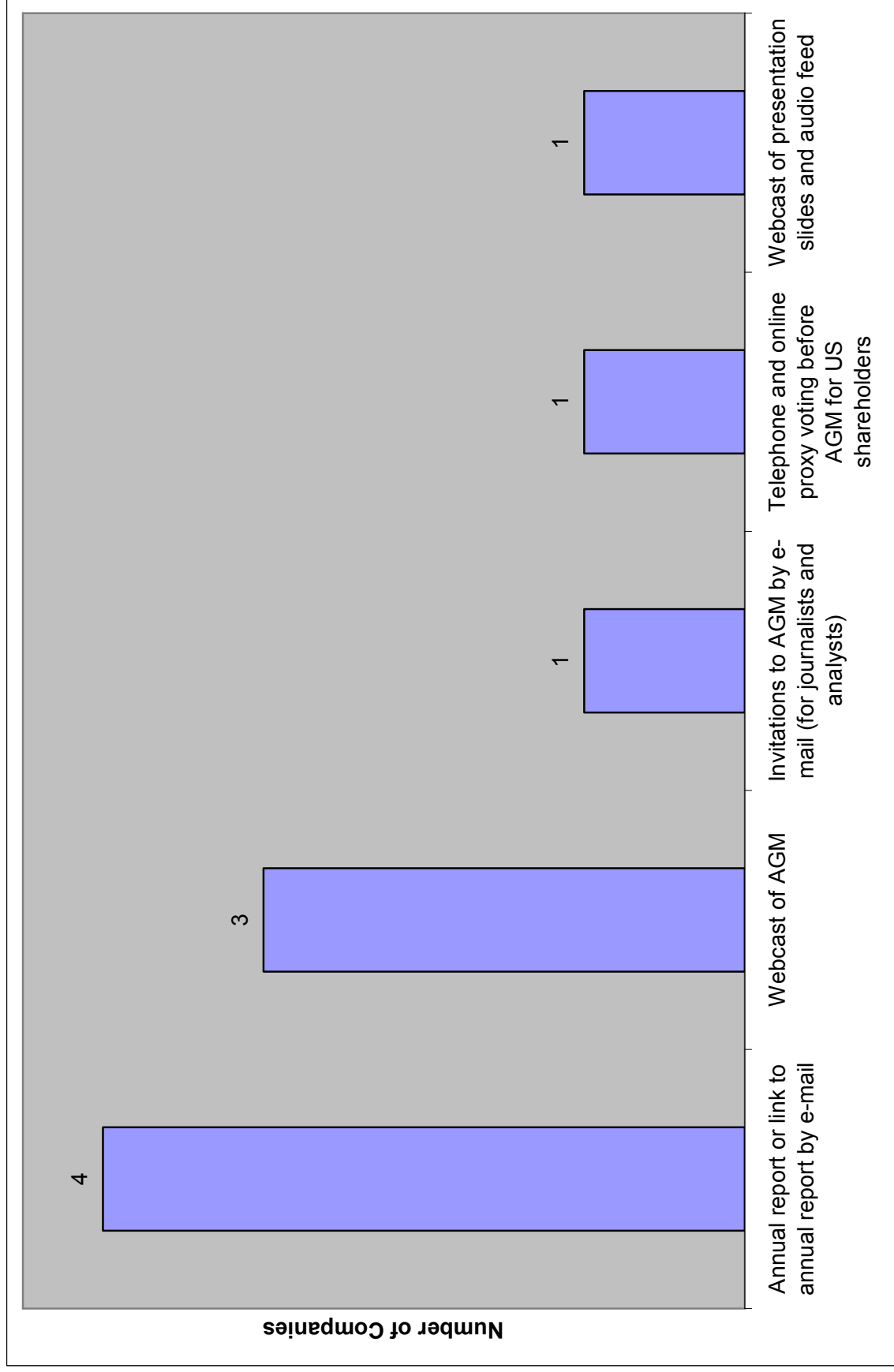
30. VW

- Publication of shareholders' counter-proposals on company's Website

c) Aggregate Results for Switzerland

Eighteen responses relating to this research question were received (response rate = 69%). For the SMI companies that did not provide an answer to this question, the necessary information was looked up on their Websites and in their general meeting invitations. Hence, information on all companies in the SMI was analyzed. Since all of the presented information is publicly available, the results are presented in the aggregate and also by company.

Figure 23: Utilization of the Internet for General Meetings at SMI Companies



d) Detailed Results for Switzerland

This section presents publicly available information regarding the utilization of the Internet for general meetings at SMI companies. The information is presented for all companies that actively utilize the Internet to encourage greater shareholder participation in their general meetings. It should be noted that only an active utilization of the Internet was counted here. This means that companies either provide their shareholders with the opportunity to participate in the general meeting via the Internet or actively provide their shareholders with general-meeting-related information. Just passively posting information on a company Website does not fall into this category because it does little to actively encourage greater shareholder participation in general meetings.

1. ABB

- Webcast of the general meeting
- Invitations to the general meeting by e-mail (for journalists & analysts)

2. Adecco

- Webcast of presentation slides and corresponding audio feed

3. Credit Suisse

- Webcast of general meeting
- Link to annual report by e-mail

4. Richemont

- Link to annual report by e-mail

5. Roche

- Link to annual report by e-mail

6. SGS

- Annual report by e-mail to all shareholders that wish to receive one

7. Swisscom

- Webcast of general meeting

8. UBS

- Online and telephone proxy voting before the general meeting for shareholders registered with the US transfer agent

Answers to Research Question 3 based on Expert Interviews

a) Germany

The research question was also covered in interviews with experts from SLS, ADEUS, and Registrar Services³³, which are some of the leading companies in Germany in the area of general-meeting products and services. Their detailed offerings will be presented under research question 5, which deals with implementation issues and the currently available technology.

At SLS, Mr. Balling, a member of the management team, was interviewed. According to Mr. Balling, with regard to large, publicly listed companies in Germany, the trend is clearly moving toward offering Internet proxy voting and AGM-Webcasts to shareholders. Furthermore, Mr. Balling pointed out that investor-relations newsletters are a rather important tool for increasing awareness of the AGM. Especially international investors might not know about a general meeting because they do not receive the necessary information in the mail. Hence, an investor-relations newsletter can notify them of the AGM and of the possibility of voting via the Internet. Mr. Balling expects an increased utilization of the Internet for AGMs in the future since the interest on behalf of shareholders and companies is clearly there. Companies like the Internet because it can help them to increase the presence in their AGMs and this circumstance will lead to a greater adoption of the Internet in the future. Another factor that will lead to an increased employment of the Internet for general meetings is that the younger generation of shareholders is more accustomed to using the Internet and will most likely increasingly use it for voting at AGMs. Overall, Mr. Balling thinks that the utilization of Internet proxy voting will increase slowly but steadily over time as shareholders become more accustomed to using it, especially at companies that have been offering Internet proxy voting and Webcasts for some time.

³³ Detailed information about these companies can be found in Appendix B.

At ADEUS, Mr. Dobrzewski was interviewed. According to Mr. Dobrzewski, large, publicly listed companies in Germany are increasingly offering Internet proxy voting to their shareholders. Companies differ regarding how long they let shareholders change their voting instructions to company proxies. Some companies let shareholders only change instructions before the AGM, while others let them still change instructions during the meeting. The trend is also shifting toward letting shareholders order AGM tickets over the Internet and, if desired, shareholders can receive invitations to the AGM via e-mail. It is important to note that these services are generally offered by registered-share companies because they know who their shareholders are and possess all of the required information for offering these services. For non-registered share companies, it is more cumbersome to offer these electronic services because the process has to run via banks as intermediaries. Mr. Dobrzewski expects an increase in the utilization of the Internet for AGMs in the future because it facilitates cross-border voting by foreign shareholders and because it is often easier for shareholders to exercise their voting rights in this way. ADEUS receives positive feedback from its clients, who often mention that it is more comfortable for shareholders to exercise their rights via the Internet.

At Registrar Services, Mr. Licharz, a member of and speaker for the management team, was interviewed. According to him, publicly listed large and mid-cap companies in Germany are increasingly utilizing the Internet for their general meetings and this trend is likely to continue in the future. However, this process will take time. Large companies are most likely to implement the required systems first because they can save the most money by utilizing the Internet to a greater extent. Over time, smaller companies are likely to follow suit.

Overall, the information obtained in the expert interviews supports the results of the survey of DAX30 companies in Germany.

b) Switzerland

In Switzerland, the research question was covered in an interview with Mr. Gassmann from NIMBUS³⁴, which is a leading provider of general-meeting products and services in Switzerland. According to Mr. Gassmann, mostly electronic hand-held devices are used for voting in general meetings of large, publicly listed companies in Switzerland. Regarding this point, one needs to distinguish between SMI-firms and smaller firms. Around 50-75% of SMI-firms utilize electronic hand-held devices in their AGMs, and they are the standard by now. Smaller companies use these devices to a lesser degree due to cost reasons. With regard to the Internet, SMI companies do not utilize it to a large extent for the preparation and execution of their AGMs because the legal situation in Switzerland would need to be changed first in order to clearly permit this. Mr. Gassmann expects an increased utilization of the Internet for AGMs in Switzerland in the future, once the legal situation allows it. But, according to Mr. Gassmann, the situation in Switzerland is somewhat special because the geographical distance between shareholders and general meetings is not large and, as a consequence, the Internet might not have a very large impact on shareholder participation.

Overall, the information obtained in the expert interview with Mr. Gassmann supports the results of the survey of SMI companies in Switzerland.

In the following sections, two case studies of Lufthansa and Allianz will be presented. They illustrate how both companies utilize the Internet for their AGMs and which experiences they have had so far. In addition, Deutsche Telekom will serve as a best-case example because it offers its shareholders several online services and provides them with a high degree of flexibility.

Case Study of Lufthansa³⁵

Lufthansa is a company that actively utilizes the Internet to encourage its shareholders to participate in its general meetings. Lufthansa utilizes SLS' tool called HV-Web for its AGM. As part of their collaboration, SLS supplied Lufthansa with a basic layout on whose basis Lufthansa then developed its own HTML-pages for the ordering of AGM-tickets and for Internet proxy voting. Lufthansa utilized the premium version of HV-Web, which makes it possible for Lufthansa's Web designer to create an individualized Internet layout for the

³⁴ Detailed information about this company can be found in Appendix B.

³⁵ Lufthansa is a customer of SLS and the example was supplied by SLS.

company. The Web designer had partial access rights to the HV-Web server via the Internet and once the Internet layout had been created at Lufthansa, the Web pages were transferred to SLS' server in order to be tested right away.

After the production and testing phase described above, Lufthansa linked HV-Web to its German/English Website called www.lufthansa-financials.com. In addition, shareholder data was transferred from the share registry to the central unit of HV-Web and was supplied with PIN-codes, which shareholders could later use to access Lufthansa's Internet service. At the same time, invitations to the AGM were mailed to shareholders. During this process, shareholder data was continuously updated in order to have the most up-to-date information in the system.

Via a special administrator function, HV-Web allowed users at Lufthansa to monitor the ordering of AGM-tickets as well as the current proxy-voting situation. All of this was done via a regular Internet browser. Being able to monitor the development of proxy voting is important for the management of a company because it can see how many shareholders are participating and how much support its AGM-proposals are likely to receive. Based on this information, management can take corrective action. For example, it could start a proxy-voting-solicitation campaign if it notices that participation is very low. In the case of Lufthansa, if shareholders ordered their AGM-tickets through the Internet service, their orders were processed through another SLS-tool called HV-Win and after quality control as well as mailing of the tickets, the ordering information was automatically transferred back to HV-Web. This allowed shareholders to make online inquiries regarding the status of their ticket orders.

As mentioned above, shareholders cannot only order tickets through HV-Web but can also complete proxy voting. Proxy votes are processed through a tool called HV-Proxy and can be organized according to voting instructions. HV-Web also allows shareholders to automatically revoke their online voting instructions to the company proxy by ordering AGM-tickets before the announced deadline. This functionality serves to increase the flexibility of shareholders because they can still choose to attend the AGM in person after they have already voted online.

Before the general meeting, Lufthansa had around 450,000 shareholders with address information in its system and around 1,000 AGM-tickets were finally ordered online. This equaled 11.40% of all ticket orders. Moreover, around 2,300 proxy votes were conducted online, which equaled 8.40% of all registered proxies. The registration deadline for the general meeting was three days before the day of the meeting and changes in online voting instructions could be made until 15:00 p.m. on the day before the AGM date. Overall, only limited support was required and the server systems worked reliably. According to Lufthansa, the utilization of the Internet significantly reduced the required administrative effort in the registration phase of the AGM and, as a result, the company plans to continue using the Internet for its AGMs in the future.

Case Study of Allianz³⁶

The case of Allianz is particularly interesting because the company has experienced strong growth in the number of private shareholders and actively utilizes the Internet to give its shareholders the opportunity to participate in its AGMs. From the end of 1996 until the end of 2004, the number of private investors increased from 44,109 to 545,000 (+1,136%). Today, private investors account for approximately 98.5% of all Allianz shareholders and hold about one sixth of equity capital. Since Allianz has registered shares, it can easily utilize the Internet for its general meetings. Currently, the company sends out invitations to its AGM by e-mail and gives shareholders the opportunity to order general-meeting tickets online. Furthermore, Allianz offers an Internet service that allows shareholders to access their personal information and change it. The company also offers online proxy voting, which closes after the debate at the general meeting, and webcasts the whole general meeting. According to Mr. Schmidt, CEO of ADEUS, the Internet has facilitated voting at the AGM and Allianz's experience with the Internet has been positive. The Internet helps the company to save money by reducing mailing and printing costs. This is especially the case if the invitations to the general meeting are sent out by e-mail. In 2004, Allianz was the first DAX30 company that sent out invitations by e-mail and in that year 1.20% of Allianz shareholders were invited electronically. In 2005, this figure already increased to around 7.40% or about 40,000 shareholders. Mr. Schmidt estimates that Allianz saves about €2.00 per online invitation due to reduced mailing, paper, and printing costs.

³⁶ Allianz owns ADEUS and is also a customer of the firm. The following information was provided by ADEUS as well as Allianz.

Shareholders that receive the AGM-invitations by e-mail can easily register for the AGM. The invitation e-mail contains a link that takes shareholders to Allianz's online service, which allows them to order AGM-tickets or to exercise their voting rights online. Voting instructions for the company proxy can still be changed online until after the AGM-debate. The Allianz shareholders that were invited to the 2005 AGM by e-mail registered comparatively more often for the meeting than the shareholders that were invited in the conventional manner, 22% for online invitations versus 12% for all invitations. Overall, as the following figures show, the utilization of the Internet for the AGM is high among Allianz shareholders. In 2005, 35.20% of equity capital registered for the general meeting and about 37% of this figure registered via the Internet. In addition, the shareholders that attended the 2005 AGM in person also utilized the Internet since over 28% of AGM-tickets were ordered online. Finally, around one third of the shareholders that exercised their voting rights with the help of the Allianz company proxy did so via the online service.

Best-Case Example: Deutsche Telekom

There are several German companies that offer a lot of online services to their shareholders. For example, Allianz, DaimlerChrysler, Deutsche Telekom, Infineon, Lufthansa, Munich Re, and Siemens offer particularly much. In comparison, the largest Swiss companies offer considerably less. One company that can serve as a best-case example is Deutsche Telekom because it offers a lot of flexibility to its shareholders in order to encourage and facilitate their participation in its general meetings.³⁷ A listing of the Internet services Deutsche Telekom currently offers its shareholders:

Three online services by Deutsche Telekom are particularly important for increasing shareholders' flexibility with regard to participating in the company's AGM. First of all, Deutsche Telekom keeps online proxy voting open until after the debate at the AGM. Second, Deutsche Telekom webcasts the whole general meeting. In combination, these two points mean that shareholders that participate via the Internet receive the same information on which they can base their voting decisions as shareholders that attend the physical meeting. Online participants can follow the entire general meeting including the debate and then make their voting decisions based on what they have heard. Conventional proxy voting that closes before the AGM does not give shareholders this opportunity. Furthermore, a company that

³⁷ A list of the Internet services that Deutsche Telekom is currently offering can be found on p.125.

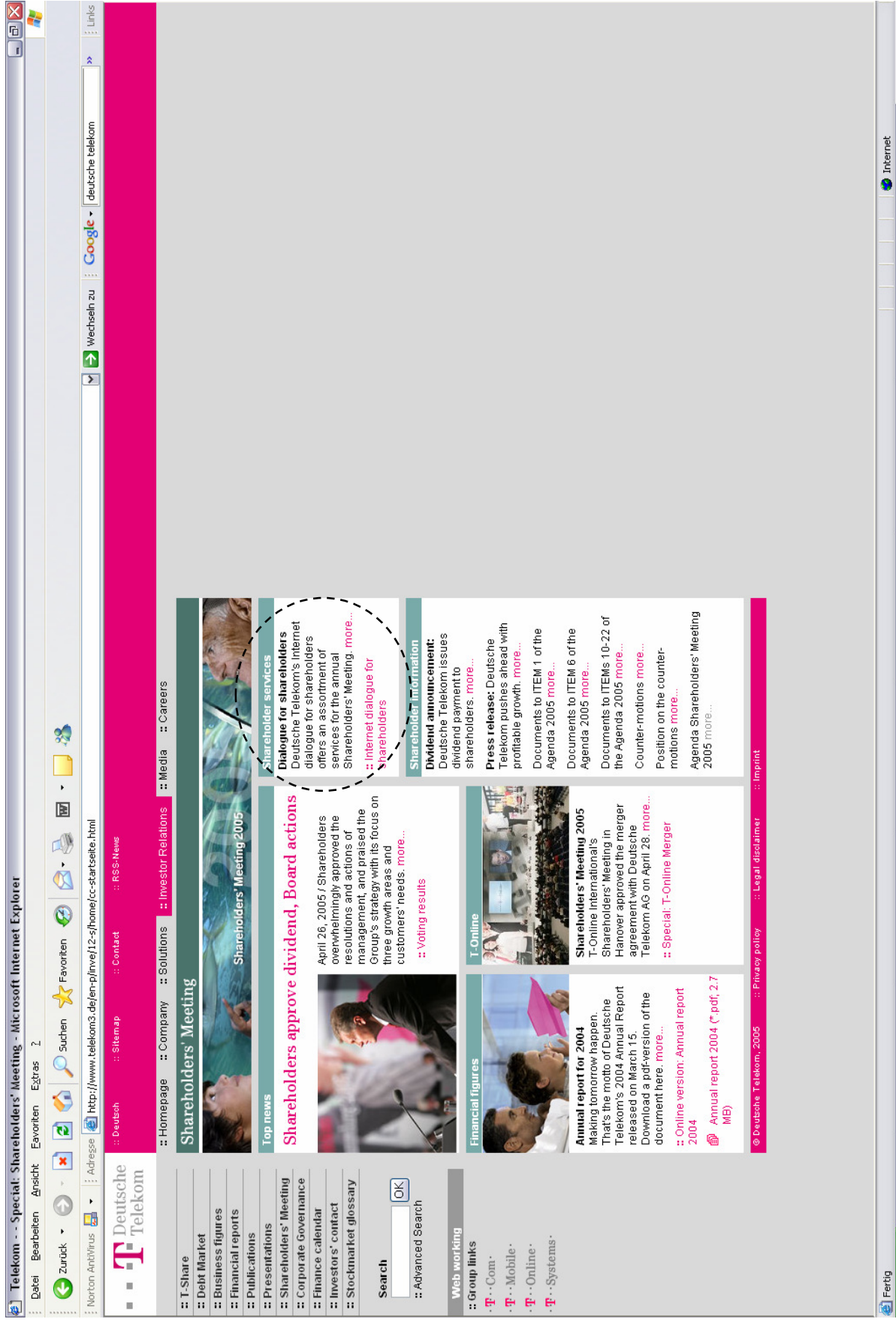
leaves online proxy voting open until after the debate but does not webcast the whole meeting puts its online participants at a disadvantage. This is the case because online participants cannot follow the AGM-debate and, hence, will not receive the same amount of information as participants at the physical meeting. Third, Deutsche Telekom is so far the only company that offers its shareholders the possibility of voting on motions that were not announced before the AGM, thereby providing online participants with maximum flexibility. This can be motions regarding the procedure during the general meeting or other types of motions not announced prior to the meeting.

Moreover, besides trying to actively encourage its shareholders to participate in its AGMs, Deutsche Telekom publishes several AGM-related documents on its Website. Indeed, almost all of the companies in the DAX30 publish these documents on their Websites and a standard has emerged with regard to this point. At a minimum, the following AGM-related documents are usually available on DAX30 companies' Websites:

- Invitation to the AGM including the proposals to be voted on (before and after the AGM)
- AGM voting results including the presence at the meeting (after the AGM)
- Webcast of the AGM (after the AGM)
- Counter-proposals (before and after the AGM).

SMI companies, in comparison, do not always provide this information. Some SMI companies provide voting results and AGM-presence on their Websites, but this is rather an exception than the rule. Furthermore, some SMI companies post AGM-Webcasts on their Websites, but again, this is an exception rather than the rule. The following screenshots show what Deutsche Telekom is offering on its Website and how it presents online proxy voting as well as the AGM-Webcast in its general-meeting invitation:

Figure 24: Deutsche Telekom's Internet Shareholder Service



Internet dialog of Deutsche Telekom AG - Microsoft Internet Explorer

Adressleiste: https://www.hv-telekom.de/dtag/login.do;SHAREHOLDER_DTAG_SID=08811NFJ5V80UUTge1M2czeVszRIZ7h0ZinTgvG182wmfwQ0i-490833346ivbeaweb1170011-1

Suchen, Favoriten, Wechselseite zu, Google

Deutsche Telekom

Internet Dialog for Shareholders

Deutsch, FAQ-catalog

Shareholders' Meeting of Deutsche Telekom AG 2005

Welcome to Deutsche Telekom AG's Shareholders' Meeting.

The Internet Dialog offers the shareholders of Deutsche Telekom AG the option of ordering admission tickets for the 2005 Shareholders' Meeting and giving their authorization and instructions via the Internet. In addition to this, the data for the register of shareholders can be updated. **You can sign up here to receive the documents for future Shareholders' Meetings electronically.** To sign up, please use the access data that was sent to you by postal mail with the invitation to the 2005 Shareholders' Meeting.

New: It is possible to use the Internet Dialog to vote on motions regarding the procedure during the Shareholders' Meeting or other motions not announced prior to the Shareholders' Meeting.

Legal information

Please note that the reliability, local availability and stability of Internet services may still vary in accordance with the current state-of-the-art. If you are using Deutsche Telekom AG's network infrastructure to access the Internet Dialog, you can, of course, expect the usual excellent standard of quality.

However, Deutsche Telekom AG cannot guarantee the reliability, local availability and stability of Internet services, including the ability to use this Internet service, or third-party network components you may be using. We reserve the right to suspend or cease our Internet service without further notice if there is a compelling need to do so for security reasons due to unauthorized external influence.

We therefore recommend that you use our Internet service in good time so that even in the event of an interruption in service or if the service becomes unavailable, you will still have enough time to order your admission ticket and submit your proxy and instructions in writing.

Registration

Shareholder number:

Online password (OP):

ok
:: Password forgotten?

Please enter your shareholder number and your online password (OP) in the respective spaces provided for this.

Information

If you have any more questions, please call our **hotline at 0800 330 21 00.** Within Germany, the hotline can be contacted Monday through Friday from 8:00 a.m. to 6:00 p.m. (except on public holidays).

Note

You will also find answers to questions concerning the 2004 Shareholders' Meeting in the **FAQ catalog.**

Participation in the Shareholders' Meeting

Those shareholders who are entered in the shareholders' register as shareholders of the Company and whose attendance registration has been received by the Company no later than by Tuesday, April 19, 2005, are entitled to participate in the Shareholders' Meeting and to exercise their voting rights at the Shareholders' Meeting pursuant to § 16 of the Articles of Incorporation.

Shareholders who are entered in the shareholders' register can register for the Shareholders' Meeting by writing to Deutsche Telekom AG at the Company's registered office or directly to the following address:

Hauptversammlung 2005
Deutsche Telekom AG
60204 Frankfurt am Main, Germany

by fax to the following number
+ 49 (0) 228 - 181 78879

or electronically at the Internet address

<http://www.agm-telekom.de>

Shareholders who are entered in the shareholders' register and intend to exercise their voting rights at the Shareholders' Meeting can request that an admission ticket be sent to them when they register via one of the above addresses. Furthermore, they can have their voting rights exercised at the Shareholders' Meeting by a party authorized to do so, for example, by a bank, a shareholders' association, or the proxies provided by the Company. If neither a bank nor a shareholders' association is to be granted

This translation is for country purposes only. The German original prevails.

ed authorization, the proxy authorization must be provided in writing or via the above Internet address.

We will inform our shareholders of the details for voting by proxy and issuing instructions and provide forms for this purpose when the invitations are sent out.

Counter-motions on Board of Management or Supervisory Board proposals concerning a specific item on the agenda, and nominations for the election of the independent auditor or for the election of a member to the Supervisory Board can be sent to the following address:

Deutsche Telekom AG
Zentralbereich Investor Relations
Friedrich-Ebert-Allee 140
53113 Bonn, Germany

Fax: + 49 (0) 228 181-88259
E-mail: countermotions.bonn@telekom.de

Motions and nominations for elections sent to any other address will not be taken into account when nomination notifications are made accessible in accordance with §§ 126, 127 AktG. We shall announce motions and nominations for election that must be made accessible that have been received from shareholders by no later than

midnight on Tuesday, April 12, 2005,

including the name of the shareholder, the reasons and any management comments, at the following Internet address:

<http://www.telekom.de>

Owners of American Depository Shares (ADS) who intend to take part in the Shareholders' Meeting can register via: Citibank N.A., New York, N.Y., USA.

Shareholders who hold their shares in Japan through Japan Securities Clearing Corporation and who wish to exercise their right to vote should get in touch with Sumitomo Trust & Banking Co. Ltd., Tokyo, Japan.

On request, every shareholder will be sent a copy of the documents, which will also be available for inspection at the Shareholders' Meeting, without delay and free of charge.

These documents can also be retrieved from the Internet at

<https://www.telekom.de>

According to the resolution adopted by the Board of Management and the Supervisory Board, the Shareholders' Meeting will be transmitted live at full length on the Internet at

<https://www.telekom.de/hw-live>

pursuant to § 15 (2) of the Articles of Incorporation.

Bonn, March 2005

Deutsche Telekom AG
The Board of Management

This translation is for country purposes only. The German original prevails.

4. What are the key advantages and disadvantages of utilizing the Internet for shareholder meetings?

This section first presents what the surveyed DAX30 and SMI companies view as the advantages and disadvantages of employing the Internet for their general meetings. After that, the view of the experts on the subject matter will be presented and a comparison between the results will be drawn.

Answers to Research Question 4 based on Company Responses

a) Germany

The information for DAX30 companies is presented anonymously since the surveyed companies were guaranteed confidentiality. As one can see in the table below, according to the largest public companies in Germany, there are numerous advantages to employing the Internet for general meetings. Since there are a considerable number of different advantages to using the Internet for AGMs, the results are not aggregated but are only presented by company. Some frequently mentioned benefits are that the Internet offers shareholders greater flexibility to exercise their votes, offers the potential to increase AGM-presence, and reduces AGM-related costs. Some disadvantages of utilizing the Internet are the cost of making the investments in technology and support and the danger of technological problems. However, it needs to be emphasized that 71% of respondents stated that there are no significant disadvantages to using the Internet for their AGMs.³⁸

³⁸ Twenty-one companies out of the 23 respondents utilize the Internet to a sufficient extent to be included in the analysis. Of these 21 companies, 15 stated that there are no major disadvantages to employing the Internet for their AGMs (= 71%).

Table 12: DAX30: Advantages & Disadvantages of Using the Internet for AGMs

Company	Advantages	Disadvantages
Company 1	<ul style="list-style-type: none"> - Easier for shareholders to participate in AGM. - Easier for shareholders to obtain information. 	<ul style="list-style-type: none"> - Since company has non-registered shares, it cannot use the Internet directly for contacting shareholders. - Hence, considerable effort is needed, but the benefit is comparatively small.
Company 2	<ul style="list-style-type: none"> - Internet not sufficiently used for AGM. 	<ul style="list-style-type: none"> - Internet not sufficiently used for AGM.
Company 3	<ul style="list-style-type: none"> - Provides up-to-date information to the shareholders. 	<ul style="list-style-type: none"> - No disadvantages.
Company 4	<ul style="list-style-type: none"> - Allows company to reach larger amount of shareholders, more than 80% of them living outside Germany. - Allows company to increase voting participation. - Strengthens the company's efforts to offer good corporate governance. 	<ul style="list-style-type: none"> - No major disadvantages.
Company 5	<ul style="list-style-type: none"> - Fast way of information provision to shareholders. - Gives shareholders the chance to exercise their voting rights online. 	<ul style="list-style-type: none"> - Does not offer personal contact to shareholders.
Company 6	<ul style="list-style-type: none"> - Increases the number of votes cast at the AGM. - Facilitates participation by private shareholders. 	<ul style="list-style-type: none"> - No disadvantages.
Company 7	<ul style="list-style-type: none"> - Provides flexibility to shareholders since they can vote anytime, which is difficult to achieve with paper-based voting. - AGM-Webcast provides transparency since the public can see what is happening at the general meeting. - Helps to fulfill requirements of the German Corporate Governance Code. - Provides shareholders with the opportunity to influence corporate decisions. 	<ul style="list-style-type: none"> - No disadvantages. - Company also has a hotline for shareholders if they should have problems with the Internet applications. - In the beginning, there was a problem with the general-meeting brochure that was mailed out since the TANs were visible due to a problem at the post office. But the problem was solved by sending out new TANs and by changing the service provider.
Company 8	<ul style="list-style-type: none"> - Offers flexible proxy voting to shareholders. - Serves as an information zone for shareholders. 	<ul style="list-style-type: none"> - No disadvantages.
Company 9	<ul style="list-style-type: none"> - Provides relevant information to many shareholders at the same time. - Provides fast access to information. 	<ul style="list-style-type: none"> - Costs.
Company 10	<ul style="list-style-type: none"> - Shareholders do not have to travel in person to the location of the AGM but can easily attend from home or office. - Offers the potential to increase AGM-presence. 	<ul style="list-style-type: none"> - No disadvantages.

Company 11	<ul style="list-style-type: none"> - Additional service for shareholders, analysts, and the press. - Over the long-term, it offers the chance to save costs since information can be sent by e-mail instead of regular mail. 	- No disadvantages.
Company 12	- Shareholders are able to vote without having to participate in person in the AGM	- No disadvantages.
Company 13	<ul style="list-style-type: none"> - Encourages shareholders to register for the AGM or to exercise their votes via the Internet. - Can increase the AGM-presence. - Reduces printing as well as mailing costs. - Improves quality of data in the share register. 	- No disadvantages.
Company 14	- Is an innovation and facilitates voting for shareholders since they do not have to attend the AGM in person.	- No disadvantages.
Company 15	<ul style="list-style-type: none"> - Offers comfort, modern medium, publicity, and up-to-date information. - Easier to reach a large number of interested parties if one has an adequate platform. - Faster and cheaper to publish counter-proposals. - Helps to fulfill requirements of the German Corporate Governance Code. 	- Quality of counter-proposals is lower since people send in almost everything via e-mail.
Company 16	<ul style="list-style-type: none"> - Many shareholders already use the Internet, and it is attractive for them to also use it for the general meeting. - Key advantage is that it helps to reduce the amount of mail that needs to be sent out, which reduces costs. - Helps to protect the environment since it reduces e.g. the amount of paper and energy used. Company usually needs to send out 10 truck loads of general-meeting related material and has about 1.7 million shareholders. It costs a lot of money to service them all by regular mail. - Over a longer time frame, utilization of the Internet is intended to reduce the costs associated with the general meeting. - Allows institutional shareholders to vote their shares effectively since it shows them how many shares they hold altogether (across their funds) and lets them vote all shares as a block or lets them split up their vote. 	<ul style="list-style-type: none"> - Initial investments in technology and software need to be made. - Necessary security of the system needs to be assured. - Call center is needed to handle users' problems with the system (e.g. some people forget the passwords that they gave themselves). - There are some common problems that users face: they forget their passwords or use browsers that are too old. - Data protection concerns also need to be taken into account and company needs to be careful which information it discloses. - Overall, implementation of the system is quite work-intensive in the beginning (investments in technology and support need to be made). - US shareholders can currently not use the online system since most of them do not hold their shares directly but are serviced by

		companies like ADP. It is therefore difficult to find out if only one person holds the shares or if people have a common account.
Company 17	<ul style="list-style-type: none"> - Online ordering of general-meeting invitations and sending out AGM-invitations by e-mail reduces costs, avoids bureaucracy, and facilitates internal processes. - Online proxy voting and AGM-Webcast increase transparency since all shareholders can follow the AGM and vote. 	<ul style="list-style-type: none"> - No disadvantages. - But, offering services like online-registration for the AGM via the Internet increases the complexity of internal processes.
Company 18	<ul style="list-style-type: none"> - Easier to reach shareholders around the world. 	<ul style="list-style-type: none"> - No disadvantages so far.
Company 19	<ul style="list-style-type: none"> - Fast and comprehensive information of shareholders. - Possibility of increasing AGM-presence. 	<ul style="list-style-type: none"> - No disadvantages.
Company 20	<ul style="list-style-type: none"> - Internet not sufficiently used for AGM. 	<ul style="list-style-type: none"> - Internet not sufficiently used for AGM.
Company 21	<ul style="list-style-type: none"> - Reduction in AGM-related costs. - Shareholders can follow AGM and exercise their votes even if they cannot attend the meeting in person. 	<ul style="list-style-type: none"> - No disadvantages.
Company 22	<ul style="list-style-type: none"> - Additional service for shareholders. - Increase in AGM-presence. - Faster contact with shareholders. - Direct information provision to shareholders. - Reduction in AGM-related costs. 	<ul style="list-style-type: none"> - Potential technological problems since shareholders use many different systems. Therefore, important to have telephone hotline that helps users with problems.
Company 23	<ul style="list-style-type: none"> - On-time provision of information to shareholders. - Cost savings due to e.g. lower mailing costs. - Better reputation due to using innovative technology. 	<ul style="list-style-type: none"> - No real disadvantages. - Only risk of performance problems and costs for additional distribution line.

b) Switzerland

The information for SMI companies is presented anonymously since the surveyed companies were guaranteed confidentiality. The results under research question three above have shown that SMI companies utilize the Internet to a considerably lower degree for their general meetings than DAX30 companies. Hence, only the answers of SMI companies that at least employ the Internet to a limited extent for their AGMs are listed in the table below. The other SMI companies simply passively post AGM-related information on their Websites and, therefore, cannot really make valid statements about the advantages and disadvantages of an active utilization of the Internet for general meetings – e.g. in the form of Webcasts or online proxy voting. The results for the Swiss companies are nonetheless very interesting because they show that many of the SMI companies see the Internet as a tool for information provision via their Websites but not so much as an active tool for increasing the presence in their AGMs. Furthermore, concerning the disadvantages of Internet usage in Switzerland, several companies stated that the current legal situation in Switzerland limits their possibilities of employing the Internet for AGMs.

Table 13: SMI: Advantages & Disadvantages of Using the Internet for AGMs

Company	Advantages	Disadvantages
Company 1	<ul style="list-style-type: none"> - Equal treatment of all shareholders. - Provides opportunity to access information independent of time and location. - Allows greater shareholder activism. 	<ul style="list-style-type: none"> - No disadvantages.
Company 2	<ul style="list-style-type: none"> - Main advantage is time factor, which is most important for institutional investors. They often have to inform and consult the beneficial owners for the voting, which may be time critical. Internet voting would allow them to respond to the company later and easier than today. - Electronic communication is more ecological and can help to reduce paper consumption. 	<ul style="list-style-type: none"> - Main disadvantage of using the Internet for AGMs in Switzerland were, until recently, missing legal regulations and electronic certification services for the digital signature check. - Currently, implementation costs are high compared to the number of potential users.
Company 3	<ul style="list-style-type: none"> - Shareholders and other interested parties have unrestricted access to information. 	<ul style="list-style-type: none"> - No disadvantages.
Company 4	<ul style="list-style-type: none"> - Internet not sufficiently used for AGM. 	<ul style="list-style-type: none"> - Internet not sufficiently used for AGM.
Company 5	<ul style="list-style-type: none"> - Helps to preempt all questions that would otherwise be asked by letter or phone. 	<ul style="list-style-type: none"> - AGM is also a marketing tool and a platform for many people to (re-)establish contacts. You cannot do that over the Internet. - Physically present shareholders will also be more inclined to be and stay customers of the company.
Company 6	<ul style="list-style-type: none"> - Shareholders that are not registered with the company can get the necessary info on the Web. - Helps to provide the same info to all shareholders. - Helps to treat registered and unregistered shareholders equally. 	<ul style="list-style-type: none"> - Danger of technological problems.
Company 7	<ul style="list-style-type: none"> - Provides broader access to information. - Distribution of materials is easier, faster, and cheaper. 	<ul style="list-style-type: none"> - No disadvantages.
Company 8	<ul style="list-style-type: none"> - Helps to reach more investors. - Helps to cover investors' need for information. - Helps to reach international shareholders. - Helps to fulfill US regulations concerning the timely publication of relevant company information. Hence there is an obligation for the online broadcast. In order to fulfill this requirement, there is also a conference call during the Q&A session of the general meeting where investors can ask questions. 	<ul style="list-style-type: none"> - Key disadvantage is that it is not possible so far for shareholders to exercise their votes via the Internet. Hence, some investors have to send bank representatives.

Answers to Research Question 4 based on Expert Interviews

The following table presents the interviewed experts' views on the advantages and disadvantages of employing the Internet for AGMs. Overall, one can say that the experts have a positive view on the subject matter and see many different advantages to employing the Internet for AGMs. Frequently mentioned benefits include that the Internet can facilitate participation in AGMs, reduce AGM-related costs, increase AGM-presence, and simplify participation by international investors. However, the experts also see disadvantages to using the Internet for AGMs. Some frequently mentioned disadvantages are that it costs money to implement the required systems and that not all shareholders have access to or know how to use the Internet.

Concerning the current situation in Switzerland, Mr. Mathys' summarized it nicely by saying that Ethos wants to take on responsibility and exercise its voting rights in general meetings, but it is difficult to do so because company representatives cannot participate in all general meetings. This would simply require too much time and resources. Hence, Mr. Mathys stated that AGM-Webcasts as well as online proxy voting need to come and will come to Switzerland because they facilitate investors' participation in AGMs.

Table 14: Experts: Advantages & Disadvantages of Using the Internet for AGMs

Expert	Advantages	Disadvantages
Mr. Balling, SLS	<ul style="list-style-type: none"> - Increase in AGM presence. - Additional, valuable service for shareholders. - International investors can be reached. - Sick or otherwise handicapped shareholders can still follow the AGM via a Webcast and vote online. 	<ul style="list-style-type: none"> - From a company perspective, the costs are high. - Risk that something can go wrong with the technology and that the AGM will be disrupted. - SLS had this experience once with a customer at another voting event (not an AGM). The Internet did not work and, as a consequence, the live-voting could not be conducted.
Mr. Dobrzewski, ADEUS	<ul style="list-style-type: none"> - Better corporate governance through offering shareholders more options to exercise their rights and through increased participation in AGMs. - Increased convenience for shareholders. - Cost savings due to sending invitations/information via e-mail. 	<ul style="list-style-type: none"> - No real disadvantages. - Increased effort for the implementation of the system, but this is not really a disadvantage.

<p>Mr. Licharz, Registrar Services</p>	<ul style="list-style-type: none"> - Cost savings are possible. More money remains with the company, which can be used to benefit shareholders. - Ecologically friendly. - Good for the public image of a company. For example, Celanese was the first company to offer Internet voting in 2001 and benefited from the publicity. - In general, the first companies to utilize the Internet for their AGMs can benefit from a publicity effect for first movers. The companies that come later have a certain pressure to conform to the majority and do not get to enjoy this benefit anymore. 	<ul style="list-style-type: none"> - Minor effort is required to implement the technological system. - Technological system costs.
<p>Mr. Mathys, Ethos Investment Foundation</p>	<ul style="list-style-type: none"> - Can help to increase AGM-presence. - Internet is a good tool because it gives shareholders the chance to vote shortly before the AGM or even after the AGM debate. - This gives shareholders more flexibility than traditional proxy voting which needs to be completed several days before the meeting. - Facilitates the voting process and makes the administration easier. - Foreign shareholders can exercise their voting rights more easily and the Internet can help to shorten the distance to them. 	<ul style="list-style-type: none"> - No disadvantages.
<p>Dr. Waibel, Lonza</p>	<ul style="list-style-type: none"> - Increases the amount of information that shareholders have at their disposal. - Could be used to inform shareholders throughout the year and has the power to increase shareholder mobilization in the future. - The utilization of the Internet can increase shareholders' awareness for the AGM and corporate issues. Nonetheless, it is today also possible to vote efficiently by mail. - Can lead to a more efficient meeting if attendance shifts from the physical meeting to online participation. E.g. a Ford-style general meeting. 	<ul style="list-style-type: none"> - For large companies the AGM is also a PR-event, which would be lost on the Internet. - For smaller companies like Lonza, a utilization of the Internet would not make too much of a difference since it does not matter if 800 or 100 people are coming to the AGM. For example, Lonza would still need to rent the same facilities.
<p>Mr. Grauwiler, Lonza</p>	<ul style="list-style-type: none"> - No real advantages compared to voting by mail. 	<ul style="list-style-type: none"> - If Internet proxy voting were possible in Switzerland, some shareholders could not use it due to a lack of access to the Internet.
<p>Mr. Gassmann, NIMBUS</p>	<ul style="list-style-type: none"> - Might reduce printing and mailing costs. Investment in electronic processes has to pay off financially for companies. - Utilization of the Internet for the AGM can help companies to present themselves as up-to-date to stakeholders and investors. - Facilitates communication between companies and 	<ul style="list-style-type: none"> - Costs incurred to implement the technology. - There might also be data protection concerns since it is possible to find out how certain shareholders voted (i.e. electronic systems keep a record of shareholder voting).

	<p>shareholders.</p> <ul style="list-style-type: none"> - Can help to mobilize foreign investors, especially institutional investors. - Utilization of the Internet can have a positive effect on the presence at the general meeting. - Electronic voting also makes secret voting possible, which can improve corporate governance since shareholders do not have to consider how their voting decisions will be evaluated by others. They can only focus on the merits of the decisions to be made. 	
Mr. Hechtfisher, DSW	<ul style="list-style-type: none"> - Can make it more convenient for shareholders to participate in the general meeting. - Has the potential to increase participation, e.g. banks' documents are often too complicated and people don't want to bother with them. - Can increase the convenience of participation, thereby increasing participation. 	<ul style="list-style-type: none"> - For some people, it is difficult to use the Internet and others might not have access to the technology. - Older shareholders might have difficulties with participating in AGMs since they have problems with using the Internet. - It is doubtful that the Internet can have a large effect on participation. It is only simpler for some people but not for everyone. - Increased utilization of the Internet might even decrease participation if a large number of shareholders does not know how to use the Internet. - Sometimes, companies just refer shareholders to the Internet to look up information (e.g. annual report or speech by the CEO or Chairman). Hence, the danger is there that some questions will not be answered during AGMs and shareholders will just be referred to companies' Websites to look for information by themselves.
Mrs. Keitel, SdK	<ul style="list-style-type: none"> - Can lead to an increase in voting by foreign investors. 	<ul style="list-style-type: none"> - AGM-discussion is not broadcast over the Internet so that shareholders cannot follow what is said and hence cannot adjust their voting accordingly. Hence, the discussion during the general meeting needs to be broadcast over the Internet to inform shareholders as comprehensively as possible before they vote. But, very few companies actually transmit the discussion over the Internet.

		<ul style="list-style-type: none"> - Might be too cumbersome for some people to sit at the computer and follow the general meeting over the Internet and vote online.
<p>Mr. Bender, SdK</p>	<ul style="list-style-type: none"> - No time is needed for traveling to AGMs and no travel costs are incurred. - Weather or traffic conditions will have less impact on shareholder presence. - Cross-border voting will be facilitated. - Easier and faster way for shareholders to vote or to delegate voting authority to a proxy. - Private investors become less dependent on banks offering proxy voting services. - Has the potential to increase AGM-presence. But, for some shareholders, proxy statements are too complicated today, and they will not exercise their voting rights even if they have the Internet at their disposal. - Might lead to more professionalism at AGMs, a concentration on the critical issues, and eventually less time-consuming AGMs. - In summary, the Internet can facilitate the exercise of voting rights and improve their quality. Mainly however for the interested, more active shareholders. It can also facilitate the use of voting rights by domestic and international institutional investors. But, one should not expect miracles. 	<ul style="list-style-type: none"> - Not really too many disadvantages. In theory, some people claim that no one will attend the physical meeting anymore, but this seems to be a rather theoretical concern. - No direct disadvantages to public companies. Slightly higher cost for the use of the Internet will most likely be compensated by lower rental costs for smaller meeting locations and lower budgets for catering due to a lower number of shareholders at the physical meeting. - Use of the Internet will most likely result in a lower number of shareholders being physically present at AGMs. Interested shareholders will continue to visit AGMs in person. - The Internet could require shareholders to become more active and retrieve AGM-information by themselves. This is less comfortable than receiving information by regular mail. Being more active is burdensome and more passive investors could get lost. The Internet will only be helpful if it is used in addition to existing channels of information between the company and its shareholders. - Some shareholders only hold a small fraction of equity capital and therefore think that they do not have much influence. They will continue to refrain from voting, regardless of the Internet. - Concerning banks, the important point is the quality of their participation. This will not become better just by using the Internet. Banks often exercise their proxy votes in the interest of management instead of their clients.

<p>Dr. Helbig, DAI</p>	<ul style="list-style-type: none"> - Chance of higher participation can be increased by offering online proxy voting. This is important in light of the fact that some banks and credit institutions do not offer proxy-voting services anymore. - Can help to reduce shareholders' costs and organizational efforts associated with exercising voting rights. - Leads to simplification of the voting process for people that do not participate in person in the AGM. - Simplifies voting process for international investors. - Can alleviate time pressure that some shareholders face. - Can lead to a substitution effect since some shareholders will switch from paper-based process to Internet-based process, which saves resources. - Can help to make the running of AGMs more efficient. - Can lead to faster decisions in the AGM and to the circumstance that shareholders are more involved in the decision-making process. 	<ul style="list-style-type: none"> - Not always user-friendly. - Costs can be associated with using it. For example, companies need to install the necessary technology and shareholders need a computer. - Not everyone has access to the Internet yet. - Internet cannot change the fact that some shareholders think that they do not have the required knowledge to exercise their votes appropriately and that some shareholders are rationally apathetic.
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5. What are the key implementation issues regarding the utilization of the Internet for shareholder meetings and which technological systems are currently available?

Answers to Research Question 5 based on Expert Interviews

Mr. Balling from SLS, Mr. Dobrzewski from ADEUS, and Mr. Licharz from Registrar Services were interviewed with regard to this research question because it is part of their companies' daily business to implement Internet services for AGMs. According to these experts, there are several points that are important for a successful implementation of an Internet service for AGMs:

- The Internet service has to be user-friendly.
- A clear and offensive communication that Internet proxy voting is available. This should be done in many different places like the invitation to the general meeting and the entrance ticket.
- A clear emphasis on the benefits of the system for shareholders; including ecological and financial benefits.
- An easy navigation to Internet proxy voting from a company's Website. The link to Internet proxy voting should be clearly visible on a company's Website.
- A telephone hotline for shareholders to help with problems.
- A high security of the system. This is especially important for institutional investors.
- Incentives that motivate shareholders to use the system (e.g. a sweepstake).

The following table presents the experts' responses in more detail:

Table 15: Key Implementation Issues for an Internet AGM Service

Expert	Key Implementation Issues
Mr. Balling, SLS	<ul style="list-style-type: none"> - It is very important to communicate to shareholders that Internet proxy voting is available. This should be done in many different places like the invitation to the meeting, the entrance ticket, and the Website. The company should always present Internet proxy voting first and paper-based voting second. - The system has to be user-friendly. This is almost the most important point because general meeting participants in Germany are rather old and not so familiar with the Internet. But, the younger generation will become a more important user group over time, which should lead to increased acceptance of Internet proxy voting in the future. - It is also crucial that the navigation to Internet proxy voting be easy. A link to Internet proxy voting should be easily detectable on a company's homepage and the available link should lead directly to Internet proxy voting. A company should always provide the name of a Website where shareholders can directly access Internet proxy voting. - A telephone and/or e-mail hotline for shareholders can help to solve problems with the Internet service, but SLS has experienced varying utilization rates of the service. Sometimes only very few calls are received and sometimes many calls are received. It is difficult to say why that has been the case. - Security of the system is a very important aspect. Especially for large institutional investors this is an important issue because they want to make sure that their votes are exercised properly.
Mr. Dobrzewski, ADEUS	<ul style="list-style-type: none"> - There are no big implementation issues for the client. The client only needs to put a link to the Internet service on its IR-portal and its general meeting invitations. It is a minimal program for clients and not much of an effort is required. Basically, the whole Internet service for the AGM can be outsourced to ADEUS. - However, the back-office operations at ADEUS are quite complicated since data needs to be coordinated. For example, proxy authorizations and instructions per Internet and regular mail need to be coordinated. Furthermore, the registration phase for the AGM runs via ADEUS. On the day of the AGM, video streaming and Internet service need to be coordinated, which can be done via the tool ADEUS HV Cockpit. - In general, clients outsource the whole electronic AGM process to ADEUS. ADEUS usually does not manage the AGM day itself but can do so as a general contractor if a client would like that.

<p>Mr. Licharz, Registrar Services</p>	<ul style="list-style-type: none"> - The system has to be user-friendly and backup support for shareholders has to be in place. - The Internet service for the AGM should be clearly visible on the company's Website and shareholders need to be informed about the Internet service via letters or e-mail before the AGM. - Telephone support hotline for shareholders is important. - Incentives are important to attract a higher number of users, who typically are not interested in AGMs and/or do not or rarely visit a company's Website. For example, DaimlerChrysler offered a lottery to encourage shareholders to use its shareholder portal, which includes a registration function for e-mail distribution of proxy materials. A minor issue was that a few shareholders had already thrown away their AGM-materials and then called the hotline to get new information in order to be able to participate in the lottery. - The key problem remains that the vast majority of shareholders completely ignores AGM-mailings and is therefore difficult to attract to Internet offerings. - Another common problem is that some shareholders are utilizing old browsers that do not allow for 128 bit encrypted Websites. - Security (128 bit encryption or higher) of the Internet service is also important. - The company needs to clearly emphasize the utility of the system for shareholders; including the ecological and financial benefits. - Overall, an offensive communication is important via the paper invitation. - Texts and content of the Internet service need to be discussed between the service provider and the client, and there also needs to be coordination with the client's Webmaster before linking the system to the client's Website. - Registrar Services can act as a full-service provider (together with partner companies) that manages the whole AGM-process for companies.
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Technological Systems

a) ADEUS: STARvote

Since 2001, ADEUS has offered a tool called *STARvote*, which can be used for Internet proxy voting as well as other AGM-services. The system can be customized to the needs of companies and supports different share registers as well as general meeting systems via standardized interfaces. *STARvote* offers the following capabilities to its users:

- Online ordering of AGM-tickets (with the option of naming a representative)
- Online authorization and voting instructions for the company representative (including voting on counter-proposals)
- Possibility of changing voting instructions up to a date specified by the company
- Video transmission of the AGM via the Internet
- Online news-ticker with current information about the AGM-proceedings (on the day of the AGM)
- Document center containing all AGM-documents (on the day of the AGM)

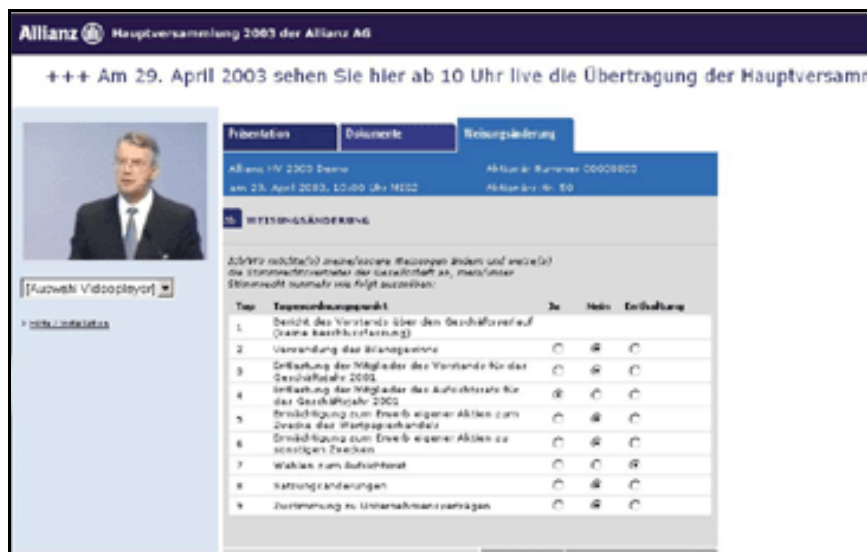
Figure 25: ADEUS *STARvote* Cockpit for Giving Voting Instructions

The screenshot shows a web browser window titled "Allianz AG *** Online-Hauptversammlungsverwaltung fuer Aktionaere - IE:sach.muc.allianz für:10.100.13.150...". The main content area is titled "Online-Anmeldung zur Hauptversammlung" and displays the company name "Allianz AG" and the date "am 12. Juni 2002 10:00 Uhr MESZ". The current step is "3b WEISUNGSE RTEILUNG". Below this, there is a section for "Weisungen an die Stimmrechtsvertreter für die Ausübung des Stimmrechts:" followed by a table of agenda items with voting options.

Top	Tagesordnungspunkt	Ja	Nein	Enthaltung
1	Bericht des Vorstands über den Geschäftsverlauf (keine Beschlussfassung)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	Verwendung des Bilanzgewinns	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	Entlastung der Mitglieder des Vorstands für das Geschäftsjahr 2001	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	Entlastung der Mitglieder des Aufsichtsrats für das Geschäftsjahr 2001	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	Ermächtigung zum Erwerb eigener Aktien zum Zwecke des Wertpapierhandels	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	Ermächtigung zum Erwerb eigener Aktien zu sonstigen Zwecken	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	Wahlen zum Aufsichtsrat	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	Satzungsänderungen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	Zustimmung zu Unternehmensverträgen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

At the bottom of the table, there are three buttons: "Abbruch", "Zurück", and "Vollmacht und Weisung erteilen". A sidebar on the right titled "DIALOGÜBERSICHT" shows a list of steps: 1 Start, 2 Auswahl, 3a Eintrittskartenbestellung Quittung, and 3b Bevollmächtigung der Stimmrechtsvertreter Quittung. The current step, 3b, is highlighted. At the bottom left, there is a footer: "© ADEUS 2002 > [Hinweise zum Datenschutz](#) > [Rechtliche Hinweise](#)".

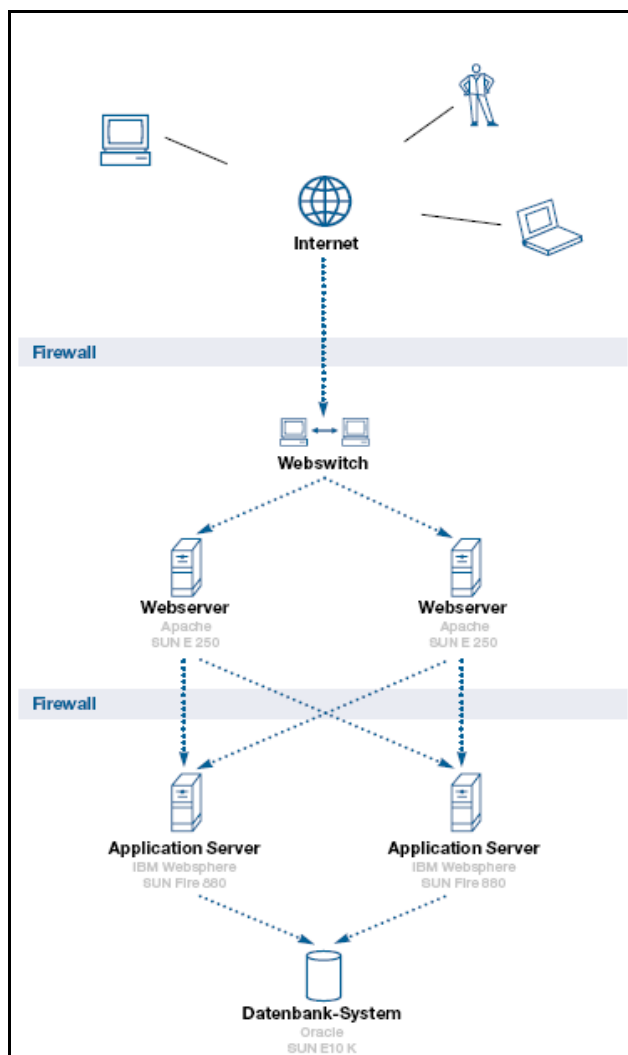
Figure 26: ADEUS *STARvote* Cockpit with AGM-Webcast



STARvote can be integrated into companies' current AGM-processes. In the case of registered as well as non-registered shares, it is possible to transfer shareholder data to *STARvote*. This can be done, for example, via another ADEUS tool called STARiS (for registered shares) or via DAMBA (for non-registered shares). Data about AGM-ticket orders as well as voting instructions can be exported to other systems and *STARvote* also supports systems that are used during the physical AGM.

Concerning the technological aspects, ADEUS makes *STARvote* available around the clock in the form of application service providing and the system can be accessed over the Internet with a standard Web-browser. Furthermore, *STARvote* offers a high level of security in order to protect sensitive shareholder information and records all transactions according to the standards set by the NaStraG. It uses 128-bit-SSL encryption for all transactions, encrypts sensitive data in the data bank, and uses digital signatures to identify administrators. Concerning the issue of administration, ADEUS has developed a tool called *STARvote-Admin*, which is a Web application that can be accessed from any PC with Internet connection. *STARvote-Admin* can be used for the preparation of the online phase of the AGM as well as for the AGM-registration phase and the general meeting itself. Furthermore, the administrator tool offers the possibility of presenting *STARvote* in the corporate design of the user company and of making adjustments to texts and graphics. All of this can be undertaken without the need to change program codes. Finally, *STARvote* can also be integrated into the Intranet of the user company.

Figure 27: Security behind ADEUS *STAR*vote



b) SLS: HV Web

SLS offers a system called *HV Web*, which shareholders can use for Internet proxy voting and for ordering AGM-tickets. Companies with registered as well as non-registered shares can use the system. *HV Web* can be accessed with an Internet-browser via a direct link on the user company's Website and does not require any local software installation. In order to access the system, shareholders need the PINs that they received with their AGM-materials. Once they have accessed *HV Web*, users can give voting authorization and instructions to the company proxy. These instructions can still be changed until, for example, after the general debate at the AGM. The company employing *HV Web* can decide for how long it wants to keep Internet proxy voting open. Furthermore, shareholders have the opportunity to check the status of their orders at anytime, and *HV Web* can be customized to the corporate design of the user company.

HV Web also offers a so-called administrator lounge that the user company can utilize for the customization of the tool. For example, as mentioned above, it is possible to determine for how long Internet proxy voting should be kept open or how many wrong PIN entries are allowed when trying to access the system. Employees of the user company can access the administrator lounge with an Internet-browser and can monitor the ordering of AGM-tickets as well as the progress of voting at any time. In addition, *HV Web* records all transactions. The system also offers a high degree of security since SLS' Internet service provider uses failure-safe, mirroring Unix systems (SUN Netra). Moreover, SLS employs a powerful firewall and the data itself is kept in an Oracle database. The data transfer between shareholders and the *HV Web* server is encrypted.

c) Registrar Services: netVote

Registrar Services offers an online voting system called *netVote*. This system can be used to delegate voting authority and to give voting instructions to an independent company representative. To ensure a high level of security, shareholders can only access the system with the help of a code that they receive as part of their AGM-documents. The log-in will usually happen via the Website of the company. *netVote* can be kept open during the day of the shareholder meeting, which makes it possible for shareholders to follow the discussions during the general meeting and then cast their votes based on the arguments that they have heard. This offers increased flexibility to shareholders since they can still change their minds even on the day of the meeting. If desired, *netVote* can be expanded to *netVote plus*. In addition to the features outlined above, this system also offers a video capability that makes it possible for shareholders to log in and follow the non-public part of the shareholder meeting.

6. What are the financial aspects of utilizing the Internet for shareholder meetings?

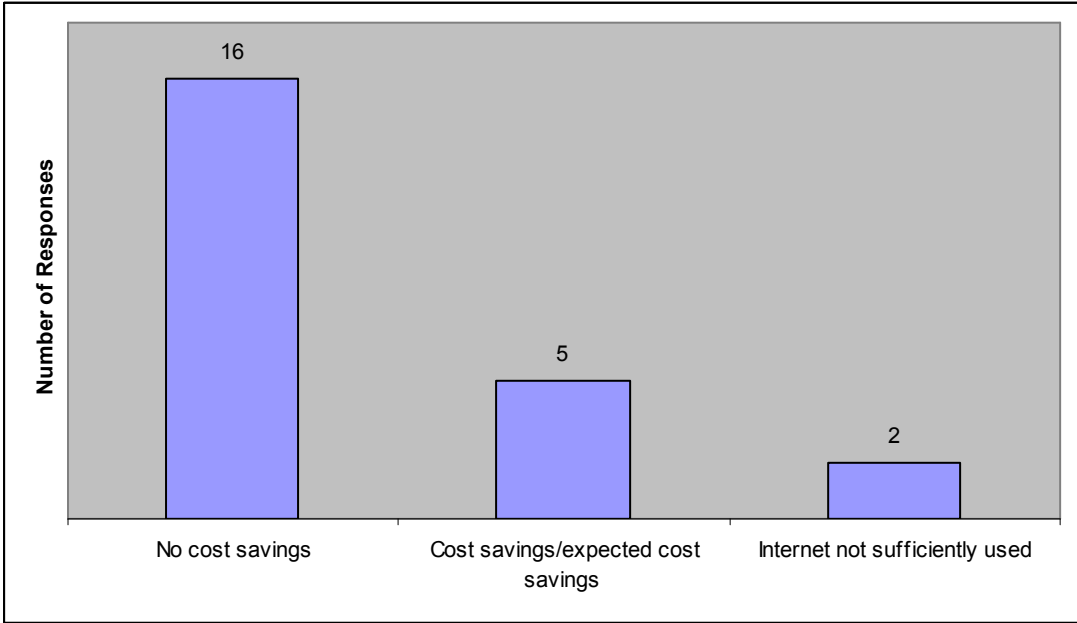
With regard to this research question, responses from the company survey as well as the expert interviews are available. The answers of the German and Swiss companies will be presented first and then the answers of the experts will follow. Overall, most companies state that a utilization of the Internet for their AGMs represents an additional cost and does not save them money. However, there are also some companies – especially the ones with a large number of shareholders – that state that they save money by utilizing the Internet for their AGMs due to reduced mailing and printing costs. The experts’ opinions are mixed. Two see the potential to reduce AGM-related costs via a greater Internet utilization while one is rather skeptical.

Answers to Research Question 6 based on Company Responses

a) Germany

Concerning the results for DAX30 companies, it is important to point out that about 70% of respondents do not save money by utilizing the Internet for their AGMs and that around 22% save money or expect to save money in the future. The most important aggregate results for the German companies are summarized in the following figure:

Figure 28: Cost Savings from Utilizing the Internet for AGMs – DAX30



The table below summarizes the financial experiences that individual DAX30 companies have made with utilizing the Internet for their AGMs. As mentioned above, most companies do not save money by utilizing the Internet for their AGMs. But, some of the companies with a large number of shareholders have reduced their AGM-related costs or expect to do so in the future. The cost savings mainly come from sending out AGM-related material by e-mail instead of regular mail. For example, one company stated that it saves about €3.00 per shareholder that is registered for receiving materials by e-mail instead of regular mail. Since around 40,000 of the company’s shareholders are registered for the online service, this amounts to total savings of €120,000. However, given that AGM-costs can be in the millions of Euros for some large, public companies, these savings are rather small in percentage terms. For example, as mentioned earlier, DaimlerChrysler and Deutsche Bank spent between €9,000,000 and €10,000,000 for their shareholder meetings in the past. Hence, taking these costs as the basis, savings of €120,000 due to lower mailing and printing costs amount to 1.2%-1.3%.

Table 16: Financial Impact of Utilizing the Internet for AGMs according to DAX30 Firms

Company	Financial Impact of Utilizing the Internet
Company 1	<ul style="list-style-type: none"> - No cost savings. - Since the company has non-registered shares there is a considerable additional effort involved for employing the Internet for AGMs. - Additional costs in the amount of €30,000-€50,000.
Company 2	- Internet not sufficiently utilized for the AGM.
Company 3	- Company does currently not save money by employing the Internet for its AGM.
Company 4	- No cost savings.
Company 5	- No cost savings since the number of physical AGM attendees stayed the same.
Company 6	<ul style="list-style-type: none"> - No cost savings. - On the contrary, the implementation of Internet proxy voting creates additional costs.
Company 7	<ul style="list-style-type: none"> - Utilization of the Internet creates additional costs. - In the future, this might change since institutional investors will probably participate to a greater extent due to the new UMAG.³⁹ The share-lock-up period for institutional investors will be eliminated under

³⁹ UMAG stands for “Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts”. The law took effect in November 2005.

	<p>this new law, which will make using the Internet more economical for them.</p> <p>- In 2004, about 4 million shares out of 532 million were exercised via the Internet, but the Internet has potential for the future.</p>
Company 8	- No cost savings.
Company 9	- No cost savings.
Company 10	- Company has no figures available. Most likely no savings.
Company 11	- Over the long term, the company expects to save money.
Company 12	- Company does not save money. It is an additional service for shareholders.
Company 13	- No cost savings yet.
Company 14	- No cost savings.
Company 15	- Internet service creates additional costs. Cost savings would only be possible if at least a part of the AGM-invitations could be sent out by e-mail since this would save mailing costs.
Company 16	<p>- Depending on how many users a company wants, the investment in the online system will pay off sooner or later.</p> <p>- For example, if you want a large number of users, you have to spend money on acquiring them, and it might take 5 years until the investment in the technology and support is earned back. If you aim for fewer users it might take 2-3 years.</p> <p>- It is difficult to quantify how much you save or how long it takes to earn back your investment.</p> <p>- The company estimates that it spends around €1.70 on mailing costs to send AGM-materials to each shareholder. This money could be saved for shareholders that sign up for the online delivery of documents.</p>
Company 17	- Company expects to save €3.00 per shareholder that is registered for receiving materials by e-mail. Savings are due to the elimination of mailing costs as well as material costs. Given that the company has about 40,000 shareholders registered for this service, this amounts to total savings of €120,000.
Company 18	- No cost savings.
Company 19	- No cost savings.
Company 20	- Internet not sufficiently utilized for the AGM.
Company 21	- Company saves money by using the Internet for its AGMs but does not want to disclose how much.
Company 22	- Cost savings due to sending AGM-invitations by e-mail, online proxy voting, and online ordering of AGM-tickets.
Company 23	- Costs savings due to reduced mailing costs, but these savings are outweighed by the additional costs for updating the Websites.

b) Switzerland

Since most SMI companies do not actively utilize the Internet for their AGMs, they cannot give qualified responses concerning the financial impact of employing the Internet for AGMs. Nonetheless, the responses of five companies will be presented below because they at least employ the Internet to some extent for their general meetings and their responses also show what they expect from a greater utilization of the Internet in the future, assuming that this becomes possible in Switzerland. Similar to most of the DAX30 companies, the SMI companies listed below do not save money by utilizing the Internet for their AGMs.

Table 17: Financial Impact of Utilizing the Internet for AGMs according to SMI Firms

Company	Financial Impact of Utilizing the Internet
Company 1	<ul style="list-style-type: none"> - No cost savings. - Company has only 50,000 shareholders and, hence, increased utilization of the Internet does not save so much money. Mailing and printing costs are not so important.
Company 2	<ul style="list-style-type: none"> - Some cost savings due to minimized administrative costs. But, on the other hand, extra costs due to streaming services, etc. On balance, the financial impact is probably zero.
Company 3	<ul style="list-style-type: none"> - No cost savings. - About 3,500 people attend the company's AGM and since the AGM is also a social event, it comes at a cost. Hence, the company believes that it could save money by using AGM-Webcasts as well as Internet proxy voting.
Company 4	<ul style="list-style-type: none"> - Company saves money due to lower mailing costs, but these savings are probably offset by the cost of the live Internet broadcast. - Company does not have precise figures available.
Company 5	<ul style="list-style-type: none"> - Utilizing the Internet for the AGM represents a cost factor. - Difficult to say for the company if employment of the Internet for the AGM leads to cost savings. The company does not have precise figures on this issue.

Taken together, the financial information for DAX30 and SMI companies makes clear that considerable savings in AGM-related costs are only possible if a large number of shareholders can be encouraged to receive AGM-related materials by e-mail and if an increasing number of shareholders switches from attending the AGM in person to attending via the Internet. Currently, this is not the case at the largest Swiss and German corporations.

Answers to Research Question 6 based on Expert Interviews

Three experts were interviewed regarding research question six. They work for three leading companies in Germany that offer AGM-related products and services and have several large public companies as their customers. Hence, they should have a relatively good overview of the financial impact of employing the Internet for AGMs. It is worthwhile to highlight several key findings from the expert interviews. A basic Internet service for an AGM starts at around €10,000 per annum and a more sophisticated system can cost up to €40,000-€50,000 per annum depending on functionality and required support. In exceptional cases, a system might even cost up to €100,000 per annum. In general, the experts see the possibility of reducing AGM-costs with the help of an Internet system due to reduced printing and mailing costs. The total cost savings critically depend on how many shareholders are using the system and are signed up for receiving AGM-materials by e-mail. If the number of users is sufficiently high, then the break-even point for an Internet-based AGM-service might come after two years. Hence, from a financial perspective, it is very important to set the right incentives to get a sufficient number of users for the online service. Allianz, for example, has done so with the help of a sweepstake. In order to enjoy the full benefits of an Internet service for shareholders, companies need to have registered shares because in the case of unregistered shares, the voting process is significantly more cumbersome and, as a consequence, it is more difficult to achieve costs savings.

According to Mr. Balling from SLS, a system for Internet proxy voting starts at around €4,000 p.a. for a basic service and can go up to around €40,000 p.a. The final price depends on the sophistication and functionality of the system. For example, in the case of a less sophisticated system for Internet proxy voting, users can access the system via the Internet and enter their personal information. Then, later on, someone checks if the person really is a shareholder and permitted to vote. In the case of a more sophisticated system, the information check is conducted instantly and the system will tell the user right away if he/she is permitted to vote. The more sophisticated system will, of course, cost more.

Mr. Balling stated that initially there is no financial benefit to offering Internet services to shareholders because shareholders that want to attend the general meeting in person will come anyway, with or without Internet proxy voting and Webcasts. Hence, at least in the beginning, a company cannot expect to reduce its AGM-costs by shifting shareholders from attending the physical meeting to attending via the Internet. However, over time, it is possible that more shareholders switch from attending the AGM in person to Internet proxy voting and, as a consequence, printing and mailing costs might be reduced. In this case, cost savings might be possible but mainly for companies with registered shares since they can quite easily employ the Internet for proxy voting. For companies with non-registered shares, it will be considerably more difficult to save money because their proxy voting process is more complicated. Overall, despite the potential financial benefits of utilizing the Internet for AGMs, in Mr. Balling's view, the most important advantage of offering Internet proxy voting is the increase in shareholder presence at the AGM.

According to Mr. Dobrzewski from ADEUS, the costs of an AGM Internet service for shareholders depend on the degree of customization. It is difficult to calculate these costs exactly since, for example, one needs to decide if one should count the time that the law department spends on editing texts for the service or the time saved for not having to process paper-based invitations. At Allianz, which is a customer of ADEUS, 8% of shareholders are invited to the AGM by e-mail and this saves the company a considerable amount of printing and mailing costs. According to Mr. Dobrzewski, Allianz was one of the first companies in Germany that used the Internet for its AGM-processes and, overall, this electronization has paid off. However, in order to justify the investment in Internet proxy voting as well as other system functionalities, it is very important to set the right incentives that motivate shareholders to use the system. Allianz, for example, offered a sweepstake where shareholders could win shares in a mutual fund or tickets to a soccer game. This worked well and encouraged many Allianz shareholders to use the Internet service for the AGM.

According to Mr. Licharz from Registrar Services, an Internet voting system starts at around €10,000 p.a. for a basic service and this cost increases as the sophistication of the system and the required support increase. A sophisticated system with a full service costs around €50,000 per AGM, but the price can even go up to €100,000 p.a. for a full-blown shareholder portal with various functionalities.

The fundamental problem for the Internet services remains that the shareholders of a company can frequently change their e-mail addresses. In addition, as a result of sell transactions, Internet users might no longer be shareholders and as a result of buy transactions, new shareholders are added. It requires a continuous effort to integrate new shareholders into the system since they have to be contacted by a welcome letter and have to give their permission to receiving AGM-related information by e-mail. All of this also means that, in the future, shareholders need to become more active and need to inform companies if their personal information including their e-mail addresses should change.

According to Mr. Licharz, at a company like DaimlerChrysler, where 60,000 out of a total of around 1.3 million shareholders have opted for electronic distribution of proxy materials, the reduction in printing costs of AGM-materials is rather marginal, but the reduction in mailing costs is more important. The incremental printing costs might be around 2-3 cents per page whereas mailing cost are around 50-70 cents per shareholder. The amount of money that a company can save via lower printing and mailing costs needs to be compared to the cost of sending AGM-information by e-mail. Mr. Licharz stated that the break-even point for an Internet system usually comes in the second year after implementation, but this estimate is based on a limited number of customers of Registrar Services.

7. For which companies does a utilization of the Internet for shareholder meetings make the most sense?

Answers to Research Question 7 based on Expert Interviews

Concerning this research question, most experts agree that offering online proxy voting, AGM-Webcasts, as well as other online services for shareholders makes most sense for companies with a large number of shareholders and dispersed ownership. Furthermore, for companies with many international investors, offering Internet services for the AGM also makes sense. With regard to the situation in Switzerland, Mr. Mathys pointed out that especially for SMI companies it would make a lot of sense to offer Internet proxy voting as well as AGM-Webcasts. In his opinion, this should become the standard in the future. The following table presents the key points of the experts' answers.

Table 18: Utilization of the Internet for AGMs is best for which Firms?

Expert	For which companies does a utilization of the Internet for AGMs make most sense?
Mr. Mathys, Ethos Inv. Found.	- For SMI companies, it makes a lot of sense to offer Internet proxy voting as well as AGM-Webcasts and offering these services should become the standard.
Mr. Dobrzewski, ADEUS	<ul style="list-style-type: none"> - Utilization of the Internet makes sense for all publicly listed firms. - The bigger the companies, the greater the savings from utilizing the Internet for AGMs. - Utilization of the Internet is a fixed-cost block. Hence if more shareholders utilize the service, the cost per user will be smaller and more money can be saved on mailing and printing. - For smaller firms, the cost/benefit calculation looks less advantageous. - Furthermore, a utilization of the Internet makes most sense for companies with registered shares. For example, if one looks at VW or ThyssenKrupp, which are firms with non-registered shares, the whole process is considerably more complicated.
Mr. Balling, SLS	- Companies with registered shares can derive a greater benefit from the Internet since they can obtain more information about their shareholders and can therefore utilize the Internet in different ways to encourage shareholders to participate in AGMs. For example, once they have the e-mail addresses and permission of their shareholders, they can send AGM-materials electronically.

	<ul style="list-style-type: none"> - Companies with non-registered shares can only offer Internet proxy voting and their options are more limited since they have less information about their shareholders. The UMAG might bring changes in this area. - Firms that want to emphasize their innovativeness can do so, among other things, by using the Internet for their AGMs (e.g. SAP). - DAX30 companies must offer Internet proxy voting and Webcasts since the other companies in the DAX also do it. There is a pressure to conform to the majority. - It makes sense to utilize the Internet for the AGM if a company has a lot of foreign shareholders.
Mr. Licharz, Registrar Services	<ul style="list-style-type: none"> - For companies with a large number of shareholders, a utilization of the Internet for AGMs makes most sense since they can enjoy quick economies of scale. Large companies will implement the systems first because they can save the most. Later, smaller companies will most likely follow. - For small- and medium-sized companies, a utilization of the Internet does not make so much sense. They have too few shareholders and an implementation of the system does not make financial sense since the fixed costs are comparatively high. Hence, fixed costs cannot be spread over enough shareholders and it remains cheaper to send AGM-info by regular mail.
Mr. Gassmann, NIMBUS	<ul style="list-style-type: none"> - Increased utilization of the Internet for AGMs makes most sense for firms with an international ownership structure and for firms with dispersed ownership.
Mr. Hechtfisher, DSW	<ul style="list-style-type: none"> - For bigger, publicly listed firms like the DAX30 companies, it makes sense to utilize the Internet for voting and webcasting of the general meeting since they have dispersed ownership. - A company that has very concentrated ownership – e.g. where one shareholder holds 80% of equity capital – will not introduce online voting since it does not make sense given its ownership structure. - For smaller firms, it does not make much sense since they do not have the means to pay for the technology, and the administrative effort might not be worth it.
Mrs. Keitel, SdK	<ul style="list-style-type: none"> - Utilization of the Internet for general meetings makes most sense for large companies with a high percentage of international investors.
Mr. Bender, SdK	<ul style="list-style-type: none"> - For companies that are truly interested in a higher presence of their shareholders. - The more dispersed the ownership of a company is, the more sense a utilization of the Internet for AGMs makes. As a result, for companies with geographically and internationally dispersed ownership and for companies with more than 1000 shareholders, an additional utilization of the Internet makes sense.

	<ul style="list-style-type: none"> - Company size is not the most important criteria but dispersion of ownership. However, in many cases size goes along with the extent of dispersion. - Hence, a utilization of the Internet makes sense for firms in the DAX30 but also for firms in the MDAX or SDAX if their ownership is dispersed enough.
Dr. Helbig, DAI	<ul style="list-style-type: none"> - Utilization of the Internet for AGMs makes most sense for large, publicly listed companies. E.g. in the DAX30 and the MDAX. - For smaller firms, online proxy voting and Webcasts might be too expensive and work-intensive. - In the case of publicly listed companies, it could be that the utilization of the Internet for AGMs leads to an advantage that the equity market rewards.

8. To what extent do corporate governance codes cover electronic shareholder participation in general meetings?

In order to answer this research question, a detailed review of numerous corporate governance codes was conducted. The codes were obtained from the Website of the European Corporate Governance Institute (www.ecgi.org). Recently, corporate governance codes have taken on increased importance since they either prescribe what companies are required to do in order to comply with a country's mandatory regulations or what desirable best practice would look like. Hence, the inclusion of electronic shareholder participation in national corporate governance codes might be an important first step to encourage companies to offer this possibility to their shareholders. The answer to the aforementioned research question will be presented in the following order: (1) An overview will be given of corporate governance codes that cover electronic shareholder participation and (2) An overview will be given of corporate governance codes that do not cover electronic shareholder participation. Under research question 9., a best practice example of a corporate governance code that covers electronic shareholder participation in AGMs will be presented. Point (1) above and the best practice example provided under research question 9. are particularly relevant for countries that do not yet cover electronic shareholder participation in general meetings but are thinking of including this item in their codes.

The following table presents corporate governance codes that cover electronic shareholder participation in general meetings. The section of the table called "Coverage" summarizes shortly to what extent the codes deal with this subject matter. The complete sections of the codes that cover the topics electronic shareholder participation in general meetings and information provision via corporate Websites can be found in Appendix A.

It should already be noted here that most codes only deal with the issue of electronic shareholder participation in general meetings in a very limited fashion. An examination of the relevant code sections presented in Appendix A will verify this. Furthermore, some codes – like the Dutch, South African, and Turkish codes – only cover electronic shareholder participation in general meetings in a speculative manner since their respective laws do not permit this form of participation yet. Hence, a lot of the codes could be improved in this area.

Table 19: CG Codes that Cover Electronic Shareholder Participation in AGMs

Country	Name of Code	Coverage
AUSTRALIA	<i>Principles of Good Corporate Governance and Best Practice Recommendations</i> (March, 2003) By ASX Corporate Governance Council	(1) Companies should offer their shareholders electronic proxy voting subject to reliable authentication processes. (2) Companies should send notices of general meetings by electronic means if requested. (3) Electronic communications with shareholders via e-mail and corporate Websites.
BELGIUM	<i>The Belgian Code on Corporate Governance</i> (December, 2004) By Belgian Corporate Governance Committee	(1) Companies should consider the use of modern technology to facilitate proxy voting. (2) Electronic communications with shareholders via corporate Websites.
CALPERS	<i>Global Corporate Governance Principles</i> (1999) By CALPERS (California Public Employees' Retirement System)	Electronic voting via secure telecommunication and other channels (following ICGN's Global Share Voting Principle of 1998). CALPERS' code is based on the OECD Principles of Corporate Governance and the International Corporate Governance Network's Global Corporate Governance Principles.
CHINA	<i>Code of Corporate Governance for Listed Companies in China</i> (2001) By China Securities Regulatory Commission	(1) Companies should utilize modern information technology to increase the number of shareholders that attend the general meeting. (2) Utilization of the Internet for information disclosure.

<p>CZECH REPUBLIC</p>	<p><i>Corporate Governance Code based on the OECD Principles (2004)</i></p> <p>By Czech Securities Commission</p>	<p>(1) Electronic proxy voting is mentioned in the code, but it is stated that Section 66 (5) of the Commercial Code explicitly excludes this type of voting for general meetings. However, electronic voting is permitted for other bodies of the company. The Czech Securities and Exchange Commission will initiate an amendment to the Commercial Code in order to permit electronic voting for the general meeting.</p> <p>(2) Utilization of the Internet for information disclosure.</p>
<p>GERMANY</p>	<p><i>German Corporate Governance Code (2005)</i></p> <p>By Government Commission German Corporate Governance Code</p>	<p>(1) Companies have to support shareholders in the exercising of their rights. Companies have to provide shareholders with a proxy that can also be contacted during general meetings. Even though the code does not mention electronic proxy voting directly, it can be assumed that company proxies can only be reached electronically during the general meeting. The code could be clearer regarding this point.</p> <p>(2) If desired by shareholders, financial service providers, or shareholders' associations (within the preceding 12 months), companies have to inform these parties in electronic form of the general meeting and also have to send them all related documents in electronic form.</p> <p>(3) Companies should provide shareholders with the opportunity to follow the general meeting via modern technology like the Internet.</p>

		(4) Utilization of corporate Websites for information disclosure.
HUNGARY	<i>Corporate Governance Recommendations</i> (2004) By Budapest Stock Exchange	(1) If the Board expects the number of participating shareholders in the general meeting to exceed 25, then the company should consider the option of electronic voting. The Board is responsible for the integrity and reliability of electronic voting. (2) Utilization of the Internet for information disclosure.
ICGN	<i>Statement on Global Corporate Governance Principles</i> (1999) By International Corporate Governance Network (ICGN)	The ICGN supports the utilization of secure telecommunication and other electronic channels to expand shareholders' voting options.
ITALY	<i>Handbook on Corporate Governance Reports</i> (February, 2004) By Associazione fra le società italiane per azioni (Assonime)	Companies should facilitate the broadest possible shareholder participation including via online voting.
LITHUANIA	<i>The Corporate Governance Code for the Companies Listed on the National Stock Exchange of Lithuania</i> (2004) By National Stock	(1) Companies should offer shareholders the opportunity to vote via terminal equipment of telecommunications. The security of telecommunication equipment, text protection, and authenticity of the signature need to be ensured. (2) Companies should offer their shareholders the opportunity to watch general meetings by

	Exchange of Lithuania	means of modern technologies. (3) Utilization of the Internet for information disclosure (e.g. draft resolutions, minutes of the general meeting, etc.).
NEW ZEALAND	<i>Corporate Governance in New Zealand – Principles and Guidelines</i> (February, 2004) By Securities Commission New Zealand	(1) Companies should offer shareholders the opportunity to participate in general meetings via teleconference or Webcast (if justified by the number and location of shareholders). (2) Utilization of electronic technologies for information distribution (e.g. employment of e-mails to distribute shareholder documents and to answer shareholder questions).
NEW ZEALAND	<i>Corporate Governance in New Zealand – Principles and Guidelines: A Handbook for Directors, Executives, and Advisers</i> (March, 2004) By Securities Commission New Zealand	(1) Companies should offer shareholders the opportunity to participate in general meetings via teleconference or Webcast (if justified by the number and location of shareholders). (2) Utilization of electronic technologies for information distribution (e.g. employment of e-mails to distribute shareholder documents and to answer shareholder questions).
NORWAY	<i>The Norwegian Code of Practice for Corporate Governance</i> (December, 2004) By Norwegian Shareholders Association, Norwegian Institute of Public	(1) The Public Companies Act allows shareholders to appoint a proxy by electronic means if a satisfactory method of authentication is used. However, current Norwegian law does not permit shareholders to participate or vote directly in general meetings by electronic means. The code also states that Norwegian companies should be ready to implement electronic voting systems

	Accountants, Institutional Investor Forum, Norwegian Financial Services Association, Norwegian Society of Financial Analysts, Confederation of Norwegian Business and Industry, Norwegian Association of Private Pension Funds, Oslo Børs, and Norwegian Mutual Fund Association	if a change in the law occurs. (2) Utilization of the corporate Website to distribute information to shareholders (e.g. publication of general meeting minutes and other shareholder information).
SLOVAKIA	<i>Corporate Governance Code – Based on OECD Principles</i> (September, 2002) By Bratislava Stock Exchange	In order to attract foreign portfolio investors, companies should facilitate participation in general meetings via modern technology. It is also stated in the code that effective shareholder participation in general meetings can be enhanced by developing secure electronic means of communication and permitting shareholders to communicate with each other without having to comply with the formalities of proxy solicitation.
SLOVENIA	<i>Corporate Governance Code</i> (March, 2004) By Ljubljana Stock Exchange, Association of Supervisory Board	(1) When convening a general meeting, management needs to ensure proper information dissemination and effective execution of shareholders' rights using information technology. (2) Shareholders should be able to follow general meetings with the help of modern

	Members of Slovenia, Managers' Association of Slovenia	technology. (3) Utilization of corporate Websites to distribute information to shareholders.
SOUTH AFRICA	<i>King Report</i> (2002) By King Committee on Corporate Governance	The main recommendations of the report do not cover electronic shareholder participation in general meetings. But, the section titled “Recommendations Requiring Statutory Amendment and other Action” covers electronic shareholder participation. It is stated there that the Companies Act should be modified in order to permit greater utilization of information technology for electronic communication between shareholders and their companies. It is also stated in this section that a key area for development is electronic voting by shareholders and electronic transmission of proxies. The Companies Amendment Act (No. 35 of 2001) permits electronic communication in certain limited areas including the dissemination of annual reports and financial statements.
SOUTH KOREA	<i>Code of Best Practice for Corporate Governance</i> (September, 1999) By Committee on Corporate Governance	(1) Shareholders should be able to exercise their voting rights in the simplest manner possible, including by electronic means. (2) Utilization of the Internet for information disclosure to shareholders.
SPAIN	<i>Report of the Special Commission to Foster Transparency and Security in the Markets</i>	(1) Companies can adopt additional measures that enhance shareholders’ representation and access to general meetings, including voting by electronic means.

	<p><i>and Listed Companies</i> (January, 2003)</p> <p>By Special Commission to Foster Transparency and Security in the Markets and Listed Companies</p>	<p>(2) Utilization of corporate Websites for information disclosure to shareholders.</p>
SWEDEN	<p><i>Swedish Code of Corporate Governance – A Proposal by the Code Group</i> (2004)</p> <p>By The Code Group</p>	<p>(1) Shareholders should be able to follow or participate in general meetings with the help of modern communications technology. (2) Utilization of corporate Websites for information disclosure to shareholders. (3) Shareholders should be able to register for general meetings by e-mail.</p>
THE NETHERLANDS	<p><i>The Dutch Corporate Governance Code</i> (December, 2003)</p> <p>By Corporate Governance Committee</p>	<p>(1) The code states that good corporate governance requires that shareholders can participate fully in general meetings. In order to achieve this purpose, the code recommends that Book 2 of the Civil Code should be amended so that: “a) shareholders can take part in a general meeting of shareholders and cast their vote at such a meeting by means of webcasting, videoconferencing, or other means of telecommunication; b) shareholders have the possibility of casting their vote on resolutions at a general meeting of shareholders by means of e-voting; c) votes that are cast electronically at a general meeting of shareholders are treated as votes cast at the meeting; d) companies have the possibility of calling a general meeting of shareholders electronically (by e-mail or</p>

		<p>announcements on websites);” (p.64)</p> <p>(2) The code also states that a survey commissioned by the Dutch Ministry of Finance found that only 33% of equity capital is on average represented in general meetings of listed Dutch companies without depository receipts. Hence, the code states that it is of great importance to increase the level of shareholder participation if general meetings are supposed to fulfill their role as correcting mechanisms for mismanagement and failing supervision. Facilitating electronic participation by shareholders in general meetings is seen as a key tool for achieving this aim.</p> <p>(3) Utilization of corporate Websites for information distribution to shareholders.</p>
TURKEY	<p><i>Corporate Governance Principles</i> (June, 2003)</p> <p>Capital Markets Board of Turkey (CMB)</p>	<p>(1) Electronic voting might become available to shareholders in Turkish companies once the Turkish Commercial Code has been modified to allow this.</p> <p>(2) Invitations to general meetings should also be sent by electronic means at least three weeks before the meeting.</p> <p>(3) Shareholders should be able to appoint proxies via electronic media.</p> <p>(4) Utilization of corporate Websites for information distribution to shareholders.</p>

Table 20: CG Codes that Do Not Cover Electronic Shareholder Participation in AGMs⁴⁰

Country	Name of Code	Coverage
AUSTRIA	<i>Austrian Code of Corporate Governance</i> (November, 2002) By Austrian Working Group for Corporate Governance	(1) Utilization of the Internet/corporate Websites for information distribution to shareholders. (2) Audio/video transmission of the general meeting without the possibility of active participation by shareholders.
BANGLADESH	<i>The Code of Corporate Governance for Bangladesh</i> (March, 2004) By Bangladesh Enterprise Institute (BEI)	None
BRAZIL	<i>Code of Best Practice of Corporate Governance</i> (March, 2004) By Instituto Brasileiro de Governanca Corporativa	Utilization of the Internet/corporate Websites for information distribution to shareholders.
CANADA	<i>Beyond Compliance: Building a Governance Culture</i> (November, 2001) By Chartered Accountants of Canada and Toronto Stock Exchange	None
CANADA	<i>Corporate Governance – A guide to good disclosure</i>	None

⁴⁰ Electronic shareholder participation means that shareholders have the opportunity to actively participate in the general meeting, e.g. via Internet proxy voting.

	(2003) By Toronto Stock Exchange	
CYPRUS	<i>Corporate Governance Code</i> (September, 2002) By Cyprus Stock Exchange	None
CYPRUS	<i>Addendum for the Corporate Governance Code</i> (November, 2003) By Cyprus Stock Exchange	None
DENMARK	<i>Report on Corporate Governance in Denmark</i> (December, 2003) By Copenhagen Stock Exchange Committee on Corporate Governance	(1) Utilization of the Internet/corporate Websites for information distribution to shareholders. (2) Companies are encouraged to consider how information technology can be utilized to improve communication between companies and shareholders.
FINLAND	<i>Corporate Governance Recommendations for Listed Companies</i> (December, 2003) By HEX Plc, The Central Chamber of Commerce Finland, and The Confederation of Finnish Industry and Employers	Utilization of the Internet/corporate Websites for information distribution to shareholders.
FRANCE	<i>The Corporate Governance of Listed Corporations</i> (October, 2003)	None

	By Association Française des Entreprises Privées and Mouvement des Entreprises de France	
GREECE	<i>Federation of Greek Industries Principles of Corporate Governance</i> (January, 2002) By Federation of Greek Industries	None Extremely slim corporate governance code considering that Greece is a member state of the EU.
HONG KONG	<i>Conclusions on Exposure of Draft Code on Corporate Governance Practices and Corporate Governance Report</i> (November, 2004) By Hong Kong Exchanges and Clearing Limited	None
ICELAND	<i>Guidelines on Corporate Governance</i> (March, 2004) By The Iceland Stock Exchange	None Even though the authors of the code state that they took into account the OECD's Principles of Corporate Governance (1999) when they drafted the code, they did not adopt the OECD's paragraph dealing with electronic shareholder participation in general meetings.
INDIA	<i>Report of the Kumar Mangalam Birla Committee on Corporate Governance</i> (2000)	None

	By Securities and Exchange Board of India (SEBI)	
INDONESIA	<i>Indonesian Code for Good Corporate Governance</i> (April, 2001) By The National Committee on Corporate Governance	None
ITALY	<i>Corporate Governance Code</i> (July, 2002) By Committee for the Corporate Governance of Listed Companies, Borsa Italiana	None
JAMAICA	<i>Proposed Code on Corporate Governance</i> (2005) By Corporate Governance Committee of the Private Sector Organisation of Jamaica	None
JAPAN	<i>Revised Corporate Governance Code</i> (October 2001) By Japan Corporate Governance Forum	None
JAPAN	<i>Principles of Corporate Governance for Listed Companies</i> (March, 2004) By Tokyo Stock Exchange	None
KENYA	<i>Principles of Corporate Governance in Kenya and a Sample Code of Best Practice for Corporate Governance</i>	None

	(2002) By Private Sector Corporate Governance Trust	
MALTA	<i>Report of the Working Group on Corporate Governance</i> (2001) By Malta Stock Exchange	None
POLAND	<i>Best Practices in Public Companies 2005</i> (2004) By The Best Practices Committee of the Warsaw Stock Exchange and the Corporate Governance Forum	None The authors of the code state that they considered recommendations by the EU Commission in their revised code. However, there have been discussions about electronic shareholder participation at the EU level and other EU member states like Belgium and Sweden cover this issue in their codes.
PORTUGAL	<i>Recommendations on Corporate Governance</i> (2003) By Comissão do Mercado de Valores Mobiliários (CMVM)	Utilization of the Internet for the preparation of general meetings in order to reduce time requirements and costs.
ROMANIA	<i>Corporate Governance Code</i> (June, 2000) By International Center for Entrepreneurial Studies, University of	None

	Bucharest	
RUSSIA	<i>The Russian Code of Corporate Conduct</i> (2002) By The Coordination Council for Corporate Governance	None Utilization of the Internet for information distribution to shareholders.
SINGAPORE	<i>Consultation Paper – Proposed Revisions to the Code of Corporate Governance</i> (December, 2004) By The Council on Corporate Disclosure and Governance (CCDG)	None
SINGAPORE	<i>Code of Corporate Governance</i> (March, 2001) By The Council on Corporate Disclosure and Governance (CCDG)	None Utilization of Internet Websites to distribute information to shareholders. It is stated in the code that Australian and British corporate governance codes were consulted when drafting the code for Singapore. However, the Australian code covers electronic shareholder participation, whereas the Singaporean code does not.
SWITZERLAND	<i>Directive on Information Relating to Corporate Governance</i> (2002)	None

	By SWX Swiss Exchange	
SWITZERLAND	<i>Swiss Code of Best Practice for Corporate Governance</i> (2002) By Economiesuisse	None
TAIWAN	<i>Taiwan Corporate Governance Best-Practice Principles</i> (2002) By Taiwan Stock Exchange and GreTai Securities Market	None Utilization of the Internet for information disclosure.
THAILAND	<i>Code of Best Practice for Directors of Listed Companies</i> (2002) By Stock Exchange of Thailand	None
UK	<i>Corporate Governance: A Practical Guide</i> (2004) By RSM Robson Rhodes and London Stock Exchange	None Utilization of the Internet/corporate Websites for information distribution to shareholders.
UK	<i>The Hermes Principles</i> (2002) By Hermes Pension Management	None
UK	<i>The Combined Code on Corporate Governance</i> (July, 2003) By The Financial Reporting Council (FRC)	None

UK	<p><i>International Corporate Governance Principles</i> (1999)</p> <p>By Hermes Pension Management (1999)</p>	None
UK	<p><i>Hampel Report</i> (1998)</p> <p>By NAPF, London Stock Exchange, CBI, IOD, CCAB, and ABI</p>	None
UK	<p><i>Greenbury Report</i> (1995)</p> <p>By Confederation of British Industry (CBI)</p>	None
UK	<p><i>Cadbury Report</i> (1992)</p> <p>By Financial Reporting Council London Stock Exchange</p>	None
USA	<p><i>Final NYSE Corporate Governance Rules</i> (November, 2003)</p> <p>By New York Stock Exchange</p>	None
USA	<p><i>The Conference Board – Commission on Public Trust and Private Enterprise – Findings and Recommendations – Part 2: Corporate Governance</i> (January, 2003)</p> <p>By The Conference Board</p>	None

USA	<i>The Business Roundtable – Principles of Corporate Governance</i> (May, 2002) By The Business Roundtable	None
USA	<i>The Business Roundtable – Statement on Corporate Governance</i> (September, 1997) By The Business Roundtable	None

The above tables show clearly that some countries and organizations are more advanced than others in incorporating electronic shareholder participation into their corporate governance codes. For example, South Korea, CALPERS, and ICGN already mentioned this issue in their codes in 1999.

9. What does a best practice example of a corporate governance code that covers electronic shareholder participation in general meetings look like?

If countries like Switzerland would like to modify their corporate governance codes in the future in order to encourage their large, publicly listed companies to offer shareholders the opportunity to participate in general meetings via modern communications technology like the Internet, then they might be well advised to have a look at the codes of Sweden and Slovenia as starting points. These codes cover electronic shareholder participation comparatively well and in relatively precise language. Nonetheless, the codes could be improved and recommendations for how to do this will be given below. The relevant sections from these codes are as follows:⁴¹

a) Slovenia

“1.2. General Meeting of Shareholders

... 1.2.4. When convening a General Meeting, the Management Board shall ensure proper information dissemination and effective execution of shareholders’ rights using information technology. The company should make it possible for shareholders to follow a General Meeting using modern technology.”

Source: Ljubljana Stock Exchange, Association of Supervisory Board Members of Slovenia, and Managers’ Association of Slovenia, 2004, p.3.

Even though this section of the Slovenian corporate governance code is quite short, it nonetheless incorporates the most important points: (1) shareholders should be able to exercise their rights using information technology and (2) shareholders should be able to follow general meetings using modern technology. Nonetheless, the section could be more specific by stating that shareholders who are using information technology should be able to vote up to the point when voting closes at the physical meeting and should be able to follow the complete general meeting using modern technology. This would provide shareholders that participate with the help of modern technology with the same information and possibilities as physically present shareholders. A potential problem in the above section of

⁴¹ For additional quotes from corporate governance codes that cover electronic shareholder participation in general meetings, please see Appendix A. This appendix also contains sections from the codes that cover what companies’ Websites should ideally contain in order to inform shareholders well about general meetings and other important topics.

the Slovenian code is that shareholders' rights not only include voting rights but also, for example, the right to ask questions during general meetings. Assuming that a company has several thousand shareholders and that a considerable number participates online, it would be difficult to let them all ask questions at the general meeting. Furthermore, the relative anonymity provided by the Internet might even encourage more shareholders to ask questions. Even though it would be good to see shareholders participate to a greater degree in general meetings, an excessive amount of online questions could result in a meeting that drags on for an unreasonably long time. Hence, it might be a good idea to specify the term voting in the above section in order to avoid any confusion or implementation problems. At least until an effective solution to the aforementioned problem has been found. For example, depending on companies' ownership structures, shareholders could be allowed to ask questions before the meeting that will then be answered during the meeting. This is the solution that the American company Inforte has chosen. But again, if a company has a large number of shareholders, the possibility exists that it will be overwhelmed with an excessive amount of questions, even though when one considers the low participation rates in Germany and Switzerland this seems to be a rather remote possibility.

b) Sweden

“1.2 Distance Participation in Shareholders' Meetings

1.2.1 Before each shareholders' meeting, the company is to provide shareholders with the option of following or participating in the meeting from another location in the country or abroad, with the help of modern communications technology, if it is warranted by the ownership structure and economically feasible.”

Source: The Code Group, 2004, p.23.

This section of the Swedish code is displayed in bold, which means that companies can deviate from the recommendation but have to explain why they do so. It makes sense to use the general term modern communications technology instead of specifying the Internet because technological progress is rapid and other, more convenient technologies might be developed in the future. However, one might consider slightly modifying the aforementioned section by replacing “... following or participating ...” with “... following and participating ...” to make it clearer that both (1) *following* and (2) *participating* in general meetings via modern communications technology (like e.g. the Internet) are desirable. Otherwise, a

company might simply offer its shareholders the opportunity to follow its general meeting via a Webcast without the option of Internet proxy voting. This would obviously not be a satisfying solution if one tries to increase shareholder participation in general meetings. In addition, “1.2.1 Before each shareholders’ meeting ...” could be replaced with “Before and during each shareholders’ meeting ...” in order to make it clearer that shareholders should be able to conduct Internet proxy voting before and during general meetings. Ideally, shareholders should be able to follow the entire general meeting on the Internet and be able to vote online up to the point when voting closes at the physical meeting. This offers shareholders that participate online the opportunity to follow the entire general meeting, be as well informed as physically present shareholders, and then cast their votes. If Internet proxy voting closes before the start of the physical meeting, as is the case at some companies in Germany, shareholders will not be able to incorporate important issues that might be discussed at the general meeting into their voting decisions.

Taking the Slovenian and Swedish corporate governance codes as starting points, a modified section covering electronic shareholder participation in general meetings might look like this:

Distance Participation in Shareholders’ Meetings:

Companies should provide shareholders with the option of following and participating in general meetings from another location in the country or abroad with the help of modern communications technology, if it is warranted by the ownership structure and economically feasible. Shareholders not physically present at the general meeting should be able to follow the entire general meeting via modern communications technology like e.g. the Internet. Electronic proxy voting should be possible up to the point when voting closes at the physical meeting.

c) Swiss and German Corporate Governance Codes

Since the focus of this dissertation is primarily on Germany and Switzerland, this is a good point to emphasize that both countries’ corporate governance codes could be improved. The wording of the German code is not particularly clear regarding Internet proxy voting and online shareholder meetings. In fact, the code does not explicitly mention these options and, hence, appears to be somewhat fuzzy (see Appendix A for a direct quote of the relevant section). The Swiss corporate governance code by Economiesuisse (2002) does not even cover the topic shareholder participation in general meetings via the Internet. This is most

likely the case because Swiss law currently does not permit this option or is at least ambivalent about it. However, countries like South Africa and the Netherlands cover this topic in their corporate governance codes even though their respective laws do not permit online shareholder participation either.

d) Reform Suggestions by Böckli, Huguenin, and Dessemontet

In Switzerland, Professors Böckli, Huguenin, and Dessemontet (2004) have recently published reform suggestions for the Swiss stock corporation law. Their recommendations cover various aspects of the Swiss law and aim to improve corporate governance in the country. However, their suggestions do not cover the issue of online participation in AGMs. Given that reforms have recently been implemented in other European countries, that AGM-presence in Switzerland is quite low, and that Switzerland has a relatively large equity market with international participation, it seems reasonable that any reform suggestions for the Swiss law should also aim to make it easier for shareholders in Swiss companies to exercise their voting rights and to follow proceedings at AGMs via the Internet. Furthermore, as will become clear later on, several SMI companies can also improve their AGM-related communication with shareholders by providing more information about AGMs on their Websites. This would help to increase these companies' transparency towards their owners. Hence, in their current form, the reform suggestions by Böckli, Huguenin, and Dessemontet do not go far enough because they do not cover an important area of corporate governance.

10. Is a virtual shareholder meeting a viable option for the future?

Answers to Research Question 10 based on Expert Interviews

Several experts were interviewed with regard to this question. Most of them agree that completely virtual shareholder meetings are not a viable option for large, publicly listed companies because they would be difficult to execute given the large number of shareholders in these corporations and because shareholders' control function over company leadership can be more effectively exercised in face-to-face meetings. However, some of the interviewed experts believe that virtual general meetings are a worthwhile alternative for smaller, non-listed companies because for them the execution of such a meeting can be easier. For example, in the case of a company with only a limited number of owners, the possibility of holding a virtual general meeting could help to eliminate the need for traveling. Hence, a company could be registered in Delaware, but the owners of the company would not actually have to travel there in order to conduct the shareholder meeting.

Table 21: Is a Virtual Shareholder Meeting a Viable Option for the Future?

Expert	Is a virtual shareholder meeting a viable option for the future?
Mr. Balling, SLS	<ul style="list-style-type: none"> - With virtual meetings, one should be careful. In Germany, the AGM-culture is more adverse than in some other countries and shareholders often want to attack management and supervisory board. Hence, there is the danger that a virtual meeting will go overboard. - In countries with less controversy in AGMs, a virtual meeting can be more feasible since the whole process will be easier to handle. - Letting shareholders ask questions via the Web (e.g. with a camera installed at a PC) might become too much. There might easily be a loss of control over the whole AGM.
Mr. Licharz, Registrar Services	<ul style="list-style-type: none"> - For publicly listed firms, a virtual AGM is difficult to imagine and will not come in the foreseeable future. There will continue to be a mixture between virtual and physical meetings. But for non-listed firms, a virtual meeting can be a feasible option. - There is another AGM-culture in Germany than in the USA, where meetings are shorter and fewer people attend. Many people in Germany will attend the AGM despite the Internet. There is something like an AGM-tourism. - In Germany, a lot of shareholders attend AGMs and AGMs take a long time. E.g. at DaimlerChrysler, around 10,000 shareholders attend the AGM. - Many companies do not have time for retail investors during the year

	<p>and once a year at the AGM, which is an event for the retail investors, they do not want to be stingy. But, one has to remember that if companies offer amenities at the AGM, a lot of shareholders will attend and this can cost a lot of money. In the case of large companies, the AGM can cost millions of €s.</p> <p>- However, the AGM-process and -culture in Germany might change over time.</p>
Mr. Dobrzewski, ADEUS	- The virtual AGM is an unrealistic idea because it cannot be expected that many shareholders will participate exclusively over the Internet.
Mr. Mathys, Ethos Inv. Found.	<p>- Face-to-face meetings are important for exercising effective control over management.</p> <p>- It is more difficult to exercise control in a virtual meeting because the atmosphere is less personal.</p>
Dr. Waibel, Lonza	<p>- Having face-to-face meetings is crucial for personal contact between shareholders and the board as well as management.</p> <p>- Having face-to-face contact is important to be able to judge the people that make up the board and the management team. For analysts, it is especially important to see management and board face-to-face in order to be able to judge the people as well as their plans.</p> <p>- It is not so important to have face-to-face contact once a year at the AGM. It would be better to have face-to-face contact throughout the whole year to inform shareholders well. The interface between board and shareholders is crucial and might happen via other platforms than the AGM throughout the whole year (e.g. shareholders might join Web-based analyst conferences).</p> <p>- For smaller firms, it might be a good option to have a virtual meeting. For example, for a company made up of five shareholders that would like to eliminate the requirement for traveling.</p>
Mr. Hechtfisher, DSW	<p>- The virtual meeting cannot replace the face-to-face meeting because the personal contact as well as the personal interaction when working through questions are critical.</p> <p>- Once a year, company leaders have to account personally to shareholders. This ensures that shareholders' control function can be more effectively exercised.</p>
Mrs. Keitel, SdK	<p>- Face-to-face general meetings are clearly needed, especially for private investors since they have less access to the company than institutional investors.</p> <p>- Face-to-face meetings are crucial if you want to voice your opposition regarding general-meeting decisions. This opposition has to be communicated in person to the lawyer/notary present at the physical meeting.</p> <p>- Face-to-face meetings are important since it is a good thing that the</p>

	<p>company leadership has to account to shareholders in person. This increases the control of stockholders over company leadership.</p>
<p>Mr. Bender, SdK</p>	<ul style="list-style-type: none"> - It is important to be able to ask questions directly to management and it is rather difficult to do this over the Internet. - One cannot have a real discussion over the Internet since current technology does not allow it. - Plus, some members of management do not want to answer some questions and try to avoid them. It is easier to put pressure on them and control them in a face-to-face meeting. In a face-to-face meeting, it is also easier to pose additional questions and to investigate certain matters more deeply.
<p>Dr. Helbig, DAI</p>	<ul style="list-style-type: none"> - A virtual meeting is legally problematic since shareholders have the right to speak during the general meeting. It is difficult to organize this over the Internet. Hence, the right to speak and ask questions would need to be limited in the case of a virtual meeting. Otherwise, the virtual meeting is not a bad idea. - But, there is also an image side or political side to the issue. Many shareholders want the physical general meeting and companies would face difficulties if they tried to eliminate the physical meeting. - Furthermore, in a virtual meeting, it is difficult to put pressure on management and to react appropriately to their statements.

Case Example: Electronic AGM at Inforte

One company that conducts its AGM completely in electronic form is Inforte from the USA. Inforte is incorporated in Delaware and is a rather small consumer strategy and solutions consulting company that is listed on the NASDAQ. The company has a market capitalization of around \$48 million and 11.72 million outstanding shares (40% of the shares are held by insiders and 44% by institutional investors).

As stated above, Inforte conducts its AGM completely in electronic form. Before the meeting, shareholders can vote by regular mail, Internet, and fax and during the meeting, they can still vote by fax. The shareholder meeting itself is conducted in the form of a telephone conference call in the listen-only mode for shareholders. This means that shareholders can only listen to the proceedings during the meeting and cannot ask questions. Shareholders can ask questions by Internet before the meeting that are then answered during the meeting. The meeting itself is conducted by the Chairman, CEO, CFO and Secretary, and a legal inspector. The legal inspector makes sure that the meeting complies with the laws of Delaware and that the voting result is correct. In its 2005 general meeting, Inforte achieved an AGM-presence of 88%. After the meeting, Inforte publishes the teleconference transcript of the whole meeting on its Website. A copy of this transcript can be found in Appendix H.

11. Can Internet proxy voting be used to increase shareholder participation in AGMs?

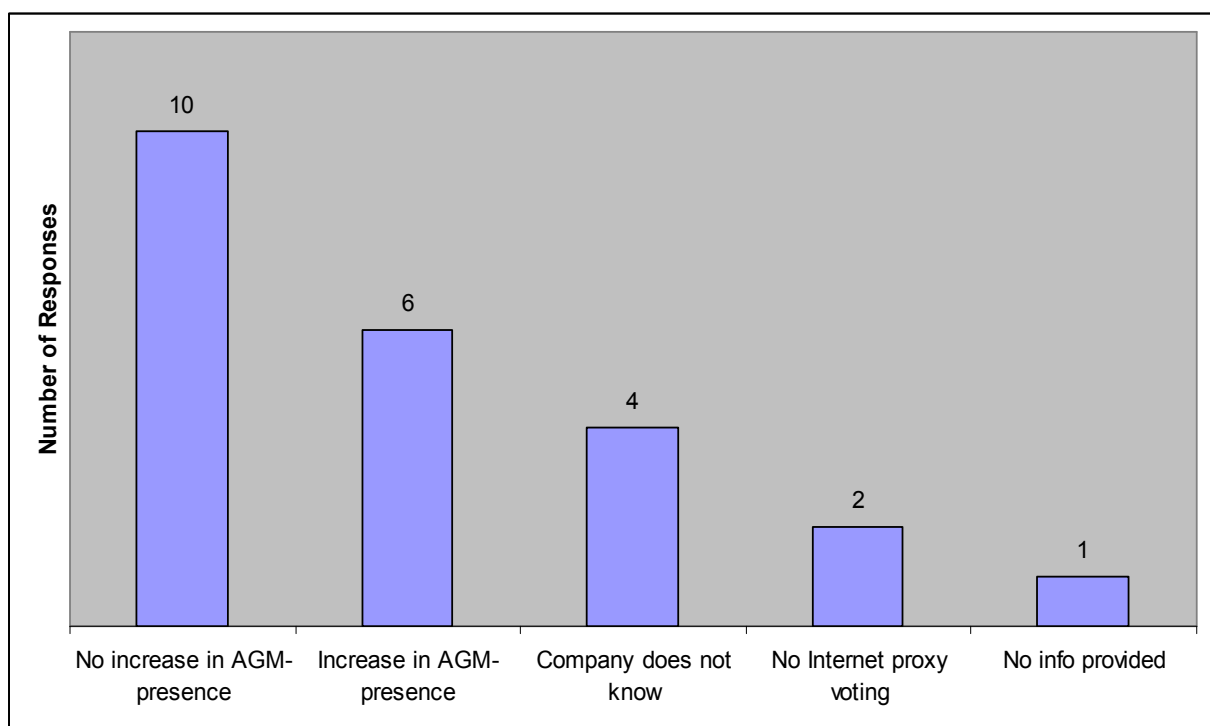
Answers to Research Question 11 based on Company Responses

Concerning company responses, only the ones for DAX30 companies are presented below since SMI companies do not utilize Internet proxy voting to a sufficient extent.

a) Aggregate Results for DAX30 Companies

The aggregate results for Germany show that out of the 21 respondents that offer Internet proxy voting, 48% state that it has not led to a noticeable increase in AGM-presence and 29% state that it has led to a small increase in AGM-presence. Usually the increase in AGM-presence has been small but, in the case of one company, the increase was 7.50% since 2001.

Figure 29: Impact of Internet Proxy Voting on AGM-Presence at DAX30 Firms



b) Detailed Results for DAX30 Companies

Table 22: Impact of Internet Proxy Voting on Shareholder Participation in AGMs

Company	Did the utilization of Internet proxy voting increase AGM-presence?
Company 1	- Yes, about +1%.
Company 2	- No.
Company 3	- Has not been measured.
Company 4	- Yes. But, at the same time, other measures to improve participation were implemented, so that it is difficult to quantify the improvement due to each measure.
Company 5	- Yes, but only to a limited extent. It is difficult to quantify how much.
Company 6	- No significant increase in AGM-presence. - Some institutional investors have switched to using the Internet instead of participating in person. - Furthermore, in the case of companies with bearer shares, Internet proxy voting suffers from the fact that shareholders have to order admission tickets from their banks for which a fee is required.
Company 7	- No increase so far. - Currently, institutional investors do not exercise their voting rights to a great extent because this would require them to have their shares locked up before and during the general meeting. The UMAG might eliminate the lock-up of shares, which could lead to an increase in participation by institutional investors.
Company 8	- No.
Company 9	- Company does not utilize the Internet sufficiently.
Company 10	- Not significantly.
Company 11	- No significant increase in AGM-participation via Internet proxy voting. - Over the long-term, the company expects to achieve an increase in AGM-participation by utilizing the Internet.
Company 12	- No.
Company 13	- Yes. Since 2001 utilization of Internet proxy voting for the AGM has increased the presence by 7.5% even though several banks do not offer proxy voting services to their clients anymore.
Company 14	- No significant increase in AGM-presence so far, but the program is intended to achieve a positive impact on AGM-presence in the future.
Company 15	- No noticeable increase.

Company 16	<ul style="list-style-type: none"> - The company's Internet service has increased participation in its general meeting to a small degree, but it has not increased the interest of private investors for the general meeting. - About 2% of equity capital exercises its votes via the Internet and most are private investors that only hold a small number of shares. - Hence, it is important to encourage institutional investors to vote because they own most of the firm. - The primary goal behind implementing the online service is not so much to increase AGM-participation but to protect the environment and to reduce mailing costs. - The utilization of the Internet does not lead per se to an increase in participation since it is only a facilitator. Shareholders that are not interested in exercising their votes will not start doing so just because the Internet is there. - The Internet also leads to a substitution effect. Shareholders will switch from attending the physical meeting in person to participating via the Internet.
Company 17	- Company chose not to provide information.
Company 18	- Company does not know the effect.
Company 19	<ul style="list-style-type: none"> - No increase in AGM-presence. - Even though the company has been offering Internet proxy voting, the AGM-presence has been declining over the last few years. But, most likely, the decline in AGM-presence would have been greater without offering Internet proxy voting. - At the last AGM, about 3.5% of equity capital exercised its voting rights via the Internet.
Company 20	- Company does not utilize the Internet sufficiently.
Company 21	- Company has not measured the effect of Internet proxy voting.
Company 22	<ul style="list-style-type: none"> - Yes. - The total number of ordered AGM-tickets and exercised proxy votes has doubled since the Internet service was introduced in 2001. - In 2005, about 25% of all AGM-tickets were ordered via the Internet service. - In 2005, more than 20% of proxy votes exercised by the company representative were issued via the Internet. Since numerous banks do not offer proxy voting services to their clients anymore, the company proxy becomes increasingly more important.
Company 23	- Maybe. The company stated that investors should be asked this question.

Answers to Research Question 11 based on Expert Interviews

Swiss as well as German experts were interviewed with regard to this research question. Below, the answers of the Swiss experts are presented first and then the answers of the German experts follow.

a) Switzerland

In general, the Swiss experts agree that Internet proxy voting will not have a large, positive effect on AGM-presence in Switzerland. One argument that they frequently present is that investors in Switzerland can already vote by mail today so that Internet proxy voting only represents an additional alternative for exercising votes. Mr. Mathys from Ethos sees somewhat greater possibilities for Internet proxy voting than the other interviewees since he believes that it could facilitate voting for international shareholders, thereby increasing AGM-presence. During the interviews, all of the experts raised the point that it is a problem that institutional investors do not exercise their votes often enough and that it is crucial to increase voting by them since they usually own most of the listed companies.

Table 23: Can Internet Proxy Voting Increase AGM-Presence in Switzerland?

Swiss Experts	Can Internet proxy voting be used to increase AGM-presence?
Mr. Mathys, Ethos Inv. Found.	<ul style="list-style-type: none"> - Yes. - Especially for foreign shareholders this is important because it is often too expensive and too complicated for them to participate in AGMs in Switzerland. - In Switzerland, the current voting process via shareholder registers and banks is too complicated and needs to be simplified.
Mr. Gassmann, NIMBUS	<ul style="list-style-type: none"> - The impact of the Internet on participation will not be big in Switzerland since Swiss shareholders can already send in their voting instructions by mail today. Swiss people know this process from other voting processes and know how to use it. - If there should be an increase in participation due to an increased employment of Internet proxy voting, then it will be mainly driven by foreign investors.
Dr. Waibel, Lonza	<ul style="list-style-type: none"> - Internet proxy voting makes sense if it is used like in the case of Ford. But, the impact on AGM-presence will most likely not be large since mostly small, private investors would use the Internet. - In Switzerland, shareholders can already vote by mail so that the Internet only offers an additional option for voting.

	<ul style="list-style-type: none"> - Usually, institutional investors dominate voting and that can lead to small shareholder apathy. Internet proxy voting does not change this situation. - It is very important that institutional investors vote in the AGM because they own most shares.
Mr. Grauwiler, Lonza	<ul style="list-style-type: none"> - It is not likely that Internet proxy voting will have a significant impact on AGM-presence. - It is already possible to vote by mail in Switzerland. Hence, the Internet will not have a big impact on participation. - Plus, for some people it might even be more work to turn on the computer than to vote by mail.

b) Germany

Most of the German experts agree that Internet proxy voting can have a positive effect on AGM-presence in Germany, but this effect will most likely not be very large. Many experts raised the point that Internet proxy voting facilitates voting for some investors, thereby increasing AGM-presence. However, they also frequently raised the point that Internet proxy voting can do nothing to eliminate shareholder apathy. Shareholders that are not interested in exercising their voting rights will most likely not start doing so just because Internet proxy voting is available. Furthermore, similar to the results for Switzerland, it became clear that it is crucial to get institutional investors to vote if one wants to increase AGM-presence significantly.

Table 24: Can Internet Proxy Voting Increase AGM-Presence in Germany?

German Experts	Can Internet proxy voting be used to increase AGM-presence?
Mr. Licharz, Registrar Services	<ul style="list-style-type: none"> - When it comes to Internet proxy voting, it is important to distinguish between companies with registered shares and bearer shares. - With registered shares, one has the share register and can use it directly for the Internet voting process. For all companies with registered shares, we can see significantly higher utilization rates of Internet voting than for companies with bearer shares. - With bearer shares, the Internet voting process is much more complicated since the process has to run via banks/brokerages. Here, we have a paper-based process before we can get to Internet proxy voting. - For example, Metro and ThyssenKrupp have bearer shares and relatively few shareholders are utilizing the Internet for voting. Allianz and Daimler-Chrysler, in contrast, have registered shares and significantly more shareholders are utilizing the Internet to vote or order admission tickets for the AGMs. - Internet voting is primarily designed for retail shareholders.
Mr. Dobrzewski, ADEUS	<ul style="list-style-type: none"> - Yes, compared to 5 years ago. - For example at Allianz, 30% of the people who register for the AGM do so online. This is a very good figure.
Mr. Balling, SLS	<ul style="list-style-type: none"> - Without Internet proxy voting, the presence at AGMs might be lower than what it is today.
Mr. Hechtfischer, DSW	<ul style="list-style-type: none"> - The Internet has the potential to increase participation, but it is doubtful if the Internet can have a large effect on participation. It is only more simple for some people but not for everyone. For example, older shareholders would have difficulties to participate since they have problems with using the Internet. - The Internet can also increase the convenience of participation, thereby increasing participation. E.g. banks' forms are often too complicated and

	people don't want to bother with them.
Mrs. Keitel, SdK	<ul style="list-style-type: none"> - Internet proxy voting has had no big impact so far. - Maybe it will have a larger impact in the future if foreign shareholders increasingly utilize the Internet for cross-border voting.
Mr. Bender, SdK	<ul style="list-style-type: none"> - Yes, with reservations. Only if it is offered in addition to existing channels of communication. - For some shareholders, the proxy statement is too complicated today and they will not exercise their voting rights even if they have the Internet at their disposal. - Moreover, some shareholders only hold a small amount of stock and, therefore, think that they do not have much influence. For them, the effort to exercise their voting rights is too high and Internet proxy voting will not change that. - Concerning banks, the important point is the quality of their participation. This will not become better just by having Internet proxy voting. Banks too often exercise their proxy votes in the interest of management instead of their clients'. - Overall, the Internet can facilitate the exercise of voting rights, but only for those shareholders that are familiar with the Internet and are interested enough to be active.
Dr. Helbig, DAI	<ul style="list-style-type: none"> - The chance of higher participation can be increased by offering Internet proxy voting. This is important in light of the fact that some banks and credit institutions do not offer proxy-voting services anymore. - Internet proxy voting can help to reduce the costs and organizational effort associated with exercising one's shares. It can also alleviate the time pressure that some shareholders face. All of this can lead to a positive impact on AGM-presence. - Internet proxy voting leads to the simplification of the voting process for people that do not participate in person in the general meeting. This simplification of the voting process is also for the benefit of international investors, which might have a positive impact on AGM-presence. - But, Internet proxy voting cannot change the fact that some shareholders think that they do not have the required knowledge to exercise their votes appropriately and that some shareholders are rationally apathetic. - Internet proxy voting can also lead to a substitution effect since some shareholders will switch from the paper-based process to the Internet-based process. This would not lead to an overall increase in AGM-presence.

12. In general, how can companies employ the Internet to encourage more shareholders in Switzerland and Germany to participate in the corporate governance of their firms?

Answers to Research Question 12 based on Expert Interviews

Some of the interviewed experts also had ideas how the Internet could be utilized in addition to Internet proxy voting to encourage greater participation in AGMs. Several experts stated that frequent communication with shareholders throughout the year is important and that an IR-newsletter can be a good tool for companies. Dr. Waibel from Lonza also mentioned the possibility of holding analyst conferences that shareholders can join via the Internet. Concerning the idea of a shareholder chat room on companies' Websites, some of the experts think that this could sometimes make it easier for shareholders to prepare for AGMs and to combine their voting power, but some of them also see the danger that activities in the chat room could easily get out of hand. Regarding specifically the situation in Switzerland, Mr. Mathys raised the point that Swiss companies should utilize the Internet for better communication with their shareholders and for better information provision. For example, he stated that the minutes of AGMs as well as the voting results of AGMs should be available online so that shareholders that did not attend the meeting can easily get a picture of what happened. Currently, only at some SMI companies is this case and smaller Swiss companies are seriously lagging behind in this area. As pointed out earlier, the research conducted for this dissertation has shown that AGM-minutes as well as voting results are part of the standard information provided on the Websites of DAX30 companies, but only few SMI companies make this information available online.

Table 25: Additional Ways in which the Internet can Encourage AGM-Participation

Expert	Additional ways to encourage participation in AGMs
Mr. Mathys, Ethos Inv. Found.	<ul style="list-style-type: none"> - Internet should be used for better communication with shareholders and better information provision. - For example, the minutes of the general meeting as well as the voting results should be available online so that shareholders that did not attend the AGM can get a picture of what happened at the meeting. - SMI companies already do this to some extent, but the smaller firms in CH are lagging behind.

Dr. Waibel, Lonza	<ul style="list-style-type: none"> - It is important to utilize other communication platforms besides the AGM. - One could view the AGM as an act required by law and then supplement it with other communication platforms like analyst conferences that shareholders can join via the Internet. It is important to communicate with shareholders throughout the whole year in order to inform them well, keep them interested, and increase their participation.
Mrs. Hertel, Allianz	<ul style="list-style-type: none"> - An IR newsletter for shareholders can be a good tool to keep them up-to-date and involve them with the company. - Important to advertise participation in the AGM on the Website. - Undertaking of e-mail campaigns can help to encourage shareholders to participate. - Offering a clearly visible link to voting on the Website. - Chat rooms for shareholders on the company Website might not be such a great idea since this might get out of hand. E.g. shareholders might start to degrade Allianz and other shareholders.
Mr. Balling, SLS	<ul style="list-style-type: none"> - IR-newsletter by e-mail can be a good tool to keep shareholders up-to-date and involved with the company.
Mr. Hechtfisher, DSW	<ul style="list-style-type: none"> - Chat rooms' (i.e. the "Aktionärsforum" at the "Elektronischer Bundesanzeiger") success is questionable. It is doubtful if shareholders will use them much, but they might sometimes make sense for increasing activities before the general meeting and for combining shareholders' power in the general meeting. - But the majorities are usually clear before the meeting and the voting is the most boring part of the general meeting. It is questionable if the Internet really has the power to change this situation.
Mrs. Keitel, SdK	<ul style="list-style-type: none"> - Direct communication with shareholders via e-mails might keep shareholders interested in the activities of the company and might have a positive impact on AGM-participation.
Mr. Bender, SdK	<ul style="list-style-type: none"> - Shareholder associations like SdK or DSW can publish their voting recommendations for AGMs on the Internet. These recommendations can serve as an orientation for other shareholders. - Having a chat room on the Websites of companies can make sense. This is a good idea because it gives every shareholder the opportunity to state his/her opinion and it can be used to activate shareholders. Their voting power can be combined in this way. - Shareholders usually lack a meeting opportunity and a chat room might help to alleviate this situation. Such a chat room could be open well in advance of the general meeting, e.g. 3 months before, so that there is enough time to prepare until the meeting is held.

5. Analysis of the Results

5.1 Discrepancy between Desired High AGM-Presence and Actual Presence

The results of the research show clearly that most of the surveyed companies view a high AGM-presence as important and believe that there are numerous benefits to achieving a high presence. The interviewed experts also pointed out similar benefits of increased shareholder participation in AGMs. For example, a high AGM-presence ensures broad support for top-level decisions, helps to prevent chance majorities, and restricts excessive power of a minority. For several companies in Germany, the last point is currently particularly important since hedge funds have become increasingly active and have the opportunity to control decision-making at some companies by acquiring only a comparatively small percentage of equity.

However, even though 91% of the DAX30 respondents and 94% of the SMI respondents stated that achieving a high AGM-presence is important for them, only 13% of the DAX30 respondents and 0% of the SMI respondents actually have an AGM-presence in mind that they want to achieve. This is problematic since it is questionable if a company can achieve a higher AGM-presence when it does not even know what a high presence is and which goal it should strive towards. Actual AGM-presence at DAX30 and SMI companies supports this rather pessimistic evaluation. It is apparent that there is a clear discrepancy between most companies' claim that high AGM-presence is important and the AGM-presence they achieve in practice. In 2005, average AGM-presence at these companies was between 46%-47% and there were 18 companies in the DAX30 and 15 companies in the SMI where less than 50% of equity capital participated in general meetings. In addition, there were several companies in both indexes where participation was below 30%. This means, for example, that in the cases of Baloise, Ciba, and Zurich Financial Services, an equity stake of only 12% would already have been enough to control key decisions at these companies' AGMs in 2005. If an investor is primarily focused on maximizing returns in the short-term, then the chance clearly exists that the respective company's long-term business prospects will suffer.

Overall, assuming that most DAX30 and SMI companies truly view high participation in their AGMs as important, the conclusion needs to be drawn that a significant number of them is

unable to achieve high participation in practice. As a result, it seems like new ways need to be found in order to increase AGM-presence in the future.

5.2 Switzerland's Position in the Area of Online AGM-Participation

A considerable number of DAX30 companies have started on this journey in the beginning of the 2000s. The case examples of Lufthansa and Allianz show how these companies have successfully implemented online AGM-services for their shareholders and that they have had positive experiences so far. In order to increase their AGM-presence and provide better participation possibilities to their shareholders, most of the DAX30 companies now offer Internet-based services in the form of online proxy voting and AGM-Webcasts to their shareholders. For example, in 2005, 80% of the DAX30 companies offered online proxy voting and AGM-Webcasts. However, improvements are still possible since 73% of the DAX30 companies closed their online proxy voting before the general debate and 63% did not webcast the whole AGM. This means that online participants are currently not as well informed as participants in the physical meeting since they cannot follow the full AGM-proceedings and have to cast their votes before they have had the chance to listen to the arguments during the general debate. A best-case example is Deutsche Telekom since it offers a large number of online services and considerable flexibility to its shareholders. For example, Deutsche Telekom offers a Webcast of the whole AGM and online proxy voting that closes after the AGM-debate. In addition, online participants can even vote on motions that were not known before the AGM.

With regard to online participation in AGMs, the survey results and expert interviews demonstrate clearly that the largest Swiss companies are considerably lagging behind their German counterparts. This is most likely due to the Swiss legal situation, which does not clearly permit online shareholder participation in AGMs. Currently, only 12% of the SMI companies (i.e. three companies) offer an AGM-Webcast and 0% offer Internet proxy voting to their shareholders in Switzerland. Hence, the largest Swiss companies still have some distance to go if they want to offer the same active participation possibilities to their shareholders as numerous DAX30 companies already do.

Given that Switzerland has a large equity market with international participation, these issues will need to be dealt with in the future in order to make it at least for foreign shareholders easier to participate in Swiss AGMs. Furthermore, one also needs to see the deficient situation in Switzerland in light of developments that have taken place in other countries around the world that directly compete with Switzerland as business locations. As mentioned earlier, Guernsey, the Bahamas, the Cayman Islands, as well as Bermuda have more flexible company laws that allow for virtual general meetings. There is no sound reason for why Switzerland should want to fall behind these locations in the area of online shareholder participation in AGMs.

5.3 Advantages and Disadvantages of AGM Internet Services

The research results show that based on the experiences of the surveyed DAX30 companies and the interviewed experts, there are various advantages to offering Internet proxy voting, AGM-Webcasts, as well as other AGM Internet services to shareholders. Some frequently mentioned benefits are that the Internet offers shareholders greater flexibility to exercise their votes, offers the potential to increase AGM-presence, reduces AGM-related costs, and facilitates participation by international investors. Even though the surveyed companies as well as the interviewed experts also see some disadvantages – including the cost of making the investments in technology and support, the danger of technological problems, and a lack of Internet access or skills – it is important to emphasize that 71% of DAX30 respondents stated that there are no significant disadvantages to using the Internet for AGMs. Hence, the answers of the companies that have experience with actively using the Internet for their AGMs provide a strong indication that, overall, the advantages of employing the Internet for AGMs outweigh the disadvantages.

The answers by the Swiss companies make clear that most of the SMI companies view the Internet as a tool for information provision via their Websites but not as an active tool for increasing the presence in their AGMs. A key barrier for SMI companies is the current legal situation in Switzerland, which limits their possibilities to employ the Internet for AGMs. From the perspective of institutional shareholders, Mr. Mathys from the Ethos Investment Foundation summarized the current situation in Switzerland by stating that Ethos wants to take on responsibility and exercise its voting rights in general meetings but that it is difficult to do so because company representatives cannot participate in all general meetings. This

simply requires too much time and resources. Hence, Mr. Mathys said that AGM-Webcasts as well as online proxy voting would be good tools for investors in Swiss companies because they can facilitate their participation in AGMs.

Since the surveyed SMI companies do not utilize the Internet to the same extent as DAX30 companies, it will be difficult for them to enjoy all of the potential benefits that a greater employment of the Internet for AGMs can bring. Assuming that Switzerland does not want to fall behind other countries with regard to the participation possibilities that it offers to shareholders and wants to ensure a high quality of corporate governance, then Swiss legislation needs to be changed in the future in order to give Swiss companies at least the opportunity to offer Internet proxy voting and AGM-Webcast. It does not make much sense, for example, that Deutsche Bank and Citigroup can offer Internet proxy voting while Credit Suisse cannot. In the age of global competition, this situation appears to be somewhat outdated from Credit Suisse's perspective. Furthermore, it is also a little strange that a large Swiss company can offer Internet proxy voting to its shareholders in the US but not to its shareholders in Switzerland.

5.4 Implementation of Internet AGM Services

Almost no company implements an AGM Internet service by itself but instead relies on specialist companies like ADEUS, Registrar Services, or SLS. A notable exception is Deutsche Telekom, which also served as a best-case example earlier. In general, outsourcing this task is much easier than building a system internally and, due to their experience, outsourcing providers can normally ensure that the key implementation issues are taken care of: (1) Internet service has to be user-friendly, (2) Clear and offensive communication that Internet proxy voting is available, (3) Clear communication of the system's benefits for shareholders, (4) Easy navigation to Internet proxy voting from the company's Website, (5) Telephone hotline for shareholders, (6) High security of the system, and (7) Incentives that motivate shareholders to use the system.

The examples of ADEUS' STARvote, SLS' HV Web, and Registrar Services' netVote have shown that several sophisticated systems are on the market that can be employed for AGMs. Companies can decide how much functionality they need and the price of a system will vary accordingly from around €10,000 per annum for a basic service to around €40,000-€50,000

per annum for a more sophisticated system. In exceptional cases, a system might even cost up to €100,000 per annum. Hence, overall, the implementation of an Internet AGM service for shareholders is relatively easy since an outsourcing provider can take care of this task and the cost of a system is manageable for larger companies, especially in relation to their total AGM costs.

5.5 Internet AGM Services and Cost Savings

The research results reveal that most companies have not achieved cost savings so far by offering Internet proxy voting, AGM-Webcasts, as well as other online services to their shareholders. For example, 70% of the DAX30 respondents stated that they do not save money by employing the Internet for their general meetings, while 22% stated that they save money or expect to save money in the future. For most of the surveyed companies, the utilization of the Internet for their AGMs represents an additional cost and, if AGM-related costs are reduced via employing the Internet, the achieved cost savings are rather small compared to total AGM-costs (around 1%). As a result, at the moment, the main motivation for offering Internet-based AGM-services to shareholders cannot be cost savings but must be to provide better participation opportunities to the owners of the company.

Even though a significant reduction in AGM-related costs does currently not seem possible, one needs to be aware of the fact that future developments can change this situation. The survey as well as the expert interviews have shown that more significant savings in AGM-related costs are possible if a large number of shareholders can be encouraged to receive AGM-related materials by e-mail (which reduces printing and mailing costs) and if an increasing number of shareholders switches from attending the AGM in person to attending via the Internet. The achievement of cost savings via these two routes is mainly possible for companies with a large number of shareholders because they can generate enough Internet usage among their owners. Ford is a good example for the potential shift from attending the physical meeting to Internet proxy voting. In 2005, only 50 shareholders attended the company's physical general meeting in Delaware while most shareholders participated via the proxy voting process. One needs to compare this figure to the 8,500 shareholders that attended the general meeting of DaimlerChrysler in 2005.

5.6 Suitability of Online AGMs

The aforementioned financial considerations have made clear that from a financial perspective, it makes most sense for companies with a large number of shareholders to offer Internet proxy voting, AGM-Webcast, as well as other online AGM-services. In addition to financial considerations, the expert interviews have underlined the point that it makes most sense for companies with a large number of shareholders and dispersed ownership to implement Internet-based AGM-services. Especially, for companies with a large number of international investors, online AGM-services can make sense because they provide these investors with better means to participate. On the other hand, for companies with relatively concentrated ownership like Roche and Altana⁴², Internet proxy voting, AGM-Webcasts, and other online services might not make as much sense unless a company is really concerned about providing all owners with a high flexibility to participate.

Concerning the situation in Switzerland, it would make sense for SMI companies to at least offer Internet proxy voting and AGM-Webcasts to their shareholders since many of them have a sufficiently large number of shareholders and also have a considerable number of international investors. With regard to the current situation in Switzerland, Mr. Mathys from Ethos Investment Foundation pointed out that especially for SMI companies it would make a lot of sense to offer Internet proxy voting as well as AGM-Webcasts. In his opinion, this should become the standard in the future.

An important issue concerns companies with registered shares and unregistered shares. It is important to emphasize that it is much simpler for a company with registered shares to offer Internet proxy voting as well as other online services because such a company knows who its shareholders are. This circumstance considerably facilitates the whole process of offering and using online AGM-services. Even though companies with unregistered shares can also offer Internet proxy voting, the voting process is considerably more cumbersome because it needs to run via banks. Hence, companies with registered shares can offer a simpler process as well as more flexibility to their shareholders and, therefore, the chance is higher that shareholder will use their online services.

⁴² The majority owners of Roche are the Hoffmann and Oeri families as well as Novartis International. In the case of Altana, Mrs. Susanne Klatten owns more than 50% of the company.

In addition to the above points, offering online AGM-services to shareholders might also help a company to create a positive public image by showing that it takes corporate governance seriously and actively tries to involve as many owners as possible in its shareholder meeting. For example, the DVFA (i.e. German Association of Financial Analysts) has a process for evaluating companies' quality of corporate governance, and companies can improve their corporate governance ratings by offering online proxy voting and AGM-Webcasts (DVFA, 2003).

5.7 Shortcomings of the Swiss Corporate Governance Code

The detailed review of corporate governance codes has revealed that a lot of them do not deal with the issue of online shareholder participation in general meetings. The Swiss code by Economiesuisse is one of them. Furthermore, even though there is a considerable number of corporate governance codes that deal with the issue of AGM-participation via the Internet, most of them only do so in a very limited fashion⁴³ and could be improved in this area.

The research has made clear that the Swiss as well as the German corporate governance codes could be better. The German code is somewhat fuzzy since it does not explicitly mention Internet proxy voting and online shareholder meetings (see Appendix A for a direct quote of the relevant section) and its wording could be improved to make it more precise.

The Swiss corporate governance code by Economiesuisse is lagging behind several other corporate governance codes since it does not even cover the topic of AGM-participation via the Internet. This is most likely the case because Swiss law currently does not permit this option or is at least ambivalent about it. However, it needs to be pointed out that countries like South Africa and the Netherlands cover this issue in their corporate governance codes even though their respective laws do not permit online shareholder participation either. As a consequence, the code by Economiesuisse is not up to par with other codes in the area of online shareholder participation and could be improved. Improving the Swiss corporate governance code is important because a code can motivate companies to implement best practices in the field of corporate governance. This has happened, for example, in Germany where most of the DAX30 companies now offer online proxy voting and AGM-Webcasts.

⁴³ The relevant code sections are presented in Appendix A.

A related point concerns the current legal situation in Switzerland. It needs to be mentioned that Professors Böckli, Huguenin, and Dessemontet (2004) have recently advanced reform suggestions for the Swiss stock corporation law that aim to improve corporate governance at Swiss companies. Their recommendations touch on several areas of corporate governance, however, they do not cover the issue of online participation in AGMs. Given that reforms have recently been implemented in other European countries, that AGM-presence in Switzerland is quite low, and that Switzerland has a relatively large equity market with international participation, it seems reasonable that any reform suggestions for the Swiss law should also aim to make it easier for shareholders in Swiss companies to exercise their voting rights and to follow proceedings at AGMs via the Internet. As a result, the conclusion needs to be drawn that the reform suggestions by Böckli, Huguenin, and Dessemontet do not go far enough in their current form because they do not cover an important area of modern corporate governance.

5.8 Viability of Virtual AGMs

The research results show that virtual shareholder meetings are currently not a viable option for public companies with a large number of shareholders. With the current state of technology, it is difficult to efficiently execute a virtual meeting with thousands of participating shareholders. Furthermore, it has also become apparent during the research that traditional face-to-face AGMs are a valued mechanism for evaluating and for exercising control over company leadership. Most of the interviewed experts stated that it would be more difficult to exercise these functions in a virtual meeting. However, this situation might change in the future due to technological progress. In the meantime, the best alternative for large, public companies in Switzerland and Germany is to conduct a traditional physical AGM in combination with an online AGM. This combines the benefits of a traditional face-to-face general meeting with the flexibility of the Internet.

Concerning companies with a small number of shareholders, the situation is different. Here, a virtual shareholder meeting can make sense because the execution is considerably easier and such a meeting could provide the owners of the company with more flexibility. The example of Inforte has shown that a virtual meeting is a feasible option and that a high AGM-presence can be achieved in this way. Today, the virtual option is available to companies in several different locations around the world including, for example, Delaware, Guernsey, the

Bahamas, Bermuda, and the Cayman Islands but not to companies registered in Switzerland or Germany. Switzerland and Germany are clearly not at the forefront of international developments and should consider providing their companies with the same options of holding general meetings as more advanced locations do. Especially for a city like Zug, which competes internationally for the registration of companies, it appears to be important to at least keep up with developments going on elsewhere.

5.9 Online AGMs' Impact on AGM-Presence

The research results indicate that German and Swiss companies cannot expect to achieve significant increases in AGM-presence in the near future by offering online AGMs. Looking at the DAX30 companies in Germany that have been utilizing the Internet for some time for their AGMs reveals that 48% have not experienced a noticeable increase in their AGM-presence and that 29% have experienced only a small increase in their AGM-presence. As a consequence, the conclusion needs to be drawn that some scholars – including e.g. Seeger (2002) and Seitz (2003) – have taken a too positive view on the potential that Internet proxy voting will have on AGM-presence. Of course, this situation might change, but this will most likely not happen over night since two fundamental problems remain despite online shareholder meetings: (1) Too many institutional investors do not exercise their voting rights and (2) Too many retail investors are not interested in exercising their voting rights. Moreover, one also needs to be aware of the fact that the Internet only offers an additional venue for exercising one's voting rights. Today, shareholders in Germany and Switzerland can already vote by mail or fax, which are quite convenient alternatives. As a result, Internet proxy voting does not lead to a revolutionary simplification of the voting process for domestic shareholders but can nonetheless make it easier for international investors to participate. In addition, shareholders that do not attend the physical general meeting cannot follow the AGM-proceedings without a Webcast, which can force them to make less informed voting decisions than participants in the physical meeting.

Overall, at the current time, offering online shareholder meetings as well as other online AGM-services to shareholders has not so much to do with achieving a financial benefit or with increasing AGM-presence in a short period of time but more with giving all owners of the company regardless of location the same opportunity to follow AGM-proceedings and to make well-informed voting decisions. In order to achieve a significant increase in AGM-

presence in the future, it will be crucial to encourage more institutional investors to exercise their voting rights since they usually own the largest shares of publicly traded companies. For example, the average AGM-presence in the USA is around 80% partly because institutional investors have a fiduciary duty to exercise their voting rights in the best interest of their beneficiaries.

5.10 Provision of AGM-Related Information via the Internet

The research results have demonstrated that several companies can improve their utilization of the Internet for providing information about AGMs; especially some of the SMI companies. This point applies in addition to offering online shareholder meetings. Frequent communication with shareholders is an important issue and came up repeatedly in the expert interviews. Companies should strive to communicate the whole year with their shareholders and not only on the day of the AGM. According to the expert interviews, two good tools for doing so are IR-newsletters and Web-based analyst conferences that all shareholders can join. Not all surveyed companies offer a comprehensive set of services to their shareholders and, based on the research results, the conclusion needs to be drawn that in particular several SMI companies can improve their communication with shareholders. For example, AGM-minutes, voting results, presence, invitation with voting proposals, shareholders' counter-proposals, and a video copy of the whole AGM should be part of the standard information that is available on a company's Website. At most DAX30 companies, this is indeed the case but not at several SMI companies. Hence, overall, the examined Swiss companies are not up to par with their German competitors in this area and have room to improve their performance.

5.11 Summary of Results

The analysis of the research results has led to the following insights:

- There is a considerable discrepancy between the desired high AGM-presence and the actual AGM-presence achieved by most DAX30 and SMI companies
- Switzerland is lagging behind other countries in the area of online participation in AGMs
- The advantages of actively utilizing the Internet for AGMs in the form of e.g. Internet proxy voting and Webcasts outweigh the disadvantages
- The implementation of Internet proxy voting, AGM-Webcasts, as well as other online AGM services can be easily outsourced and is financially bearable for larger firms
- The implementation of online AGM services has not led to significant cost savings so far
- Online AGMs are best suited for companies with a large number of shareholders and with registered shares
- The Swiss corporate governance code is lagging behind other codes in the area of online shareholder participation in AGMs
- Virtual AGMs are currently not a viable option for large corporations but can be a worthwhile alternative for companies with a small number of shareholders
- Online AGMs only had a limited impact on AGM-presence so far
- Especially many SMI companies could utilize the Internet more effectively for communicating with their shareholders about AGMs

The results of the research show that the largest Swiss companies do not offer their shareholders adequate opportunities to participate in AGMs via the Internet. This is the case even though Switzerland has a large stock market in which international investors are active. Overall, the largest German companies are currently more advanced in this area than the SMI

companies, which means that Swiss companies have some catching-up to do if they want to bring their shareholder services up to a leading international level. One should expect no less from Switzerland since the country is consistently ranked among the world's top ten most competitive nations, for example by IMD (2005) and World Economic Forum (2005a, 2005b). The country should strive to achieve this standing also with regard to corporate governance and especially with regard to shareholder participation in AGMs. In order to achieve this aim, a first necessary step will be to reform the Swiss legal situation so that active shareholder participation in AGMs via the Internet becomes clearly possible. As outlined earlier, the reform suggestions for the Swiss stock corporation law by Böckli, Huguenin, and Dessemontet (2004) do not go far enough since they do not cover shareholder participation in AGMs and corporate governance over the Internet. Similar to Delaware, Minnesota, Massachusetts, Texas, and some other locations, Switzerland and Germany should afford their companies with the possibility of conducting virtual general meetings. The large, public companies will most likely not utilize this possibility in the near future but for some smaller companies, as the example of Inforte has shown, this might be a worthwhile alternative. In addition, the German and Swiss corporate governance codes can be improved by making the wording of the German code clearer and by including online shareholder participation in AGMs in the Swiss code. Currently, there are several corporate governance codes that do better in this regard than the German and Swiss codes. Congruent with international best practice, the largest Swiss corporations should at least offer their shareholders Internet proxy voting up to the end of the AGM-debate and Webcasts of the whole AGM. Finally, many SMI companies need to provide more information about their AGMs on their Websites. Again, compared to their German, American, or British competitors, the largest Swiss companies are not doing as well in this regard and can improve their communication with company owners.

5.12 Limitations of the Research

The research focused specifically on large, public companies in Switzerland and Germany. It is therefore possible that particular issues applying to smaller, public companies and private companies have been neglected to some extent. Furthermore, the research concentrated geographically on Switzerland and Germany. As a result, one might need to be a bit careful with generalizing some of the findings to other regions. For example, in a country other than Germany, the impact of offering Internet proxy voting might have a larger impact on the participation of private investors in AGMs. One could think of a country like South Korea where the population has an affinity for utilizing new technologies and where the broadband penetration rate is high (Lewis, 2004). In addition, this work placed its focus to a large extent on retail investors. Due to the ownership structure of many public companies, it is certainly also very important to think about how one can encourage more institutional investors to exercise their voting rights in general meetings. For instance, it has been mentioned earlier that pension funds in the USA have the fiduciary duty to exercise their voting rights in the best interest of their beneficiaries. One resulting question is whether such a requirement would also make sense for institutional investors – regardless of their country of origin – in Switzerland and Germany. The topic of institutional investors will be taken up again in the section on suggestions for future research.

6. Recommendations

The following recommendations are based on the research results and are primarily intended for large, public companies in Germany and Switzerland. However, the same recommendations might also be applicable to companies from other countries that also face a low level of shareholder participation in their AGMs. For example, many companies listed in the EuroStoxx50 index have to deal with the same problem and the average AGM-presence at companies listed in this index was only around 40% in the past (DWS, 2002).

6.1 Establishment of a Goal for AGM-Presence

The research results have shown that 91% of the DAX30 respondents and 94% of the SMI respondents view high AGM-presence as important, but only 13% of the DAX30 respondents and 0% of the SMI respondents actually have an AGM-presence in mind that they want to achieve. If these companies are really serious about achieving a higher AGM-presence in the future, then they should establish a goal that they can strive towards. Otherwise, the situation will remain too fuzzy. Establishing a goal for AGM-presence can simply help to focus efforts on achieving that target and to hold people accountable for getting results. Basically, one could say that those things that get measured in organizations are more likely to get done than those things that do not get measured at all. Presumably, the chance is higher that this will lead to a greater effort to increase AGM-presence than the current situation without a goal. At least the achieved AGM-presence in 2005 speaks in favor of trying out a new approach.

Efforts to increase shareholder participation in AGMs and AGM-related communication with shareholders partly fall under the board's area of responsibility and need to be supported by the board. The board should not only see to it that shareholders understand the corporate governance of a company, but it should also try to encourage shareholders to participate in corporate governance to a greater extent. The degree to which a board has been able to get more shareholders to exercise their voting rights in general meetings might also form part of the measurement of a board's success. Overall, it seems important that an undertaking to achieve a lasting increase in AGM-presence is anchored at the top of a company in order to ensure adequate organizational support.

6.2 Encouragement of Retail and Institutional Investors to Exercise Voting Rights

The research has revealed that there is a considerable discrepancy between DAX30 and SMI companies' desired high AGM-presence and the actual AGM-presence they achieve in practice. In order to fundamentally change this situation, it is necessary to encourage both retail and institutional investors to exercise their votes. Offering better possibilities for online participation is one step in this direction – especially for SMI companies – but it needs to be supplemented by other measures. It is particularly important to get institutional investors to exercise their votes more often since they frequently own the greatest shares of public companies. How to do this is the next question. This would need to be answered in an additional research project. Similar to the situation in the US, one option might be to require institutional investors to exercise their votes in the best interest of their clients. One needs to remember that average AGM-presence in the US is around 80% (Dolin, 2002). In Germany, the newly implemented law called UMAG⁴⁴ (i.e. “Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts”) might have a positive effect on AGM-presence in the future since, among other things, it eliminates the share-blocking period before general meetings (Jenkins, 2005a and 2005b). This in turn might lead to the fact that more institutional investors will exercise their voting rights, especially foreign ones. These large investors did not like the inflexibility of having their shares blocked for a certain period of time before AGMs if they decided to exercise their voting rights. Hence, in order to maintain their ability to sell shares at anytime, they frequently chose not to vote at all. Furthermore, with regard to the situation in Germany, it would be helpful to simplify the proxy statement. Currently, the proxy statements of numerous large German companies are very long and difficult to understand. A key reason for this is that companies often ask shareholders to give them permission to perform all sorts of potential actions (so called “Vorratsbeschlüsse”) that frequently never materialize. As a result, proxy statements are long and complicated and even professionals need to spend a long time to fully understand them. All of this, of course, does not encourage retail investors to exercise their votes more frequently and can even increase shareholder apathy.

⁴⁴ The UMAG took effect in November 2005.

6.3 Internet Proxy Voting until after the AGM-Debate and Webcast of the Whole AGM

The largest German and Swiss companies should strive to offer their shareholders Internet proxy voting until after the AGM-debate and should webcast the whole AGM because this ensures that online participants have the same information as participants in the physical meeting when they are making their voting decisions. Anything else puts online participants at a potential disadvantage. Even though 80% of DAX30 companies offer Internet proxy voting and AGM-Webcasts, 73% of them close their Internet proxy voting before the general debate and 63% do not webcast the whole AGM. Utilization of these two tools among SMI companies is almost non-existent. Hence, companies from both countries can improve their services to company owners.

With regard to offering online proxy voting, this is considerably easier to do for companies with registered shares since the voting process is much simpler. Hence, for some Swiss companies with unregistered shares, the question might be relevant if it makes sense to switch to registered shares. Of course, some companies might believe that they are more attractive to investors because they offer the greater anonymity associated with bearer shares but, in the end, a company should be attractive because it performs well operationally and financially and not because of the form of its shares. Warren Buffet has become very wealthy without relying on investments in companies with bearer shares. Furthermore, shareholders that achieve certain ownership thresholds have to disclose their holdings so that for the larger shareholders there is no complete anonymity. As a result, each company will need to make a careful decision between keeping bearer shares and offering more flexibility to shareholders to participate in its AGMs.

6.4 Reform of Swiss Law to Permit Online Participation in AGMs

Switzerland should reform its stock corporation law in order to clearly permit online participation in shareholder meetings. At a minimum, AGM-Webcasts as well as Internet proxy voting should be available to shareholders in Switzerland. Currently, Switzerland is lagging behind several other countries in this area and, as a result, only three SMI companies offer an AGM-Webcast and none offers Internet proxy voting to its shareholders in Switzerland. Providing better opportunities for online participation can make it easier for

Swiss shareholders as well as foreign shareholders to exercise their voting rights and can help to close the gap to more advanced countries. In addition, the research results by Cocca and Volkart (2004) indicate that it might be possible to increase shareholder participation in Switzerland by offering equity owners the chance to exercise their rights online.

6.5 Reforms of Swiss and German Laws to Permit Virtual AGMs

Switzerland and Germany should both reform their stock corporation laws to allow for virtual shareholder meetings. Even though the research results indicate that virtual AGMs will not be used by large, public companies in the near future, they might still be a viable option for smaller companies. The example of Inforte has illustrated that it is possible to hold an AGM entirely by electronic means. Market pressure will regulate the utilization of virtual meetings. For example, if a large company like UBS would choose to conduct a virtual AGM in 2006, it would face significant shareholder opposition to this plan. Hence, the current legal restraints do not add much value and are even to the disadvantage of some smaller companies that might want to utilize virtual shareholder meetings. In addition, technological developments in the future might make the experience of a virtual meeting very similar to the experience of a traditional face-to-face meeting. Again, one also needs to draw a comparison to other countries in order to better understand where Switzerland and Germany currently stand. As presented earlier, several locations have more flexible company laws than Switzerland and Germany with regard to virtual meetings and there is no sound reason why these two countries should not provide their companies and shareholders with the same possibilities as Delaware, Minnesota, Massachusetts, or Texas.

6.6 Modification of Swiss CG Code to Include Online Participation in AGMs

In conjunction with reforming its stock corporation law, Switzerland should also modify its corporate governance code. The current code by Economiesuisse (2002) does not cover the topic of online shareholder participation in AGMs. The research results have shown that several corporate governance codes already deal with this issue, and it seems important that the Swiss code should contain recommendations regarding this issue if it aims to encourage Swiss companies to offer their shareholders the possibility of participating online in AGMs. Taking Germany as an example, the German corporate governance code tries to encourage

companies to offer AGM-Webcasts and online proxy voting and, as the research results have shown, almost all DAX30 companies now offer these services to their shareholders. An example of how a section dealing with online shareholder participation could be worded is given in chapter 4 under research question 9.

The wording of the German corporate governance code could be more precise since it does not explicitly mention Internet proxy voting or online shareholder meetings. However, one also needs to see that almost all DAX30 companies offer online participation to their shareholders and, as a result, the German code has largely achieved its purpose in this area even though it is phrased somewhat fuzzily.

6.7 Improvement of SMI Companies' AGM-Related Communication with Owners

Several SMI companies need to increase their transparency by improving their AGM-related communication with owners. These companies should provide a standard set of information to their shareholders on their Websites. This standard information should include: (1) AGM-minutes, (2) Voting results, (3) Presence, (4) Invitation with voting proposals, (5) Shareholders' counter-proposals, and (6) Video copy of the whole AGM. Providing this standard set of information about AGMs would bring SMI companies up to the level of their American, British, and German competitors.

6.8 Provision of a Full AGM Internet Service by the Largest Swiss and German Companies

The largest Swiss and German companies should aim to offer their shareholders a state-of-the-art online service and Deutsche Telekom, Allianz, and Munich Re can serve as good examples for how to do this. For example, Deutsche Telekom offers the following online services to its shareholders: (1) Invitations to the general meeting by e-mail, (2) Annual report by e-mail, (3) Online access to shareholders' personal information and possibility of changing it, (4) Online sign-up for general-meeting documents sent by e-mail or regular mail, (5) Online ordering of general-meeting tickets, (6) Online proxy voting (closes on the day of the general meeting after the discussion), (7) Webcast of the whole general meeting, (8) Publication of shareholders' counter-proposals on the company's Website, and (9) Possibility

of voting on motions regarding the procedure during the general meeting or other motions not announced prior to the meeting. Such services give owners – especially foreign ones – more flexibility to participate in AGMs and the associated costs are reasonable for larger companies. In addition, an AGM online service not only increases flexibility but also fairness towards all shareholders since everyone, regardless of location, can more conveniently participate in the AGM (at least as long as the company has registered shares). Over the longer term, if a sufficient number of shareholders can be encouraged to utilize the online service, AGM-related costs might be reduced and AGM-presence increased. Furthermore, such a service is more environmentally friendly than sending all information in paper-based form via regular mail. For example, in the case of a company like DaimlerChrysler, literally truck loads of paper need to be sent out to shareholders when the time of the AGM comes around each year. This mountain of paper could be reduced if more AGM-related information was provided by electronic means.

6.9 Implementation of Online AGM Service together with an Experienced Service Provider

Companies that decide to implement an online service for shareholders, including AGM-Webcasts and Internet proxy voting, should generally outsource this task to an experienced service provider since this is usually the simplest and cheapest solution. The research has revealed that very few companies develop their online services by themselves. A notable exception is Deutsche Telekom, but this company has the required expertise in-house due to the nature of its business. Allianz and DaimlerChrysler, on the other hand, are two companies that offer quite extensive online services to their shareholders but work together with external service providers. In chapter 4 under research question 5, several examples are given of online AGM systems that are currently available. A good approach is to establish an in-house task force that is responsible for selecting a service provider and for getting the service up and running. It is certainly also important that company leadership supports the idea of providing an online service for the AGM and clearly establishes who is responsible for this area of the shareholder meeting.

The research results have revealed that if a company decides to implement an online AGM service for its shareholders, then it should pay close attention to the following key implementation issues: (1) The Internet service has to be user-friendly, (2) A clear and

offensive communication that Internet proxy voting is available, (3) A clear communication of the system's benefits for shareholders, (4) An easy navigation to Internet proxy voting from the company's Website, (5) A telephone hotline for users of the service, (6) High security and reliability of the system, and (7) Incentives that motivate shareholders to use the system. The last point can be particularly important for encouraging a high number of shareholders to use the online service. Allianz, for example, was quite successful at this by offering a sweepstake where online participants had the chance to win shares in a mutual fund.

7. Conclusion

Currently, average AGM-presence at the largest, publicly listed Swiss and German companies is only between 46-47%, which is low compared to an average AGM-presence of 80% in the USA. Furthermore, at numerous SMI and DAX30 companies, AGM-presence is less than 30%, which means that a relatively small equity stake can already be enough to dominate decision-making in the shareholder meeting. Looking at the current situation in Germany, this seems to be a relevant concern since hedge funds have become more active. If an investor has a long-term business orientation, then the current situation might be unproblematic, but as soon as an investor is more interested in maximizing short-term gains, the company in question might suffer over the long run. Hence, in order to encourage more shareholders to participate in AGMs and exercise their voting rights, large, public companies should offer at least Internet proxy voting and AGM-Webcasts to their owners. Certainly, this is only a first step towards raising AGM-presence in Switzerland and Germany but it is a necessary one. A second crucial step is to get institutional investors to exercise their voting rights more frequently. This issue will be discussed in the following section covering suggestions for future research. Here, it should suffice to mention the comment of an analyst at Ethos Investment Foundation who said that his company wants to be active in AGMs and exercise its voting rights, but it would be easier to do so if the option of online participation existed in Switzerland.

The research results have made clear that, so far, DAX30 companies have not been able to raise their AGM-presence significantly by offering online shareholder services, but this situation may improve in the future. The survey results by Cocca and Volkart (2004) and Schieber (2002) point in this direction. In addition, one also needs to see this issue from a perspective of fairness. Shareholders are the owners of a company and should have the flexibility to participate in AGMs regardless of their locations or time constraints. Participating in general meetings is currently problematic for some international investors since they do not receive AGM-related information at all or only too late. Additionally, after large-scale corporate scandals like Enron, WorldCom, HealthSouth, and Parmalat, investors are increasingly paying attention to companies' quality of corporate governance. Given that corporate governance plays a role in investors' investment decisions, companies might improve their profile by offering shareholders the opportunity to exercise their votes online and to follow the general meeting over the Internet. For example, the DVFA (i.e. German

Association of Financial Analysts) evaluates companies' quality of corporate governance based on seven broad categories (DVFA, 2003): (1) Corporate governance commitment (10%), (2) Shareholders and general meeting (12%), (3) Work relationship between management and board (15%), (4) Management (10%), (5) Board of directors (15%), (6) Transparency (20%), and (7) Accounting and Auditing (18%). Within the category called "Shareholders and general meeting", 30% of the score for this category is based on the possibility of voting online and the possibility of following the general meeting via the Internet.

With a view to the future, giving shareholders more flexible options to follow and influence AGMs can help to counter current shareholder apathy to some degree, especially in combination with the circumstance that more people will need to save privately for their retirements and will potentially rely more on stocks for doing so. Over time, this might help to develop a stronger equity culture in Switzerland and Germany, which includes greater participation in AGMs and corporate governance by private investors.

The research has clearly shown that Switzerland has some catching up to do in the area of online shareholder participation in AGMs. Currently, not a single SMI company offers its owners in Switzerland the opportunity to exercise their voting rights online and very few offer AGM-Webcasts. The situation in Germany is more advanced than the one in Switzerland due to legal changes in the early 2000s and today, almost all DAX30 companies offer Internet proxy voting as well as AGM-Webcasts to their shareholders. Nonetheless, the situation in Germany can still be improved since too many companies do not keep online voting open until after the AGM-debate and do not webcast the whole AGM. This puts online participants at a disadvantage to participants in the physical meeting since they do not receive the same information on which they can base their voting decisions. Furthermore, in Switzerland and Germany, virtual meetings are currently not allowed and this situation should be changed to provide companies and shareholders with more flexibility. Large, publicly listed companies would most likely not utilize this option in the near future since they would face considerable technical problems as well as strong opposition from their shareholders. But, as the example of the company Inforte has shown, holding an AGM by electronic means is possible and can be an alternative for smaller companies. Virtual shareholder meetings are already possible in several locations around the world and by reforming their relevant laws, Switzerland and Germany could close the existing gap. This might be especially relevant for Switzerland

since it actively competes for the registration of companies – the city of Zug is a good example – and should therefore strive to at least keep up with international developments.

With a view to Switzerland, it is also necessary that several SMI companies improve their AGM-related communication with shareholders by providing a standard set of information about their general meetings. This can help these companies to attain the same level of transparency in this area as their German, American, or English competitors.

Overall, in contrast to Germany as well as some other countries, three crucial steps still need to be taken in Switzerland in order to make more effective shareholder participation in corporate governance possible: (1) Switzerland's laws and corporate governance code need to be reformed to clearly permit online participation by shareholders, (2) Swiss companies have to improve AGM-related communication with their shareholders, and (3) Swiss companies have to offer the online alternative to their shareholders.

7.1 Suggestions for Future Research

In addition to encouraging private investors in Switzerland and Germany to exercise their voting rights to a greater extent by offering them online shareholders meetings, it is also mandatory to get more institutional owners to exercise their votes. It can certainly be criticized that institutional investors like mutual funds do not always exercise their voting rights. After all, institutional investors are business owners through their equity holdings and should make sure that the companies they have invested in are run in the best interest of their clients. This demands the exercise of voting rights since it is a crucial way to influence the governance of firms. However, many institutional investors are so greatly diversified that they cannot vote the shares in all of their holdings. This cannot be a good sign because it means that these investors do not have the time and resources to adequately evaluate their investments. If they cannot even analyze the general meeting proposals submitted by management and the board, then how can they make an in-depth analysis of the whole company? The investor Warren Buffet has demonstrated over many decades that another, more focused investment approach is possible and his unrivaled track record since the 1950s speaks for itself. Moreover, good corporate governance is an important element of managing a company well and, hence, it should be part of the investment-evaluation process undertaken

by institutional investors. Not taking the quality of corporate governance into account can lead to bad surprises as in the cases of Tyco, Enron, Parmalat, WorldCom, and HealthSouth. As a consequence of these considerations, an important question is how to encourage more institutional investors to exercise their voting rights. In the US, institutional investors like CALPERS, have the fiduciary duty to exercise their voting rights in the best interest of their clients and to show how and why they exercised their votes in a certain manner. It could therefore be examined if the introduction of a law would make sense that obliges all institutional investors in Swiss and German companies to exercise their voting rights. With regard to Germany, an interesting issue is whether the introduction of the UMAG will lead to increased voting by institutional investors since the new law eliminates the share-blocking period before AGMs.

Furthermore, in the USA, institutional investors often outsource their research on proxies to external service providers like Institutional Shareholder Services (ISS) or Glass, Lewis & Co. These companies specialize in analyzing proxies and in making voting recommendations for AGMs. Companies like ISS and Glass, Lewis & Co. might also play a more important role in Switzerland and Germany in the future, and what impact they have had on corporate governance in the USA could be examined. Furthermore, in Germany, there are also the shareholder associations, namely DSW and SdK, who analyze voting proposals anyway because they attend many shareholder meetings and represent their members there. These non-profit organizations and ones similar to them in other countries might have a better grasp of local corporate governance issues and laws, and institutional investors could also rely on them for analyzing proxies and making voting recommendations. Hence, an interesting topic for future research could be to examine which role these shareholder associations have played in the past and which roles they could play in the future.

Concerning private as well as institutional investors, the offering of an attendance premium might be one potential tool that could help to motivate more investors to exercise their voting rights. Two companies that have offered such attendance premiums to shareholders that exercise their voting rights in AGMs (either personally or via a proxy) are Endesa and Repsol. In the past, both companies paid €0.02 per share to shareholders that had exercised their voting rights in AGMs. It would be interesting to research which other companies have paid attendance premiums in the past and what experiences they have made with this tool.

In general, related to this point, it would also be meaningful to investigate which other tools companies have used to encourage more shareholders to exercise their voting rights and which ones have been the most effective ones in reducing shareholder apathy. Regarding shareholder apathy, it would certainly be worthwhile to research whether one finds a high degree of shareholder apathy across many different countries or if there are exceptions. If there are exceptions, one could try to find out why this is the case and which factors contributed to the development of an equity culture with high shareholder participation.

One might also have to think about how (supervisory) board members are elected in AGMs. One reform proposal that has been advanced by the SdK in Germany is to give shareholders a certain number of votes based on the size of their shareholdings and each vote can only be used once. This would make it easier for smaller shareholders to exert more influence by combining their votes and might help to reduce shareholder apathy over time. For example, assuming that 11 (supervisory) board members need to be elected and that one large owner has 100 shares and 100 votes, which equal 51% of all outstanding shares and votes, then this large owner can use each one of his/her 100 votes only once. For instance, he/she could use 100 votes to back one candidate or back 10 candidates with 10 votes each. If the only other participants in the AGM are private investors that combine their votes to achieve 10 votes, then they could at least get one of their representatives elected to the board. There are multiple options, but the gist of the matter is that such a reformed voting process could make it easier for smaller shareholders to get their representatives on the board since the larger shareholder cannot dominate each single vote with his/her majority. Moreover, such a voting process might make it easier for smaller shareholders to attract high-quality candidates as their representatives because they would now have a higher chance of being elected to the (supervisory) board.

Overall, as the discussion above illustrates, there are many highly interesting and relevant issues relating to AGM participation and shareholder apathy that can be examined in the future and that are of practical significance to companies. It has become clear during the course of the research for this dissertation that many companies are very interested in this topic because it has a direct impact on them. The high response rates to the company survey underline this point.

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Appendix A: Corporate Governance Codes

This appendix presents direct quotes from numerous corporate governance codes that cover electronic shareholder participation in general meetings and shareholder information via corporate Websites. It is a supplement to the table presented in section 4. **Results of the Research**. The parts of the quotes that deal directly with electronic shareholder participation in general meetings are underlined for easier identification.

AUSTRALIA:

“Principle 6: Respect the rights of shareholders

Respect the rights of shareholders and facilitate the effective exercise of those rights. This means that a company should empower its shareholders by:

- communicating effectively with them
- giving them ready access to balanced and understandable information about the company and corporate proposals
- making it easy for them to participate in general meetings.

How to achieve best practice

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

Commentary and guidance

Publishing the company’s policy on shareholder communication will help investors to access the information.

Electronic communication

Companies should consider how best to take advantage wherever practicable of new technologies that provide:

- greater opportunities for more effective communications with shareholders
- improved access for shareholders unable to be physically present at meetings.

See Box 6.1 for suggestions how to improve shareholder participation and enhance market awareness through electronic means.

Meetings

Consider how to use general meetings effectively to communicate with shareholders and allow reasonable opportunity for informed shareholder participation. The ASX Corporate Governance Council was asked to develop guidelines for improving shareholder participation through the design and content of notices and through the conduct of the meeting itself. These guidelines are in Attachment A. Note that they are guidelines only, not reporting requirements.

Communication with beneficial owners

Companies may wish to consider allowing beneficial owners to choose to receive shareholder materials directly; for example, by electronic means.

Box 6.1: Using electronic communications effectively

Use your website to complement the official release of material information to the market. This will enable broader access to company information by investors and stakeholders. For example:

- Place all relevant announcements made to the market, and related information (eg information provided to analysts or media during briefings), on your website after they have been released to ASX.
- Consider web-casting or tele-conferencing analyst or media briefings and general meetings, or posting a transcript or summary to the website.
- Place the full text of notices of meeting and explanatory material on the website (see Guideline 12 in Attachment A).
- Provide information about the last three years' press releases/announcements plus at least three years of financial data on the website.
- Use email to provide information updates to investors.

All substantial companies are strongly encouraged to have a website.

Website

Companies are encouraged, but not required, to maintain a company website, and to communicate with shareholders via electronic methods. If the company does not have a website it must make relevant information available to shareholders by other means; for example, a company may provide the information on request by email, facsimile or post.”

Source: ASX, 2003, pp.36-37.

“Guide to reporting on Principle 6

The following material should be included in the corporate governance section of the annual report:

- explanation of any departures from best practice recommendations 6.1 or 6.2.

The following material should be made publicly available, ideally by posting it to the company’s website in a clearly marked corporate governance section:

- a description of the arrangements the company has to promote communication with shareholders.”

Source: ASX, 2003, p.41.

“Guidelines for notices of meeting

... 4. Notices should encourage shareholders’ participation through the appointment of proxies. Accordingly:

4.1 The notice of meeting should include a clear reference to the shareholders’ rights to appoint a proxy.

4.2 Companies should consider allowing shareholders to lodge proxies electronically, subject to the adoption of satisfactory authentication procedures.

4.3 Companies should encourage shareholders appointing a proxy to consider how they wish to direct the proxy to vote. That is, whether the shareholder wishes the proxy to vote “for” or “against”, or abstain from voting on, each resolution, or whether to leave the decision to the appointed proxy after discussion at the meeting.

4.4 Proxy forms should be drafted in such a way as to ensure the shareholder clearly understands how the chairperson of the meeting intends to vote undirected proxies.

... 12. Companies should endeavour to send notices of meeting to shareholders by electronic means if requested, and should place the full text of notices and accompanying explanatory material on the company website. Companies should also consider distributing explanatory material by other means, so that shareholders who do not have access to the Internet and other forms of electronic communication are not disadvantaged.

12.1 Companies should encourage shareholders to request that notices of meeting be sent to them by electronic means on an “opt-in” basis. Shareholders must be able to change that election at any time, and have the right to request a paper version of a document that has been sent electronically.

12.2 Companies are required by the ASX Listing Rules to release full notice documentation to the ASX Companies Announcements Office.

12.3 In addition, companies should place this material on their website in a prominent and accessible position for shareholders and other market participants who may be considering an investment in the company, or should refer to the ability to download the notice from ASX’s website, www.asx.com.au.”

Source: ASX, 2003, p.65 and pp.68-69.

BELGIUM

“PRINCIPLE 8. THE COMPANY SHALL RESPECT THE RIGHTS OF ALL SHAREHOLDERS AND ENCOURAGE THEIR PARTICIPATION

Shareholders' information

8.1. The company should treat all shareholders equally. It should ensure that all necessary facilities and information to enable shareholders to exercise their rights are available.

Guideline: The company should enter into a dialogue with shareholders based on the mutual understanding of objectives and concerns.

8.2. The company should dedicate a specific section of its website to describing the shareholders' rights to participate and vote at the general shareholders' meeting. This section should also contain a timetable on periodic information and shareholders' meetings.

8.3. The articles of association and the CG Charter should be available at any time.

8.4. The company should disclose in its CG Charter its shareholding and control structure and any cross-shareholdings exceeding 5% of the shareholdings or voting rights, insofar as it is aware of them, and as soon as it has received the relevant information.

8.5. The company should disclose in its CG Charter the identity of its major shareholders, with a description of their voting rights and special control rights, and, if they act in concert, a description of the key elements of existing shareholders' agreements. The company should also disclose other direct and indirect relationships between the company and major shareholders.

Shareholders' meetings

8.6. The shareholders' meeting should be used to communicate with shareholders and to encourage their participation. Those shareholders who are not present should be able to vote in absentia, such as by proxy voting.

Guideline: The company could in this respect also take into account the specificities of the exercise of rights by non-resident shareholders. Within the given existing framework, the company should consider whether modern technology could offer solutions to some practical issues and whether an appropriate approach could be developed in this respect.

Guideline: Alone or together with other listed companies, the company should discuss with financial intermediaries methods of increasing participation at the general shareholders' meeting.

8.7. The company should make the relevant information accessible through electronic means in advance of general meetings.

... **8.11.** The company should post the results of votes and the minutes of the general meeting on its website as soon as possible after the meeting.”

Source: Belgian Corporate Governance Committee, 2004, pp.21-22.

CALPERS

“VOTING RIGHTS

Corporations' ordinary shares should feature one vote for each share. Corporations should act to ensure the owners' rights to vote. Fiduciary investors have a responsibility to vote. Regulators and law should facilitate voting rights and timely disclosure of the levels of voting.”

Source: CALPERS, 1999, p.6.

“*Access to the Vote*. The right and opportunity to vote at shareowner meetings hinges in part on the adequacy of the voting system. The ICGN believes that markets and companies can facilitate access to the ballot by following the ICGN's Global Share Voting Principle, adopted at the July 10, 1998 annual meeting in San Francisco. In particular, the ICGN supports initiatives to expand voting options to include the secure use of telecommunication and other electronic channels.”

Source: CALPERS, 1999, p.7.

CHINA

“(2) Rules for Shareholders' Meetings

5. A listed company shall set out convening and voting procedures for shareholders' meetings in its articles of association, including rules governing such matters as notification, registration, review of proposals, voting, counting of votes, announcement of voting results, formulation of resolutions, recording of minutes and signatories, public announcement, etc.

6. The board of directors shall earnestly study and arrange the agenda for a shareholders' meeting. During a shareholders' meeting, each item on the agenda shall be given a reasonable amount of time for discussion.

7. A listed company shall state in its articles of association the principles for the shareholders' meeting to grant authorization to the board of directors. The content of successful authorization shall be explicit and concrete.

8. Besides ensuring that shareholders' meetings proceed legally and effectively, a listed company shall make every effort, including fully utilizing modern information technology means, to increase the number of shareholders attending the shareholders' meetings. The time and location of the shareholders' meetings shall be set so as to allow the maximum number of shareholders to participate.

9. The shareholders can either be present at the shareholders' meetings in person or they may appoint a proxy to vote on their behalf, and both means of voting possess the same legal effect.”

Source: China Securities Regulatory Commission, 2001, p.2.

“Chapter 7. Information Disclosure and Transparency

...89. Disclosed information by a listed company shall be easily comprehensible. Companies shall ensure economical, convenient and speedy access to information through various means (such as the Internet).”

Source: China Securities Regulatory Commission, 2001, p.10.

CZECH REPUBLIC

“CHAPTER II. The Rights of Shareholders and Key Ownership Functions (new OECD)

... 4. Shareholders must be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

[Accompanying footnote] At the present time, the Commercial Code does not permit that the shareholders vote by means of distance communication, e.g. through electronic means of communication. With respect to the general meeting this is explicitly excluded in Section 66 (5) of the Commercial Code; however, this manner of voting is permitted for other bodies of the company.”

Source: Czech Securities Commission, 2004, p.10.

“Commentary on Chapter II.

3. ... Effective shareholder participation in general meetings could be improved through development of secure means of electronic communication. SEC will initiate amendment to the Commercial Code permitting distance voting by electronic means. In the EU Plan to Move Forward, the EC Commission recommends that shareholders of listed companies be provided with electronic facilities to access the relevant information in advance of general meetings (new EU).”

Source: Czech Securities Commission, 2004, p.11.

“CHAPTER V. Disclosure and Transparency

... E. Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users.

[Accompanying footnote] Electronic form of disclosure can be considered sufficient pursuant to the Act on Business Activities on the Capital Market – cf. e.g. Section 118, 119 or 125 of the Act on Business Activities on the Capital Market.”

Source: Czech Securities Commission, 2004, p.21.

GERMANY

“2.3 Invitation to the General Meeting, Proxies

2.3.1 At least once a year the shareholders' General Meeting is to be convened by the Management Board giving details of the agenda. A quorum of shareholders is entitled to demand the convening of a General Meeting and the extension of the agenda. The Management Board shall not only provide the reports and documents, including the Annual Report, required by law for the General Meeting, and send them to shareholders upon request, but shall also publish them on the company's Internet site together with the agenda.

2.3.2 The company shall inform all domestic and foreign shareholders, shareholders' associations and financial services providers, who, in the preceding 12 months, have requested such notification, of the convening of the General Meeting together with the convention documents, upon request, also using electronic channels.

2.3.3 The company shall facilitate the personal exercising of shareholders' voting rights. The company shall also assist the shareholders in the use of proxies. The Management Board shall arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions; this representative should also be reachable during the General Meeting.

2.3.4 The company should make it possible for shareholders to follow the General Meeting using modern communication media (e.g. Internet).”

Source: Government Commission German Corporate Governance Code (2005), 2005, pp.3-4.

“6. Transparency

... **6.4** The company shall use suitable communication media, such as the Internet, to inform shareholders and investors in a prompt and uniform manner.

... **6.8** Information on the enterprise which the company discloses shall also be accessible via the company's Internet site. The Internet site shall be clearly structured. Publications should also be in English.”

Source: Government Commission German Corporate Governance Code (2005), 2005, p.12.

HUNGARY

“2. Transparency and Disclosure

... For the sake of fast and effective disclosure, it is recommended that the company develop forms of electronic and Internet-based disclosure. The company’s own website could be designed to accommodate disclosure and to inform shareholders. The current recommendations suggest that the place of disclosure normally be the company’s website, complemented in certain cases (listed in the recommendations) by disclosure in the annual report.”

Source: Budapest Stock Exchange, 2004, p.32.

“1. Recommendations on Procedures Prior To Meetings

1.1 The call of the Shareholders’ Meeting, the disclosure of the documents to the agenda of the meeting shall take place in compliance with relevant laws and regulations, taking into consideration shareholders’ interests, in a way to ensure the ability for each shareholder to prepare for the meeting appropriately. It is recommended that the company provides access to the rules regarding the administration of the meetings and the exercise of the voting rights by its shareholders. If the company has a website, all relevant information is recommended to be also published there, for shareholders and other interested parties. Information about the meeting includes the document mentioned above; the Articles of Association; the official invitation to the meeting; the meeting’s agenda, including proposals and draft resolutions; passed resolutions and minutes of the meeting. The company shall send all relevant information about the meeting electronically to any shareholder who properly requested it (based on positive identification). It may be useful that the company website offer a forum for both shareholders and other interested parties to facilitate communication among them, and between them and the Company.

... **1.6** To ensure that the meeting is conducted in a timely and adequate manner, the Company shall make necessary preparations for the voting, making sure that the decisions to be made by shareholders are defined clearly and unambiguously. If the Board of Directors expects the number of participating shareholders to exceed 25, the Company should consider the option of electronic voting whose integrity and reliability the Board of Directors is responsible for.”

Source: Budapest Stock Exchange, 2004, pp.46-47.

ICGN

“3. VOTING RIGHTS

Corporations’ ordinary shares should feature one vote for each share. Corporations should act to ensure the owners’ rights to vote. Fiduciary investors have a responsibility to vote. Regulators and law should facilitate voting rights and timely disclosure of the levels of voting.”

Source: International Corporate Governance Network, 1999, p.3.

“*Access to the Vote.* The right and opportunity to vote at shareholder meetings hinges in part on the adequacy of the voting system. The ICGN believes that markets and companies can facilitate access to the ballot by following the ICGN’s Global Share Voting Principles, adopted at the July 10, 1998 annual meeting in San Francisco. In particular, the ICGN supports initiatives to expand voting options to include the secure use of telecommunication and other electronic channels.”

Source: International Corporate Governance Network, 1999, p.6.

ITALY

“6.4 Shareholders’ Meetings

The corporate governance report may usefully sum up rules applicable to participation in shareholders’ meetings and proxies. Companies opting for a two-section presentation along the lines indicated in Section 4 above shall provide this information in Section One. Companies shall also, where applicable, provide information as to measures taken to facilitate the broadest possible participation of shareholders in shareholders’ meetings (mail-in voting, on-line voting, AV links).”

Source: Associazione fra le società italiane per azioni, 2004, p.117.

LITHUANIA

“Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

... **6.5.** It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. [Accompanying footnote: The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).] It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarise with the information, wherever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.

6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.”

Source: National Stock Exchange of Lithuania, 2004, pp.5-6.

NEW ZEALAND

“8. SHAREHOLDER RELATIONS

Principle

The board should foster constructive relationships with shareholders that encourage them to engage with the entity.

Guidelines

... **8.2** Publicly owned entities should maintain an up-to-date website, providing:

- a comprehensive description of its business and structure;
- a commentary on goals, strategies and performance; and
- key corporate governance documents;
- all information released to the stock exchange (for listed entities), including reports to shareholders.

8.3 Publicly owned entities should encourage shareholders to take part in annual and special meetings by holding these in locations and at times that are convenient to shareholders ...

Securities Commission view

Shareholders are the ultimate owners of entities. In general, company shareholders have a right to vote on certain issues affecting the control and direction of their company. In this document we have used the term shareholders broadly to include people with an ownership interest in non-company entities where they have a similar right to vote on entity issues. The rationale for good shareholder relations applies equally whatever the legal form of the entity.

As owners of their entities, shareholders have important rights and functions in corporate governance. Certain matters are reserved for shareholder approval. Boards can take steps to facilitate appropriate shareholder involvement in such meetings and decisions. Entities will be better placed to attract the capital and support they need, and to demonstrate real accountability, if relations between entities and their shareholders are cooperative and mutually responsive.

Good governance requires structures and behaviour that promote good relations through effective communications between entities and their shareholders. Publicly owned entities in particular can enhance this relationship by having a policy for communicating with

shareholders and for encouraging appropriate shareholder participation. Steps that can be taken include:

- allocating time and resources to providing clear, plain language explanations of performance, strategies and goals, and identified material risks in the annual and (for listed entities) half yearly reports;
- maintaining websites that have comprehensive up-to-date information on their operations and structures, and an archive of corporate governance documents, shareholder reports, and past announcements and performance data;
- increasing the use of electronic technologies to make information more accessible to shareholders and others, including (where requested) email for distribution of shareholder documents and for responding to questions;
- holding shareholder meetings in locations and at times that are convenient to shareholders, and if appropriate in view of the number and location of shareholders, encouraging participation by teleconference or web cast.
- clearly setting out resolutions for shareholder decision, and encouraging informed use of proxies; and
- providing ready access to auditors for shareholder questions at annual and special meetings.”

Source: Securities Commission New Zealand, 2004a, pp.22-23 and Securities Commission New Zealand, 2004b, p.32.

NORWAY

“6. General meetings

... Participation by shareholders in absentia

The Public Companies Act allows shareholders to appoint a proxy by electronic means so long as a satisfactory method is used to authenticate the sender. However, legislation does not currently permit shareholders to participate in or vote at a meeting by electronic means. Companies should be ready to make arrangements for electronic voting if there is a change in legislation to permit this.

... The Public Companies Act requires that the minutes of general meetings must be made available for inspection by shareholders at the company's offices. These minutes should also be made available on the company's web site.”

Source: Norwegian Shareholders Association et al., 2004, pp.18-19.

“12. Information and communications

The board of directors should establish guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.

The company should publish an overview each year of the dates for major events such as its annual general meeting, publication of interim reports, public presentations, dividend payment date if appropriate etc.

All information distributed to the company's shareholders should be published on the company's web site at the same time as it is sent to shareholders.

The board of directors should establish guidelines for the company's contact with shareholders other than through general meetings.”

Source: Norwegian Shareholders Association et al., 2004, p.38.

SLOVAKIA

“ANNOTATIONS

PRINCIPLE 2

The Company should protect shareholders’ rights.

... 2.10 The right to vote in person or by proxy; equal effect should be given to votes whether cast in person or by proxy.

In order to attract foreign portfolio investors companies should make every effort to enable shareholders to participate through means which make use of modern technology. Effective participation of shareholders in general meetings can be enhanced by developing secure electronic means of communication and allowing shareholders to communicate with each other without having to comply with the formalities of proxy solicitation. Pending the introduction of the new law on electronic signature and required amendments to the Commercial Code, where all the shareholders of the company agree to allow voting by electronic means such method of voting should be permitted. As a matter of transparency, meeting procedures should ensure that votes are properly counted and recorded, and that a timely announcement of the outcome be made.”

Source: Bratislava Stock Exchange, 2002, pp.22-23.

SLOVENIA

“1.2. General Meeting of Shareholders

... 1.2.4. When convening a General Meeting, the Management Board shall ensure proper information dissemination and effective execution of shareholders' rights using information technology. The company should make it possible for shareholders to follow a General Meeting using modern technology.

... 1.2.6. The company shall announce the convening of a General Meeting of Shareholders, with information on proposed resolutions, the conditions for registration and with additional background materials, by publishing these documents on the company's web site.”

Source: Ljubljana Stock Exchange, Association of Supervisory Board Members of Slovenia, and Managers' Association of Slovenia, 2004, p.3.

“7.4. Company's official Web-site

7.4.1. The company shall provide for clearly structured web site in Slovene as well as in English. The company's website shall contain all essential information about the company and its operations, such as:

- financial calendar;
- financial data for the current year and previous years;
- the current annual report and archives of annual reports of previous years of operation,
- statement of the company's strategy;
- statement of the company's environmental and social policies,
- information on convening of a General Meeting of Shareholders,
- information following each General Meeting of Shareholders, including approved decisions and voting results,
- other ad-hoc/price sensitive information,
- introduction of members of the Management and Supervisory Board and background information on each member's professional experience and their mandates in other companies,
- share ownership structure of the company and possible cross-shareholdings,
- presentation of company's sphere of activities,
- news and archives of these news,
- history of the company,

- presentation of group companies,
- corporate governance standards, declaration of compliance with the Code and disclosure and explanation of any discrepancies from the Code.

7.4.2. The website shall also offer the consolidated version of the company's Articles of Association.

7.4.3. Price sensitive information can only be published on company's web-site at the same time or after it was publicly announced in accordance to the law (in a daily newspaper, which is distributed throughout the entire territory of the Republic of Slovenia, or in electronic format, published on the Ljubljana Stock Exchange system for electronic information dissemination. (SEOnet)).”

Source: Ljubljana Stock Exchange, Association of Supervisory Board Members of Slovenia, and Managers' Association of Slovenia, 2004, p.18.

SOUTH AFRICA

“RECOMMENDATIONS REQUIRING STATUTORY AMENDMENT AND OTHER ACTIONS

... It should be noted that these recommendations were identified in the course of the detailed review culminating in the King Report on Corporate Governance for South Africa 2002 and accompanying Code, but which fall outside of the remit of the King Committee. The recommendations, therefore, are offered for consideration. To the extent that any of these recommendations are accepted, the precise construction for their implementation will be a matter for the relevant bodies and/or authorities to determine and is beyond the discretion of the King Committee to prescribe. The King Committee will naturally, as it did with the King Report 1994, monitor and (where requested) participate in the development for implementation of any of these recommendations.

... 8. Given the move towards a greater application of information technology to speed up communication and transmission of information, the Companies Act should be reviewed to identify areas where electronic communication would improve governance and communication between companies and their shareowners. A particular area for consideration, in line with developing international practice, is electronic voting by shareowners and the electronic transmission of proxies. [Accompanying footnote] The Companies Amendment Act (No. 35 of 2001) has introduced provisions permitting electronic communication in certain limited respects, on dates to still be promulgated, including the dissemination of annual reports and financial statements. Specific legislation dealing broadly with electronic communication is being progressed by the authorities arising out of the proposals of the Green Paper released for public comment in 2001.”

Source: King Committee on Corporate Governance, 2002, pp.41-42.

SOUTH KOREA

“I. Shareholders

- **Shareholder rights shall be protected, and shareholders shall be able to exercise their rights through proper procedure.**
- **Shareholders shall be treated equitably under the principle of shareholder equality.**
- **Controlling shareholders have the corresponding responsibilities when they exercise any influence toward the corporate management other than the exercise of voting rights.**

... 1.3 Resolutions from the general shareholder meeting shall be made through transparent and fair proceedings. Also, shareholders shall receive sufficient prior notice including the time, location and agenda of the meeting; such time and location shall be set so as to allow maximum number of shareholder participation.

Information shall be provided to shareholders so that sufficient review of the agenda may be made prior to the general shareholder meeting. Previously, the amount and distribution method of information provided to shareholders was limited due to the burden placed on the corporation. It is, however, now possible for corporations to provide large amounts of information at minimal cost through the internet and other electronic communication means; therefore sufficient information on the meeting’s agenda shall be provided to the shareholders. Also, the time and location of the meeting shall be set such that shareholder attendance can be facilitated. Most notably, the number of minority shareholders holding shares of several different corporations has recently been on the rise; therefore, holding general shareholder meetings at different times would be judicious to maximize minority shareholder attendance.

... 1.5 Shareholders shall be able to exercise their voting rights, either directly or indirectly, in the simplest manner possible.

The exercise of voting rights, either through direct or indirect means, has the following two implications: The first regards the exercise of one’s voting right; the shareholder may exercise his voting right by participating, in person, in the general shareholder meeting, or he may exercise his voting right indirectly through a proxy. The second regards the means of exercising the voting right; the shareholder may participate in the general shareholder meeting

and exercise his voting rights or may exercise his voting right through a ballot that is of written or electronic means.

In light of the considerable development in electronic communication means and the growing trend of foreign and minority shareholders, highly desired is that corporations vary the voting methods to facilitate the exercise of voting rights by shareholders.”

Source: Committee on Corporate Governance, 1999, pp.7-8.

SPAIN

“2.- The duty to disclose.

... 2. 2.- *The instruments of disclosure on corporate governance.*

To this end, the Commission recommends, firstly, that the provisions on corporate governance at each company (principles of action of the directors, definition of their duties, functions and incompatibilities, rules of working of the Board of Directors and Shareholders' Meeting) be combined into a single text to be published for the general knowledge of shareholders and investors. In any event, all the relevant information on this matter should be consolidated periodically into a special document which could be called "annual report on corporate governance" and kept up to date via the Internet so as to facilitate dissemination of that information or any other information of relevance so that the market can assess each company's guidelines and practices in the area of corporate governance.

... b) The company's website.

In order to comply with the disclosure duty, the mechanisms which the information society places at companies' disposal – namely the Internet – should be used appropriately and regularly. The Internet should gradually and effectively replace more traditional disclosure mechanisms while ensuring that the information is disseminated more widely and effectively.

Every listed company should have a website through which it informs its shareholders, investors and the market in general about economic events and any other significant events that take place in connection with the company, as well as enabling shareholders to exercise their right to information and any other shareholder rights.

In particular, the corporate website should enable shareholders to propose alternative motions to those on the agenda and to make requests for information, and the company should, by the same avenue, make those proposals known to the other shareholders sufficiently in advance of the time when, if appropriate, they must be laid before the Shareholders' Meeting.

In any event, it is the duty of the Board of Directors to establish the standard content of the information to be disclosed, which must comprise at least the following:

- i. Company Bylaws.
- ii. Regulation of the Shareholders' Meeting and the Board of Directors and any other rules of corporate governance.
- iii. Quarterly reports for the current year and annual reports for the last two years, plus the external auditors' reports.
- iv. Composition of the Board of Directors and of its Commissions.
- v. Identification of the shareholders with stable holdings, both direct and indirect, and their representation on the board, and any pacts between shareholders that have been disclosed to the company or the market in any way.
- vi. Direct or indirect shareholdings owned by the members of the Board, which they must notify to the company within at most 48 hours. The company must also disclose treasury stock and any significant variations in it.
- vii. Information contained in the presentations given to market players and to significant shareholders.
- viii. Notices of Shareholders' Meeting and the information contained in them, as referred to later.
- ix. Resolutions adopted at the most recent Shareholders' Meeting.”

Source: Special Commission to Foster Transparency and Security in the Markets and Listed Companies, 2003, pp.17-18.

“IV.- GOVERNING BODIES.

1.-Shareholders' Meeting.

... 1. 3. *Shareholders' Meeting Regulation.*

... The Shareholders' Meeting Regulation should be posted on the company's website, thereby disclosing to shareholders and investors the legal framework in which the Shareholders' Meetings will take place ...

... 1. 4. *Notice, agenda, motions and information to shareholders during the preparations for the Shareholders' Meeting.*

The notice of the meeting must be disclosed sufficiently in advance to enable shareholders to request and obtain complementary information about the agenda items or to give voting instructions.

Moreover, the text of all the motions, with sufficient information about their justification and advisability, should be made available in advance via the website.

Companies should facilitate the dissemination of any alternative motions regarding the items on the agenda of the Meeting in the terms stated in this Report about the duty of transparency.

... 1. 6. *Other measures.*

The aforementioned measures, which can be adopted via self-regulation, do not exclude others that also facilitate or ensure shareholders' representation and access to the Meeting, such as those aimed at extending the period of advance notice of the Meeting and at enabling shareholders, subject to the legitimisation requirements that are considered appropriate, to apply to include items in the agenda of the convened Meeting and propose alternative motions sufficiently in advance of the Shareholders' Meeting so that the Board can define its position about whether or not they should be included in the agenda to be published, stating the reasons for non-inclusion; or implement the necessary systems for an electronic calculation of the quorum, and the granting of proxies and voting by post or electronic means."

Source: Special Commission to Foster Transparency and Security in the Markets and Listed Companies, 2003, pp.27-29.

SWEDEN

“1 The Shareholders’ Meeting

Shareholders’ influence in the company is exercised at the shareholders’ meeting, which is the company’s highest decision-making body.

The shareholders’ meeting should be held at such a time and place that as high a percentage as possible of the total number of shares and votes can be represented at the meeting.

The shareholders’ meeting should be conducted in a manner that does not impede active participation on the part of those shareholders present in discussing and deciding the items listed on the meeting’s agenda.

1.1 Notice of Shareholders’ Meeting

1.1.1 At least six months before the annual general shareholders’ meeting, and as soon as the board of directors has decided to hold an extraordinary shareholders’ meeting, the company is to announce the time and location of the meeting. The information is to be posted to the company’s web site at the same time that it is announced.

1.1.2 The company on its web site is to provide timely information on the shareholders’ right to have a matter considered at the shareholders’ meeting, to whom such a request is to be made and by what time the request must reach the company in order to guarantee its inclusion in the notice of meeting and thus be discussed at the meeting.

Under the law, every shareholder has the right to have a matter considered at the general or extraordinary shareholders’ meeting if the shareholder submits a written request to the board within the time prescribed by law.

1.1.3 The company, in the notice of shareholders’ meeting, is to aim to give shareholders relevant, clear and intelligible information on the matters to be considered. The notice of meeting is to be posted on the company’s web site.

By law, the notice to attend the annual general shareholders' meeting is to be issued no sooner than six weeks and no later than four weeks before the meeting. The same rule applies to the notice to attend an extraordinary shareholders' meeting at which the question of changing the articles of association will be considered. For other extraordinary shareholders' meetings, the notice of meeting is, by law, to be issued no sooner than six weeks and no later than two weeks before the meeting. The notice of meeting is, by law, to include a proposed agenda for the meeting that clearly states the matters to be considered. The items on the agenda are to be numbered. Matters that are not customary are to be explained in detail.

1.1.4 If, before the shareholders' meeting, the company has obtained a statement from the Securities Council of importance to the company's shareholders concerning certain matters to be discussed at the meeting, this is to be made clear in the notice of meeting. The statement, or the principal contents of the statement, are to be posted on the company's web site.

1.1.5 The board's proposals on decisions to be taken at the shareholders' meeting are to be made available to shareholders at the company and posted on the company's web site as soon as possible, but at least two weeks before the meeting. Proposals for decisions put forward by shareholders are to be made available at the company and posted on the company's web site. The notice of meeting is to state that the proposals are posted on the company's web site or may be ordered without cost by the shareholder.

1.1.6 Shareholders are to be given the opportunity to register to attend the shareholders' meeting in several ways, including registration by e-mail.

1.2 Distance Participation in Shareholders' Meetings

1.2.1 Before each shareholders' meeting, the company is to provide shareholders with the option of following or participating in the meeting from another location in the country or abroad, with the help of modern communications technology, if it is warranted by the ownership structure and economically feasible.

... 1.5 Minutes of the Shareholders' Meeting

1.5.1 The minutes from the most recent annual general shareholders' meeting and any subsequent extraordinary shareholders' meeting are to be posted on the company's web site. If called for by the ownership structure, the minutes are also to be translated into a language other than Swedish. The minutes are to be sent free of charge to shareholders who request it."

Source: The Code Group, 2004, pp.21-24.

"4 Web Site Information on Shareholders' Meetings

Under the Code, in addition to keeping the information included in the corporate governance report current and accessible on the company's web site, the company is to post information related to its shareholders' meetings on its web site as described below.

4.1.1 The following information on a forthcoming shareholders' meeting is to be made available on the company's web site:

- under 1.1.1, the time and location of the next shareholders' meeting. Information on the annual general shareholders' meeting is to be provided at least six months before the meeting and in the event of an extraordinary shareholders' meeting, as soon as the board has decided to hold the meeting, and
- under 1.1.2, the shareholders' right to have a matter considered at the shareholders' meeting, to whom such a request is to be made and by what time the request must reach the company in order to guarantee its inclusion in the notice of meeting and thus be discussed at the meeting. This information is to be made available in good time before the meeting.

4.1.2 Before the shareholders' meeting the following documents are to be made available on the web site and at the same time, sent or made available to shareholders:

- under 1.1.3, the notice of shareholders' meeting,
- under 1.1.4 a statement from the Securities Council in its entirety or the principal content of the statement if the company obtains a statement of importance to the company's shareholders concerning certain matters to be considered at the shareholders' meeting, and

- under 1.1.5, proposals on decisions at the shareholders' meeting; proposals made by the board are to be made available as soon as possible before the meeting, but at least two weeks before the meeting.

4.1.3 The following information on the nomination committee and its work is to be made available on the company's web site:

- under 2.1.3, the names of the members of the nomination committee and, if they represent a particular owner, that owner's name and the latest date for shareholders to submit proposals to the nomination committee. This information is to be made available at least six months before the annual general shareholders' meeting.
- the nomination committee's proposals, which are to be made available no later than the date when the notice of shareholders' meeting is issued, specifying:
 - the chair and other members of the board,
 - the remuneration policy for board work, and
 - directors' fees, divided between the chair, other board members, and possible remuneration for committee work under 2.2.1,
 - auditors and audit fees under 2.4.1, and
 - the nomination committee's remuneration, if any, under 2.1.6,
- under 2.2.1 the following information on the nomination committee's recommendations for directors is to be made available no later than the date when the notice of shareholder's meeting is issued:
 - age, principal education and work experience,
 - duties in the company and principal duties in other companies and organisations,
 - holdings of shares and other financial instruments in the company,
 - material shareholdings and part-ownership in firms with which the company has business ties,
 - if the member is considered to be independent of the company and of senior management as well as of the company's major shareholders. For directors not considered to be independent, the reasons are to be stated,
 - on re-election, the year that the director was first elected to the board, and
 - other information that may be important to shareholders in assessing the proposed member's competence and independence.

- under 2.4.1 the following information on the auditor, or auditor in charge and audit firm of the auditor in charge, recommended by the nomination committee is to be issued no later than the date that the notice of shareholders' meeting is issued:
 - the audit services performed by the auditor or auditor in charge in other large companies,
 - the audit services provided to companies closely related to the company's major shareholders or the managing director,
 - on re-appointment, the year that the auditor was first appointed or became auditor in charge and the length of the audit firm's engagement, and
 - other information that may be important to shareholders in assessing the competence and independence of the auditor or auditor in charge and the audit firm of the auditor in charge.

4.1.4 The following information on the board's proposals is to be available on the web site:

- under 4.3.2 the following information on the policy for remuneration and other terms of employment for senior management proposed by the board is to be made available to shareholders no later than the proposal itself.
 - information and explanation of the principal terms for:
 - fixed versus variable remuneration,
 - other benefits,
 - pension,
 - notice of dismissal period, and
 - severance pay,
 - the layer of senior management to whom the policy applies, and
 - the procedures followed by the board in preparing executive remuneration matters.
- under 4.3.4, the board's proposal, if any, on share and share price related incentive schemes for the managing director and other senior executives, no later than the time that the proposal is made available to shareholders.

4.1.5 Under 1.5.1, the company is to make the minutes of the most recent annual general shareholders' meeting and any subsequent extraordinary meetings available on the web site."

Source: The Code Group, 2004, pp.53-56.

THE NETHERLANDS

“IV. The shareholders and general meeting of shareholders

IV.1 Powers Principle

Good corporate governance requires the fully-fledged participation of shareholders in the decision-making in the general meeting of shareholders. It is in the interest of the company that as many shareholders as possible take part in the decision-making in the general meeting of shareholders. The company shall, in so far as possible, give shareholders the opportunity to vote by proxy and to communicate with all other shareholders.”

Source: Corporate Governance Committee, 2003, p.25.

“Recommendations for the legislator and the accounting standards setters

... 8. To facilitate the principle under IV.1 the Committee recommends that Book 2 of the Civil Code should be amended in such a way that:

- a) shareholders can take part in a general meeting of shareholders and cast their vote at such a meeting by means of webcasting, videoconferencing or other means of telecommunication;
- b) shareholders have the possibility of casting their vote on resolutions at a general meeting of shareholders by means of e-voting;
- c) votes that are cast electronically at a general meeting of shareholders are treated as votes cast at the meeting;
- d) companies have the possibility of calling a general meeting of shareholders electronically (by e-mail or announcements on websites);

Within this context, the Committee has noted with interest the consultative document entitled 'Modern means of communication and the general meeting of shareholders' of the Ministry of Justice. The Committee endorses the proposal formulated in this document, which stipulates that the use of electronic facilities for participation in the general meeting of shareholders should be regulated by law in the near future.”

Source: Corporate Governance Committee, 2003, pp.64-65.

“ACCOUNT OF THE COMMITTEE’S WORK

... *Proxy voting*

... 51. The committee is concerned about the low level of shareholder participation in the decision-making at the general meeting of shareholders. The survey entitled “Aandeelhoudersvergaderingen in Nederland 1998 – 2002” (Shareholder Meetings in the Netherlands 1998-2002) commissioned by the Ministry of Finance showed that the average number of votes cast during the general meeting of shareholders of a Dutch listed company without depositary receipts averages 33% (with a large spread). The committee considers it a matter of great importance that the level of shareholder participation in the decision-making at the general meeting of shareholders be considerably increased in the coming years if the general meeting is to fulfil a credible role as a correcting mechanism for mismanagement and failing supervision. Proxy voting, so experience in the United Kingdom also shows, is an important instrument for achieving this. However, the committee has scrapped the best practice provisions on proxy voting in the definite code as it is for companies not possible to apply the provisions as long as national and European legislators have not legally facilitated proxy voting by shareholders.

52. As was evident from the aforementioned survey, the Stichting Communicatiekanaal Aandeelhouders plays only a limited role in the general meeting of shareholders. The average number of remote votes represents only 1.6 per cent of the total number of votes cast at the general meeting. The limited use so far of the proxy voting option – via the Stichting Communicatiekanaal Aandeelhouders – has partly to do with legal barriers, the stand-offish stance of many banks and the difficulties that Dutch listed companies have in determining who is entitled to cast a vote when the shares are held through a chain of intermediaries. The committee therefore calls upon the national and European legislators to prioritise the finalisation of the bill on proxy voting and electronic participation in the general meeting of shareholders as well as the finalisation of a European directive on cross-border shareholder voting. The committee appeals in particular to the banks and the listed companies to play a constructive part in moving this legislative process forward.”

Source: Corporate Governance Committee, 2003, p.58.

“TERMS OF REFERENCE OF THE CORPORATE GOVERNANCE COMMITTEE

... Subjects covered by the new committee's terms of reference

The 40 recommendations of the Peters Committee, as contained in the ‘Corporate Governance in the Netherlands Report; the Forty Recommendations’ report, form the point of departure for the activities of the Committee. These recommendations will be updated, clarified, tightened up and possibly supplemented, partly in the light of the present practice - and the legislation and regulations already in existence or shortly to be introduced - and partly in the light of international developments.

The following subjects must in any event be covered:

... • the actual exercise of the rights of shareholders and the functioning of the general meeting of shareholders (provision of information, rules governing the general meeting of shareholders, treatment of minority and majority shareholders, conflicts of interest, role and functioning of institutional investors, the manner and frequency of the provision of information to investors, remote voting and electronic voting); ...”

Source: Corporate Governance Committee, 2003, pp.68-69.

TURKEY

“SECTION I SHAREHOLDERS

In some countries, shareholders have the opportunity to vote without actually being present at the assemblies due to remote access which recent technological improvements have brought about (i.e. electronic voting). Such opportunities and facilities may also become available to shareholders in Turkey under the condition that new regulations are put into effect (i.e. Turkish Commercial Code).”

Source: Capital Markets Board of Turkey, 2003, p.11.

“2. Shareholders’ Right to Obtain and Evaluate Information

... 2.2. In order to broaden the scope of shareholders right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, must be updated on a regular basis in an electronic form.

3. The Right to Participate In the General Shareholder Meeting

... 3.2.1. In order to ensure attendance of maximum number of shareholders, announcement of invitation to the general shareholder meeting should be performed through all means of communication including electronic means, at least three weeks in advance in addition to the methods of invitation in the legislation.

... 3.2.3 Commencing from the date of announcement of invitation for the general shareholder meeting, financial statements and reports including the annual report; proposal for dividends; informative documents prepared for the agenda items of the general shareholder meeting, and all other related documents pertaining to the agenda items; final version of the articles of association; and in case an amendment in the articles of association is to be made amended version of the provision/provisions, together with the reasoning thereof should be made available to all shareholders for examination purposes in the most convenient places including at the headquarters or branches of the company and also in electronic form.

... 3.2.7. Prior to the meeting, form of proxies should be announced for those who will appoint a proxy for the meeting. These forms should also be open to use of shareholders in electronic media.

... 3.2.8. Voting procedure should be announced prior to the meeting and shareholders should be duly informed in electronic media.

... 3.4.10. The minutes of the meeting should be made available to the shareholders in writing or in electronic media at all times.”

Source: Capital Markets Board of Turkey, 2003, p.14-17.

“1.11. The company’s website should be actively used as a means of public disclosure.

1.11.1. The company’s website should be easily accessible.

1.11.2. The company’s website should also be made available in English for foreign investors.

1.11.3 Explanations displayed on the company’s website should not be considered as a substitute for disclosure of special events mandatory under the legislation.

1.11.4. The company should ensure that the information disclosed to the public is also available on its website which is configured and designed accordingly. The company should take all the necessary precautions in order to prevent any modifications on the information displayed on its website.

1.11.5 Significant information to be published on the company’s website mainly include trade register information; detailed information about the shareholder and management structure; detailed information about preferred shares; the final version of the company’s articles of association together with date and numbers of the trade register gazettes in which amendments are published; publicly disclosed material information; annual reports, periodical financial statements, prospectuses and circulars; agendas of the general shareholder meetings and list of participants and minutes of the general shareholder meeting; form for proxy voting at the general shareholder meeting and mandatory information forms prepared for proxy solicitation or tender offers and similar forms; minutes of the important board meetings which may affect value of capital market instruments and frequently asked questions including requests for information, queries and notifications and responses thereof.

1.11.6. The company’s website should emphasize the announcement of the planned general shareholder meeting, agenda items and informative documents thereof, other information,

documents and reports on the agenda items and information on methods of participation in the general shareholder meeting.

1.11.7. The company's web address should to be printed in the company's letterhead.

1.11.8. The criteria regarding the use of the company's website should be included in the company's information policy.”

Source: Capital Markets Board of Turkey, 2003, pp.29-30.

Appendix B: Information about AGM Service Providers

SLS HV-Management AG

Carl-Zeiss-Str. 6 / 8
85247 Schwabhausen
Germany
Tel: +49-8138-9306-10
Fax: +49-8138-9306-11
Homepage: www.slsag.de

ADEUS Aktienregister-Service-GmbH

Königinstraße 28
80802 München
Germany
Tel: +49-89-3800-3900
Fax: +49-89-3800-7602
Homepage: www.adeus.de

registrar services GmbH

Frankfurter Straße 84-90a
65760 Eschborn
Germany
Tel: +49-180-500-1852
Fax: +49-180-500-1853
Homepage: www.registrar-services.de

NIMBUS

Ziegelbrückstrasse 82
8866 Ziegelbrücke
Switzerland
Tel: +41-55-617-3737
Fax: +41-55-617-3738
Homepage: www.nimbus.de

Appendix C: Questionnaire for DAX30 Companies

1. Do you use the Internet for your general meeting (including the preparation and execution of the meeting; for examples please see below)? If your answer is no, please go to question 7.

For example: annual reports by e-mail, invitations to the general meeting by e-mail, online voting before/during the general meeting, online broadcast of the whole general meeting or just parts of it, etc.

2. What are the key advantages of using the Internet for your general meeting?

3. What are the key disadvantages of using the Internet for your general meeting?

4. Do you save money by using the Internet for your general meeting? Do you know approximately how much you save or don't save (in % or €)?

5. Do you plan to increase the use of the Internet for your general meeting in the future? If yes, in which areas?

6. Do you work with a partner company that helps you to use the Internet for your general meeting? With which one(s)?

→ Please go to question 9

7. Why are you not using the Internet for your general meeting?

8. Do you plan to use the Internet for your general meeting in the future? If yes, for which parts of the general meeting?

For example: annual reports by e-mail, invitations to the general meeting by e-mail, online voting before/during the general meeting, online broadcast of the whole general meeting or just parts of it, etc.

→ Please go to question 9

9. Is it important for you that a large number of shareholders exercise their voting rights in your general meeting? Why or why not? Is there a certain percentage of equity capital that you aim for in your general meetings?

10. Has the Internet helped you or Do you believe the Internet could help you to increase the number of shareholders that exercise their voting rights in your general meeting? If yes, do you know approximately by how much?

Appendix D: Questionnaire for SMI Companies

1. Do you use the Internet for your general meeting (including the preparation and execution of the meeting; for examples please see below)? If your answer is no, please go to question 7.

For example: annual reports by e-mail, invitations to the general meeting by e-mail, online voting before/during the general meeting, online broadcast of the whole general meeting or just parts of it, etc.

2. What are the key advantages of using the Internet for your general meeting?

3. What are the key disadvantages of using the Internet for your general meeting?

4. Do you save money by using the Internet for your general meeting? Do you know approximately how much you save or don't save (in % or CHF)?

5. Do you plan to increase the use of the Internet for your general meeting in the future? If yes, in which areas?

6. Do you work with a partner company that helps you to use the Internet for your general meeting? With which one(s)?

→ Please go to question 9

7. Why are you not using the Internet for your general meeting?

8. Do you plan to use the Internet for your general meeting in the future? If yes, for which parts of the general meeting?

For example: annual reports by e-mail, invitations to the general meeting by e-mail, online voting before/during the general meeting, online broadcast of the whole general meeting or just parts of it, etc.

→ Please go to question 9

9. Do you use other electronic tools for your general meeting? For example, electronic hand-held devices for voting during the meeting?

10. Is it important for you that a large number of shareholders exercise their voting rights in your general meeting? Why or why not? Is there a certain percentage of equity capital that you aim for in your general meeting?

11. Has the Internet helped you or Do you believe the Internet could help you to increase the number of shareholders that exercise their voting rights in your general meeting? Why or why not?

Appendix E: Questionnaires for Expert Interviews

Questionnaire for Mr. Licharz from Registrar Services (13.09.2005)

1. What do you see as the key implementation issues regarding the employment of the Internet for shareholder meetings?

2. Based on your experience, what are the € costs vs. € benefits of using the Internet for shareholder meetings? What is the ROI? What is the payback period? What is the potential percentage reduction in shareholder meeting costs? (Could you provide me with specific case studies?)

3. What is the current situation at large, public companies in Germany with regard to the utilization of the Internet for shareholder meetings? Which processes are currently conducted online?

4. Do you expect an increased utilization of the Internet for shareholder meetings in Germany in the future? Why?

5. Could there be further improvements in the current legal situation in Germany? E.g. should direct online voting and virtual meetings be allowed?

6. Based on your experience, what are the key benefits of employing the Internet for shareholder meetings?

7. Based on your experience, what are the key disadvantages of employing the Internet for shareholder meetings?

8. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general? E.g. via a chat room on companies' Websites.

9. What do you think for which firms a utilization of the Internet for shareholder meetings makes most sense?

10. Based on your experience, does the employment of the Internet increase shareholder participation in Germany? (Could you provide me with specific case studies?)

11. Do you have an opinion regarding the current state of the Swiss general meeting market?

Questionnaire for Mr. Dobrzewski from ADEUS (05.09.2005)

1. What do you see as the key implementation issues regarding the employment of the Internet for shareholder meetings?
2. Based on your experience, what are the € costs vs. € benefits of using the Internet for shareholder meetings? What is the ROI? What is the payback period? What is the potential percentage reduction in shareholder meeting costs? (Could you provide me with specific case studies?)
3. What is the current situation at large, public companies in Germany with regard to the utilization of the Internet for shareholder meetings? Which processes are currently conducted online?
4. Do you expect an increased utilization of the Internet for shareholder meetings in Germany in the future? Why?
5. Could there be further improvements in the current legal situation in Germany? E.g. should direct online voting and virtual meetings be allowed?
6. Based on your experience, what are the key benefits of employing the Internet for shareholder meetings?
7. Based on your experience, what are the key disadvantages of employing the Internet for shareholder meetings?
8. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general? E.g. via a chat room on companies' Websites.
9. What do you think for which firms a utilization of the Internet for shareholder meetings makes most sense?

10. Based on your experience, does the employment of the Internet increase shareholder participation in Germany? (Could you provide me with specific case studies?)

11. Do you have an opinion regarding the current state of the Swiss general meeting market?

Questionnaire for Mr. Balling from SLS HV-Management (15.09.2005)

1. What do you see as the key implementation issues regarding the employment of the Internet for shareholder meetings?
2. Based on your experience, what are the € costs vs. € benefits of using the Internet for shareholder meetings? What is the ROI? What is the payback period? What is the potential percentage reduction in shareholder meeting costs? (Could you provide me with specific case studies?)
3. What is the current situation at large, public companies in Germany with regard to the utilization of the Internet for shareholder meetings? Which processes are currently conducted online?
4. Do you expect an increased utilization of the Internet for shareholder meetings in Germany in the future? Why?
5. Could there be further improvements in the current legal situation in Germany? E.g. should direct online voting and virtual meetings be allowed?
6. Based on your experience, what are the key benefits of employing the Internet for shareholder meetings?
7. Based on your experience, what are the key disadvantages of employing the Internet for shareholder meetings?
8. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general? E.g. via a chat room on companies' Websites.
9. What do you think for which firms a utilization of the Internet for shareholder meetings makes most sense?

10. Based on your experience, does the employment of the Internet increase shareholder participation in Germany? (Could you provide me with specific case studies?)

11. Do you have an opinion regarding the current state of the Swiss general meeting market?

**Questionnaire for Mr. Mathys from Ethos Investment Foundation
(03.10.2005)**

1. What do you think the key benefits are of increased shareholder participation in general meetings? E.g. in Switzerland and Germany average participation at DAX30 and SMI firms is only around 46-47%.
2. Do you think Internet proxy voting could increase shareholder participation in general meetings? Do you exercise your voting rights electronically (e.g. via the Internet) in some general meetings?
3. What do you think the key advantages are of using the Internet for general meetings?
4. What do you think the key disadvantages are of using the Internet for general meetings?
5. What do you think would be the best alternative for online shareholder participation: (1) online voting, (2) physical meeting plus online broadcast of the meeting including the option to vote online, (3) virtual meeting (entirely over the Internet without any physical meeting), or (4) another option?
6. Do you think that holding a face-to-face general meeting is absolutely crucial or could a virtual meeting fulfill the same functions at some companies?
7. What do you think for which types of firms an employment of the Internet for general meetings makes most sense?
8. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general?
9. Besides the Internet, do you see any alternative ways in which shareholder participation in general meetings could be increased? Especially in Switzerland and Germany.
10. Do you think there are additional points that haven't been raised so far?

Questionnaire for Mr. Gassmann from NIMBUS (14.07.2005)

1. What is the current situation in Switzerland with regard to the electronization of shareholder meeting processes? Which processes are currently performed electronically? (Note: Electronic can mean via the Internet or any other electronic means)
2. Are you aware of the current legal situation in Switzerland concerning online voting and online/virtual shareholder meetings?
3. Do you expect further electronization in Switzerland in the future?
4. What do you see as the key benefits of electronization?
5. What do you see as the key disadvantages of electronization?
6. What do you think for which firms an electronization makes sense?
7. Do you believe a greater utilization of the Internet could help to increase shareholder participation in Switzerland?
8. Do you think increased shareholder participation via the Internet could increase the quality of corporate governance in Switzerland?
9. What do you see as the key implementation issues regarding the electronization of shareholder meeting processes?
10. Do you know what the CHF costs vs. CHF benefits are of electronization? Do you know what the ROI or payback period are?
11. Which experiences have your customers made with electronization? Do you have any specific examples?
12. Are there other important issues that haven't been raised so far?

Questionnaire for Dr. Helbig from DAI (28.07.2005)

1. What do you think the key benefits are of increased shareholder participation in general meetings at large, publicly listed companies (e.g. DAX30 firms)?
2. Do you think that increased utilization of the Internet could increase shareholder participation in general meetings?
3. What do you think the advantages and disadvantages are of using the Internet for general meetings?
4. What do you think would be the best alternative for online shareholder participation: (1) online voting before the general meeting, (2) physical meeting plus online broadcast of the meeting including the option to vote online, (3) virtual meeting (entirely over the Internet without any physical meeting), or (4) another option?
5. Do you think that holding a face-to-face general meeting is absolutely crucial or could a virtual meeting fulfill the same functions?
6. What do you think for which firms a utilization of the Internet for general meetings makes most sense?
7. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general?
8. Do you see any alternative ways – besides the Internet – how shareholder participation in general meetings could be increased?
9. Do you think there are additional points that haven't been raised so far?

Questionnaire for Mr. Bender from SdK (20.7.2005)

1. What do you think the key benefits are of increased shareholder participation in general meetings?
2. Do you think that increased utilization of the Internet could increase shareholder participation in general meetings?
3. What do you think the advantages and disadvantages are of using the Internet for general meetings?
4. What do you think would be the best alternative for online shareholder participation: (1) online voting before the general meeting, (2) physical meeting plus online broadcast of the meeting including the option to vote online, (3) virtual meeting (entirely over the Internet without any physical meeting), or (4) another option?
5. Do you think that holding a face-to-face general meeting is absolutely crucial or could a virtual meeting fulfill the same functions?
6. What do you think for which firms a utilization of the Internet for general meetings makes most sense?
7. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general?
8. Do you see any alternative ways in which shareholder participation in general meetings could be increased?
9. Do you think there are additional points that haven't been raised so far?

Questionnaire for Mrs. Keitel from SdK (14.07.2005)

1. What do you think the key benefits are of increased shareholder participation in general meetings?
2. Do you think that increased utilization of the Internet could increase shareholder participation in general meetings?
3. What do you think the advantages and disadvantages are of using the Internet for general meetings?
4. What do you think would be the best alternative for online shareholder participation: (1) online voting before the general meeting, (2) physical meeting plus online broadcast of the meeting including the option to vote online, (3) virtual meeting (entirely over the Internet without any physical meeting), or (4) another option?
5. Do you think that holding a face-to-face general meeting is absolutely crucial or could a virtual meeting fulfill the same functions?
6. What do you think for which firms a utilization of the Internet for general meetings makes most sense?
7. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general?
8. Do you see any alternative ways in which shareholder participation in general meetings could be increased?
9. Do you think there are additional points that haven't been raised so far?

Questionnaire for Mr. Grauwiler from Lonza (15.07.2005)

1. Do you use electronic processes for some/all part(s) of your general meeting (including the preparation and execution of the meeting)?
2. For which general-meeting processes do you use electronic processes? (Note: Electronic can mean via the Internet or via any other electronic means)
3. What are the key advantages of using electronic processes?
4. What are the key disadvantages of using electronic processes?
5. Do you know what the advantage/disadvantage of utilizing electronic processes is in CHF? Or, alternatively, how long it takes until the investment is earned back?
6. Do you plan to increase the use of electronic processes in the future?
7. Why do you plan/why don't you plan to increase the use of electronic processes?
8. What are the key implementation issues with regard to electronic processes?
9. Do you think increased shareholder participation in general meetings is desirable?
10. Would/does increased utilization of the Internet increase shareholder participation in your general meetings?
11. Do you see any alternative ways in which shareholder participation in general meetings could be increased via the Internet?
12. Do you think there are additional points that haven't been raised so far?

Questionnaire for Mr. Hechtfischer from DSW (11.07.2005)

1. What do you think the key benefits are of increased shareholder participation in general meetings?
2. Do you think that increased utilization of the Internet could increase shareholder participation in general meetings?
3. What do you think the advantages and disadvantages are of using the Internet for general meetings?
4. What do you think would be the best alternative for online shareholder participation: (1) online voting before the general meeting, (2) physical meeting plus online broadcast of the meeting including the option to vote online, (3) virtual meeting (entirely over the Internet without any physical meeting), or (4) another option?
5. Do you think that holding a face-to-face general meeting is absolutely crucial or could a virtual meeting fulfill the same functions?
6. What do you think for which firms a utilization of the Internet for general meetings makes most sense?
7. Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general?
8. Do you see any alternative ways in which shareholder participation in general meetings could be increased?
9. Do you think there are additional points that haven't been raised so far?

Questionnaire for Dr. Waibel from Lonza (21.06.05)

1. Do you think increased shareholder participation is desirable and would improve your company's corporate governance?
2. Do you think increased utilization of the Internet would increase shareholder participation in your general meetings and in other general meetings at large Swiss companies?
3. Do you think limiting voting power to a certain percentage of equity capital makes sense (i.e. via percentage and group clauses)?
4. Do you think small shareholders should have better means to organize themselves and combine their voting power? E.g. via a chat room on their companies' Websites.
5. Do you think a utilization of the Internet would increase the efficiency of the general meeting?
6. Do you think the current system of shareholder representation via banks is the best solution? E.g. CPAs could represent the votes of all non-represented shareholders or non-represented shares could be voted proportionally to votes cast for represented shares.
7. Would online participation by shareholders be an option for Lonza if Swiss law clearly allowed it?
8. What do you think would be the best alternative for online shareholder participation: (1) just online voting, (2) physical meeting plus online broadcast of meeting including the option to vote online, (3) virtual meeting (entirely over the Internet without any physical meeting), or (4) another option?
9. Do you think that holding a face-to-face general meeting is absolutely crucial or could a virtual meeting fulfill the same functions?

10. Do you see other ways in which shareholder participation could be increased in the future?

11. Do you know what percentage of equity capital participated in your last annual meeting?

Question Discussed with Ms. Hertel from Allianz (07.09.2005)

Do you think there are additional ways in which the Internet could be used to increase shareholder participation in general meetings and corporate governance in general? E.g. via a chat room on companies' Websites.

Appendix F: Voting Results at AGMs of DAX30 Companies

The following table presents the voting results at general meetings of DAX30 companies in 2005. It shows the average percentage of votes cast in favor of company leadership's proposals. This information is publicly available on the investor relations sections of the respective companies' Websites. The voting results demonstrate clearly that there are not many contentious decisions at AGMs of the largest, publicly listed companies in Germany. On average, a proposal supported by a company's leadership gets backed by 98% of cast votes. Hence, AGMs combine a democratic voting process with voting results that are usually seen in one-party states.

Company	Average percentage of votes in favor of leadership's proposals
Adidas-Salomon	99.27%
Allianz	99.69%
Altana	99.89%*
BASF	97.77%
Bayer	98.43%
BMW	99.52%
Commerzbank	99.79%
Continental	99.54%
DaimlerChrysler	98.00%
Deutsche Bank	98.63%
Deutsche Börse	79.55%
Deutsche Post	98.62%
Deutsche Telekom	99.78%
EON	98.58%
Fresenius	99.99%
Henkel	99.99%
HVB	99.32%
Infineon	98.66%
Linde	99.25%
Lufthansa	99.46%
MAN	97.65%
Metro	99.56%
Munich Re	99.48%
RWE	99.38%
SAP	99.36%
Siemens	98.39%
ThyssenKrupp	93.51%
VW	99.28%
TOTAL	98.23%

* Without voting on proposal 4 since not all shares were allowed to vote on this issue.

Appendix G: Voting Results at AGMs of SMI Companies

The following table presents the voting results at general meetings of SMI companies in 2005. Only the voting results for companies that publish this information on their Websites are presented here. In contrast to DAX30 companies in Germany, not many SMI companies publish AGM voting results on their Websites. Similar to the situation in Germany, the voting results indicate that there are not many contentious decisions at AGMs of the largest, publicly listed companies in Switzerland. On average, a proposal supported by a company's leadership gets backed by 94.54% of cast votes (98.68% without Unaxis).

Company	Average percentage of votes in favor of leadership's proposals
ABB	99.40%
Credit Suisse	96.68%
Novartis	98.10%
Roche	99.93%
Swisscom	99.91%
Swiss Re	98.49%
UBS	98.23%
Unaxis	65.60%
TOTAL with Unaxis	94.54%
TOTAL without Unaxis	98.68%

“Wahl-/Abstimmungsprotokoll der Generalversammlung vom 3. März 2005“ = voting results of the AGM of March 3, 2005; “Trakt.” = items to be voted on; “Präsenz” = presence; “Aktienstimmen” = voting shares; “Aktionäre” = shareholders; “Schriftlich/Offen” = in writing/open; “Ja” = yes; “Nein” = no; “Ungültig” = not valid; “Enthaltungen” = abstentions;

Appendix H: Teleconference Transcript of Inforte's AGM

INFORTE

ANNUAL MEETING TELECONFERENCE TRANSCRIPT APRIL 27, 2005



Inforte Corporation
Annual Meeting Teleconference
Moderator: Philip Bligh
April 27, 2005
10:30 a.m. EDT

OPERATOR: Good morning ladies and gentlemen and welcome to your Inforte <Company: Inforte Corporation; Ticker: INFT; URL: <http://www.inforte.com>> Annual Meeting Conference Call. At this time, all lines have been placed on a listen only mode for the duration of the conference. It is now my pleasure to introduce your host, Mr. Philip Bligh. Sir, you may begin.

PHILIP BLIGH, CHAIRMAN BOARD OF DIRECTORS, INFORTE: Good morning and welcome ladies and gentlemen. I hereby call to order the 2005 Annual Meeting of the stockholders in Inforte Corporation. My name is Philip Bligh, I'm the Chairman of the Board of Inforte and I will preside over the meeting. This meeting is being held on an electronic basis only, as described in the Notice of Stockholder's Meeting in the Proxy Statement of 2005 Annual Stockholder's Meeting. Stockholders have been given the opportunity to vote by mail, over the internet or by fax. For those stockholders who wish to vote during the meeting you may vote, prior to the close of voting, by faxing your completed form to (312) 332-9207; the fax number that is set forth in the proxy materials. Again, the fax number is (312) 332-9207 for those wishing to vote during the meeting. No voting via the internet will be permitted during the meeting itself.

I would like to introduce Mr. Nick Heyes, who is the Chief Financial Officer and Secretary of the company and will serve as the secretary for the meeting. Nick, will you please advise us concerning the calling of this meeting?

NICK HEYES, CHIEF FINANCIAL OFFICER AND SECRETARY, INFORTE: Mr. Chairman, I have here a list of the stockholders of the company as of close of business on March 14th, 2005, the record date for the meeting. I also have an Affidavit stating the notice of this meeting was duly mailed on March

31st, 2005 to stockholders of record on the record date. These will be preserved as part of the records of the company.

PHILIP BLIGH: Thank you Mr. Secretary. Will you please advise if we have a quorum?

NICK HEYES: Mr. Chairman, over 88% of the outstanding shares of common stock are represented by proxy or in person at the meeting. We therefore have a quorum.

PHILIP BLIGH: Mr. Ed Mason of Foley and Ladner LLP, the company's outside counsel, will serve as the inspector of the elections, having taken the oath required by Delaware law.

ED MASON, FOLEY & LADNER LLP: Mr. Chairman, here is my sworn Affidavit in which I have undertaken to execute my duties as inspector with strict impartiality and in accordance to the best of my ability.

PHILIP BLIGH: Thank you. Your oath will be preserved as part of the records of the company. Let's proceed with proposal one, which is the election of directors to the Board of Directors. The nominees for the two class II directors are Al Ries and Stephen Mack. The class II directors are scheduled to serve a three year term expiring upon the 2008 Annual Meeting of stockholders. The nominating committee of the Board of Directors has nominated Messrs. Ries and Mack, both of whom are current directors to stand for re-election. I would like to say a few words concerning each of them and their nominations.

Al Ries, a director of Inforte since February 2000, is Chairperson of Ries and Ries, an Atlanta based strategic consulting firm which he co-founded in 1994. Prior to 1994, Mr. Ries was a principal in Trout & Ries, a marketing strategy firm. Mr. Ries has extensive experience in marketing, having been in the field for more than 50 years. He has authored or co-authored a number of popular books on marketing strategies, including "Positioning: The Battlefield Mind;" "Marketing Warfare;" "Focus: The Future of your Company Depends on It;" "The 22 Unusual Laws of Branding;" "The 11 Usable Laws of Internet Branding;" and "The Origin of Brands."

Stephen Mack joined Inforte in October 1994 and has served as a director since that time. Mr. Mack served as

Inforte's Chief Operating Officer and President from October 1994 to November 2003. Before joining Inforte, from February 1988 to October 1994 Mr. Mack worked at Accenture where he was most recently a project manager responsible for the design and implementation of enterprise wide operational and decision support systems for large, multi-national corporations. Mr. Mack holds a Masters degree in Engineering and Management from the University of Birmingham, England.

The company believes that the abilities of Messrs. Ries and Mack in the areas, among others, of marketing, operations and strategy as well as their contributions in terms of their overall judgment and experience will greatly benefit the company. For these reasons, your Board requests the support of Messrs. Ries and Mack and recommends that each of them be elected as company's class II directors. As other stockholders did not submit any other nominations for any class II directors in accordance with the advance procedures in the company's Charter, the nominations for class II directors are now closed.

Let's proceed with proposal II, the ratification of the company's independent certified public accountant. The Audit Committee of the Board of Directors has selected Grant Thornton LLP to serve as the accountants for the company for the current fiscal year, ending December 31, 2005 subject to the approval of the company's shareholders.

I suggest that we move on now to the voting. If there are any stockholders of record who have not voted and would like to do so at this time, or if you have voted by proxy and would like to change your vote, please fax your completed proxy form to (312) 332-9207. The polls will remain open for a few more minutes.

While the inspector of election is compiling and tabulating the votes, I would like to introduce Inforte's CEO and President, Dave Sutton, to respond to questions that have been posted by the internet by stockholders on matters unrelated to the proposals before the meeting.

DAVE SUTTON, CHIEF EXECUTIVE OFFICE AND PRESIDENT, INFORTE: Thank you Mr. Chairman. We have received three questions which I will be addressing on this call. The first question: Explain what business and customer intelligence mean to the Global 1000 companies that are your clients, how will your consulting engagements in this space translate into shareholder value? Answer: In general, we believe that Global 1000 businesses are going through a transition from an era of capturing significant quantities of data about their customers and transactions to an era where analyzing and leveraging this information to make better decisions about running their business in a more optimal and profitable way will be the standard practice. This period of

transition offers new opportunities for Inforte to leverage our rich heritage for implementing enterprise class solutions like CRM for our clients. We developed many of the same transaction systems that have been collecting all of this customer and business data and now businesses are needing assistance in gleaning insight and intelligence from this data such that they can make more fact-based decisions about how to market, sell to and service their customers optimally.

Also, many businesses that have been struggling to achieve the expected are allying their investments and needs enterprise systems. We have a hypothesis that one of the key reasons for this is that most of these systems focused on driving out efficiency, which has mainly been achieved, but have not been fully leveraged to effectively change the way that businesses anticipate and exceed customer expectations. We believe this is where the demand for actionable business and customer intelligence is coming into play to release the full value of enterprise systems like CRM for our clients and their shareholders.

The second question: Dave, as the CEO, what is your vision for Inforte over the next twelve months, as well as over the next two to three years? Long term, how significant will Inforte be in the consulting space? You know, the past three to five years have been very challenging for most US based consulting and technology oriented firms. Clients remain very reluctant to invest in large scale technology transformation projects such as CRM and ERP solutions and of course the Indian technology services firms have emerged as very significant competitors for all of us. Over the past two years, we've seen Inforte evolving and making some substantial investments to meet the challenges of this new competitive consulting environment. We've extended our customer management offerings into analytics and emphasize building and acquiring new business and customer intelligence capabilities. Our next step in my mind is to expand the traditional consulting model, to provide managed analytic services to our clients. By doing this, we aim to create a business model that better leverages our capabilities, deepens our client relationships and ultimately provides for more predictable profit performance across our clients' spending cycles. Our ambition is to be our clients' partner of choice for business and customer intelligence capabilities.

The final question, Mr. Chairman, that we received is the following: With the integration of COMPENDIT now completed, are there plans for any additional acquisitions this year, what types of businesses are you looking to acquire? As we stated many times, complementary acquisitions are a component of our growth plan and our strategy for the business and we continue to evaluate multiple candidates. We're particularly interested in businesses that bring complementary, specialty skill sets in the areas of business intelligence, marketing strategy and customer

analytics, and I can say that we're also keen to identify businesses that have substantial portion of recurring revenue and annuity based relationships with their customers. That concludes the questions, Mr. Chairman, that we've received. PHILIP BLIGH: Thanks Dave. This concludes the time allotted for questions. Has the inspector of elections finished tabulating the votes?

ED MASON: Yes, I have been able to finish the tabulation of the votes. The results of the vote are as follows: Proposal one for the election of class II directors: Al Ries: for: 8,543,555, withheld: 1,347,881. Stephen Mack, for: 8,711,662, withheld: 1,179,574. Accordingly, each, Mssrs. Ries and Mack have been elected as class II directors by the stockholders. For the ratification of Grant Thornton as the company's independent certified public accountant: for: 9,807,397; against: 30,788; abstentions: 53,251. Accordingly, the stockholders have ratified Grant Thornton LLP as the company's independent certified public accountant.

PHILIP BLIGH: Thank you Inspector. Also, thanks to all of you for participating in today's meeting and the interest you have shown in the affairs of your company. There being no other business to come before the meeting, it is adjourned.

OPERATOR: That does conclude today's conference. You may disconnect your lines at this time and enjoy your day.

END

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Nationality: Finnish and German

Born 21.12.1976 in Friedberg, Germany

Education

University of St. Gallen (HSG), Switzerland

Dr. oec. (HSG) (2003-present)
Grade point average: 5.46/6.0 (good)

University of Colorado, USA

Master of Business Administration (MBA) in Finance (2003-2005)
Grade point average: 3.97/4.0 (excellent)

University of St. Gallen (HSG), Switzerland

Lic.oec. (HSG) and Master of Science in International Management (HSG) (2001-03)
Grade point average: 5.5/6.0 (good)

Helsinki School of Economics and Business Administration, Finland

International Student Exchange Program (2002)
Grade point average: 83.75/100 (excellent)

University of Denver, USA

Bachelor of Science in Business Administration with Major in Economics/Finance (1998-2001)
Grade point average: 3.97/4.00 (summa cum laude)

St. Lioba Gymnasium, Bad Nauheim, Germany

High School Diploma (1987-96)
Grade point average: 2.4/1.0 (good)

Academic Honors

- Alonzo B. May Award for the Outstanding Business Student in Economics
- Beta Gamma Sigma, American Honor Society in Business Administration
- Omicron Delta Epsilon, International Honor Society in Economics
- Golden Key, International Academic Honor Society
- Pi Mu Epsilon, American Honor Society in Mathematics

Work Experience/Hobby

Allianz Asset Management

Zürich, Switzerland (2006-present)

Junior Portfolio Manager Equities

- Performed quantitative and qualitative analyses of companies, industries, and countries
- Employed evaluation approaches including e.g. EVA, DCF, and Monte-Carlo Simulation
- Invested in selected companies and indices
- Performed active and passive portfolio management approaches
- Performed continuous portfolio monitoring and adjustment (via Bloomberg into Excel)
- Contributed to asset allocation decisions
- Contributed to fund selection process

Private Investor

Denver, USA and St. Gallen, Switzerland (1998-present)

- Performed quantitative and qualitative analyses of companies, industries, and countries
- Employed evaluation approaches including e.g. EVA, DCF, and Monte-Carlo Simulation
- Invested in selected companies and indices

Lonza Group

Basel, Switzerland (2004-2005)

Finance Department

- Researched and analyzed the pharmaceutical and biotechnology industries
- Performed competitor analyses
- Evaluated the financial and operational costs/benefits of outsourcing
- Utilized real options analysis and Monte-Carlo simulation as part of the analytical process

Center for Corporate Governance, University of St. Gallen

St. Gallen, Switzerland (2005-present)

Research Associate

- Research focused on shareholder meetings and shareholder participation
- How can shareholders be encouraged to participate in corporate governance to a greater extent?

Research Institute for International Management, University of St. Gallen

St. Gallen, Switzerland (2002)

Research Assistant

- Researched potentially interested companies and executives
- Developed database with client information for direct marketing campaign

ING/BHF Bank

Frankfurt am Main, Germany (2002)

Structured Trade and Commodity Finance Department

- Researched and analyzed the German steel industry
- Analyzed and evaluated steel trading companies' financial and credit statuses
- Monitored credit lines and repayments of loans

Latin America Trade and Technology Group (LATGO)

Denver, USA (2001)

Marketing and International Business Department

- Researched/contacted potential clients
- Organized/executed international business seminars
- Developed database with client information
- Marketed services by mail, e-mail, and telephone
- Performed various administrative tasks in the office

Languages & Computer Skills

Languages: English (very good), French (intermediate), German (native language)

Computer Skills: Microsoft Office, Bloomberg, SPSS, Crystal Ball (Real Options Analysis Toolkit, Monte-Carlo Simulation, and CB Predictor), Thomson One Banker