The Media and Firm Reputation Roles in Corporate Governance Improvements: Lessons from European Dual Class Share Unifications

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ABSTRACT

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Research Questions/Issues: Do media pressure and firm reputational concerns propel corporate governance improvements? Specifically, can they encourage unifications of dual class shares into a single "one share one vote" class?

Research Findings/Insights: 1) Media criticism increases the likelihood of voluntary dual class share unifications. 2) Firms more sensitive to public image are more likely to unify their dual class shares.

Theoretical/Academic Implications: Media plays an important role in corporate governance promotion. Firm reputation is a valuable asset, sensitive to public opinion and media criticism. Some real firm decisions can be influenced by firm image and reputation considerations.

Practitioner/Policy Implications: Firm image, reputation and public relations activity are valuable. Media is a powerful and flexible tool that in some cases can substitute regulation in effectively restraining firms and their controlling shareholders.

Keywords: Corporate Governance, Dual Class Shares, Firm Reputation, Media Impact

INTRODUCTION

In recent decade academic and public interest in corporate governance has increased dramatically. New laws and standards were enacted all over the world (for example, the Sarbanes-Oxley and Dodd-Frank Acts in the U.S., and the OECD code of best corporate governance practices). Companies faced a steady if not mounting pressure to improve their corporate governance. The ultimate goal of this public movement is to assure that corporations act as "good citizens", caring for and contributing to the rest of the society. A special limelight is directed towards corporate leadership (top management and controlling shareholders), requiring that it would not exploit its obvious power and would treat fairly its partners, i.e., the small public shareholders.

In this paper we deal with one corporate governance problem and the ongoing struggle for its resolution. We focus on dual class shares. Firms adopting the dual class equity structure offer two sorts of common shares: superior- and inferior-voting-power shares. The inferior-vote shares usually receive the same dividends per share as the superior-voting shares. Yet, they are non-voting or have lower voting rights (for example, ten shares are required for one vote).

Typically, the controlling owner, family or coalition, holds primarily superior-vote shares, while the public hoards the cheaper inferior-vote shares. (This holding structure affords the control group to secure control at the lowest cost.) Consequently, a wedge is generated, as controlling shareholders' proportion in vote exceeds their proportion in equity.

Bebchuk, Kraakman and Triantis (2000) criticize sharply these "wedge" equity structures, on the ground that this wedge encourages the control group to further

exploit public shareholders and increase its private benefits consumption. Bebchuk et. al. (2000) describe wedge structures as the worst form of corporate governance. Some confirmatory evidence is offered by Bennedsen and Nielsen (2010) who document that the dual class structure significantly decreases the market value of the firm.

The severe potential agency problems present in dual class share firms can be resolved via dual class share unification. In a dual class unification all company shares are transformed into "one share one vote". Unifications do not only eliminate the wedge between vote and ownership. They also dilute the voting power of controlling shareholders (whose superior-vote shares lose their excess voting rights).

In this study, we examine voluntary (firm-initiated) dual class share unifications in Europe. Previous studies (e.g. Maury and Pajuste, 2011) establish that an important motive in many voluntary unifications is firm's desire to improve its public image ahead of a seasoned equity offering. (Over 40% of unifying firms issued equity after the unification.) We further explore and expand this image improving motive, relying on the premise that public reputation is one of the firm's key assets (see Dyck, Volchkova, and Zingales, 2008). A unification increases firm's reputation by eliminating the negative image of its dual class share structure (see Bennedsen and Nielsen, 2010, for evidence on the heavy market discount, i.e. lower Tobin Qs of dual class firms).

Our first proposed hypothesis is that when media sentiment towards dual class shares becomes more negative, the reputation toll levied upon dual class firms increases (dual class firms' valuation-discount deepens), and the trend of unifications intensifies. Consistent with this hypothesis, we identify positive correlations between the media anti-dual-class-shares sentiment, dual class firms' valuation discount, and

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the propensity of dual class firms to unify. This evidence leads us to conclude that media pressure helps convincing controlling shareholders to abandon the dual-class structure.

Our second testable hypothesis is cross-sectional. We propose that firms that are more sensitive to their public image and reputation are more likely to unify their dual-class shares. The empirical tests support this hypothesis. We find that on the eve of a Seasoned Equity Offering (a period of high reputational concerns) firms are more likely to unify their dual class shares, and we present evidence suggesting that firms in industries that are more sensitive to public image exhibit a higher unification propensity. Apparently, reputation is a key consideration of the firm, and it affects firm's decisions and value.

FIRM REPUTATION, THE MEDIA, AND DUAL CLASS SHARE UNIFICATIONS

Dual Class Shares and Unifications

A nontrivial minority of publicly traded firms around the world have a dual class equity structure, namely offer two classes of common shares that differ in their voting rights, namely superior- and inferior-vote shares. The dual class structure, or more precisely offering inferior-vote shares to the public, has some clear advantages at the initial fast-growth stages of firm's life cycle, where entrepreneurs' uninterrupted leadership is important for firm's success (see, for example, recent IPOs of inferior-vote shares by Google, Facebook and Groupon). Accordingly, studies such as Bauguess et al. (2007) and Dimitrov and Jain (2006) record positive stock price reactions to dual class share capitalizations.

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However, upon firm maturity, the unpleasant face of the dual class structure is exposed. The dual class structure typically results in a wedge between controlling shareholders' control (=voting) and equity (=dividend) rights. Rationally, controlling shareholders concentrate their holdings in superior-vote shares because such a concentration affords them to secure their rule over the firm at the lowest possible own investment. (On the other side, small public shareholders prefer inferior-vote shares that sometimes even offer higher dividends than the superior-vote shares.) Consequently, "wedge" companies, where controlling shareholders' proportion in firm's vote exceeds their equity proportion, emerge. These wedge structures are in Bebchuk et al. (2000) view the worst form of corporate governance, as they exacerbate all controlling shareholders' agency problems. With a relatively low equity proportion, the cost to a controlling shareholder of a 1$ private benefits consumption is reduced or becomes relatively low; hence the controlling shareholder is tempted to consume more private benefits at the expense of public shareholders.

In a rational world, the disadvantage of mature dual class firms is widely recognized and appropriately priced by public investors. In Europe, Bennedsen and Nielsen (2010) show that the dual class structure discounts firm market value by 25% on average, a deeper discount than that affected by alternative structures (e.g. pyramids) that also generate disproportionate vote and equity holdings.

The negative investor attitude towards mature dual class firms transpires also in the difficulty of these firms in raising additional equity. This drove many mature dual class firms to voluntary abandon their dual class structure. Maury and Pajuste (2011) show that when future growth opportunities are attractive, it would be worthwhile for some controlling shareholders to give up the extra private benefits

afforded by the dual class structure, in return for the abundant extra cash flows promised by the attractive investment opportunity.

The "external financing" motive appears relevant and important in explaining voluntary decisions of firms to unify their dual class shares. Maury et al. (2011) report that about 41% of the unifying firms issued equity following the unification. (Other firms might have conceived external financing as well.) Nevertheless, we believe that the fundamental factor behind the external financing motive is public image, and it deserves more explicit discussion. In our opinion, negative public image and media pressure are key elements, and they can drive some firms to unify their dual class shares, even in the absence of external financing needs.[1]

The idea that firm's image considerations impact the decision to unify has been briefly mentioned before (Hauser and Lauterbach, 2004). However, we are the first to specifically articulate, discuss and test it along with examining media pressure and media impact on the unification process.

Firm Reputation

One of the basic assets of a firm is its public image or more precisely its reputation vis-à-vis the business community with which it regularly interacts (Dyck et al., 2008). The premise is that reputation affects valuation. Good reputation promotes firm profitability and business success, hence contributes positively to share price. In contrast, bad reputation and public image (due to poor corporate governance, for example) weaken businesses and discount their share prices.

The reputation premise is consistent with reality. In practice, the value of reputation is widely recognized. Consumer-goods firms invest in branding their

products, service firms strive to be associated with adjectives such as "modern" and "friendly", financial institutions aspire to become solid and safe, and all firms seek the labels of "honest" and "reliable".

Reputation and public image are however fragile. Any accurate or inaccurate negative news can weaken it. Thus, many firms regularly employ public relation agencies that try to propagate positive information and diffuse negative news about the firm. Modern firms communicate with their customers, business partners and investors to preserve their goodwill value.

A central player in the reputation field is the media. As Dyck et al. (2008: 1098) put it: "The role of the media is to collect, select, certify, and repackage information. In doing so they dramatically reduce the cost economic agents face to become informed". When the media is considered dependable and professional (for example, the Wall Street Journal and the Financial Times business-oriented newspapers on which we rely in our empirical work), its impact on firm's reputation within the business community and beyond is significant.

The Media Role in Corporate Governance Improvements

We now address the media role in corporate governance improvements. The media can serve as an instigator, identifying a problem or proposing a reform, and calling public attention to it. The press is in a constant need for new ideas and campaigns that would interest readers and stimulate them (and increase circulation). Consequently, campaigns (or perhaps "crusades") to restrain greedy CEOs and exploitive controlling shareholders appear a sure newsworthy bet. Such campaigns draw spontaneous attention, as the average reader typically envies and wants to get even with top management and controlling shareholders.

When media pressure intensifies, some companies yield on their own, trying to avoid or lessen the reputational damage. Moreover, given that politicians and regulators are also avid consumers of the media, they (politicians and regulators) are encouraged to act and improve corporate governance. In sum, media has a central role in initiating and nourishing corporate governance reforms.[2]

There is some previous evidence on media beneficiary impact on firms' corporate governance. Dyck and Zingales (2004) estimate private benefits of control in 39 countries around the globe, and conclude that media pressure and tax enforcement seem to be the dominating factors in restraining private benefits. Farrel and Whidbee (2002) find that press scrutiny on poor performing firms increases the likelihood of forced CEO turnover. Dyck et al. (2008) document that reports in the WSJ and FT on corporate governance violations by Russian firms, increase significantly the tendency of these firms to revert their violations. Joe, Louis and Robinson (2009) show that media exposure of board ineffectiveness forces corrective actions that increase shareholders' wealth. Last, Liu and McConnell (2013) present evidence on how media coverage and "harsh tone" convince managers to abandon value-reducing acquisition attempts.

The Hypotheses

The reputational toll of the dual class structure leads firm's controlling shareholders to weigh their extra private benefits, afforded by the dual class structure, against the relevant reputational costs (i.e., against the firm market value discount associated with the dual class structure). Upon unification, controlling shareholders lose some private benefits. However, they gain from the increase in firm's market value due to the elimination of the dual-class induced discount.

The dual class firms' market value discount is non-trivial – see Bennedsen et al. (2010). Hence, the gain to all share classes upon unification (i.e., upon the elimination of the discount) can be substantial. The unification valuation gain appears particularly large when firm reputational costs increase (for example, in periods of strong anti-dual-class media sentiment). In such periods, the dual class discount deepens, making unification a much more worthwhile deal.

If media's intensified pressure deepens the dual-class firms' discount then:

Hypothesis 1. When media pressure and anti-dual-class sentiment intensify, dual-class firms' discount deepens, the potential gain from unification increases, and more firms choose to unify their dual class shares.

Our thesis that public image and reputation considerations affect firm value and unification decisions, also suggest a cross-sectional hypothesis:

Hypothesis 2. Dual class firms that are more sensitive to reputational concerns suffer heavier market value discounts, and are more likely to unify their dual class shares.

According to this hypothesis, the more dependent are firm's profits and success on firm's "clean" public image, the greater is the dual class valuation discount, and the larger are the potential unification gains.

Although it is possible to discuss which industries and firms are more sensitive to public opinion and reputation than others, we propose an indirect measure of firm's sensitivity to public image – industry Corporate Social Responsibility (CSR) score. We contend that firms that are more sensitive to public image, on average invest more and score higher in CSR indices. If higher mean CSR scores distinguish industries more susceptible to public image then:

Hypothesis 2a. Firms in industries with higher mean CSR scores (stronger reputational concerns) are more likely to unify their dual class shares.

Another specific cross-sectional hypothesis is also plausible. The value discount and reputational toll of dual class shares hurt most when the firm plans to raise more funds via an equity offering. For such firms, announcing unifications may significantly increase firm's public image, the likelihood of a successful equity issuance and the issuance proceeds. Thus:

Hypothesis 2b. Firms planning equity offerings are more likely to unify their dual class shares.

Hypothesis 2b has been tested and confirmed independently before (as the "external financing" motive for unifications). However, we argue it is a natural prediction or outcome of our reputational concerns approach.

Before concluding, we comment that firm reputation spills over to its controlling shareholders and vice versa. Thus, self-image and self-reputation considerations of the controlling shareholders also contribute to the unification decision.

SAMPLE AND VARIABLES

Sample

Our sample is based on Maury and Pajuste (2011) sample of European unifications. Maury et al. (2011) focus on seven Western European countries: Denmark, Finland, Germany, Italy, Norway, Sweden and Switzerland, where dual class share firms represented (on 1995) more than 20% of listed firms. They collect

data on 108 unification events during 1996-2002, and on 385 dual class firms that did not unify their shares during that period and serve as control for unifying firms. (We checked the data and amended the numbers to 109 unifying and 384 non-unifying firms.) This is our raw initial sample.

A central goal of the study is to observe the long-run effects of unifications. Naturally, the long term (seven years after the unification) perspective that we require, contracts our sample further. During that post-unification period, 30 of the 109 unifying firms were delisted, and for 7 more firms we are missing ownership data on crucial dates. This leaves us with 72 unifying firms for the empirical work. Similarly, out of the 384 dual-class control firms, we exclude 126 delisted firms and 44 firms that unified their dual class shares during 2003-2009. Thus, the control sample in our empirical work comprises 214 firms with complete data throughout 1994-2009.

For each of the 72 unifying firms we elaborate the Maury et al. (2011) data by collecting yearly data on the ownership of the largest shareholder from year -2 (relative to the unification) to year +7. Further, for the 214 dual class control firms we compile data on the largest shareholder holdings in 1994-2009. Faccio and Lang (2002) also use the largest shareholder holdings as the metric for control group holdings. The data sources are firms' annual reports, Porssitieto by Gunhard Kock (for Finland), Hoppenstedt Aktienfuhrer (for Germany), Sundin and Sundqvist (for Sweden), WorldScope and Lexis-Nexis.

Media-related Variables

A major task of this research is to conceive and collect relevant media-based explanatory variables. Dyck et al. (2008) suggest focusing attention on the international business press. According to them, the company aspires to keep its

reputation within the group of business partners and organs with which it interacts. International press is important because many of the firms engage in exports, and because even the domestic reference group reads and is influenced by articles in the international press. Moreover, firm investors, and particularly institutional investors follow the international press. Hence, analysis of international press is recommended.

Following Dyck et al. (2008) advice, we limit attention to two prominent European business newspapers: Financial Times (FT in short) and Wall Street Journal Europe (WSJE). Using the Factiva data base we start by searching these newspapers for articles mentioning the "one share one vote" phrase in the period 1994-2009. We find 129 such articles. All these articles are critical of the dual class share structure. Hence, the yearly number of articles mentioning "one share one vote" may serve as a time-varying anti-dual-class sentiment index. Bebchuk, Cohen and Wang (2013) also use the yearly number of articles (in four distinguished newspapers) mentioning a single phrase ("corporate governance" in their case) as an index of attention to corporate governance in the media.

In addition, for each of the 286 firms in our sample (72 unifying and 214 control firms), we search and collect articles mentioning variations of the "dual class shares" phrase.[3] Then, we read these articles and mark their content as "negative sentiment" if the article criticizes the company dual class structure, using terms such as "unproportional voting power", "poor corporate governance", "against the one share one vote principle" and the like. In the 1994-2009 period, we find 842 articles on the non-unifying (control) firms, of which 131 are classified as "negative sentiment".

We use the negative sentiment articles to construct our second anti-dual-class sentiment index. It is defined as the yearly number of negative sentiment articles about our 214 control sample firms. We count only negative articles on non-unifying shares because we seek a measure for intertemporal comparisons. Such a measure has to be constructed based on a constant number of firms. Various minor modifications of this second sentiment index are also possible, and include the proportion of firms with negative sentiment articles, and the proportion of total articles that are negative. These modifications were also tested, and yield similar results and conclusions to those obtained with the "number of negative sentiment articles" measure.

Our third media-related variable is less direct. It is the Bebchuk, Cohen and Wang (2013) "number of CG articles" measure (BCW measure, in short). This measure simply counts each year the total number of articles mentioning "corporate governance" in 4 newspapers (New York Times, Washington Post, USA Today and Financial Times). The BCW measure of media attention to corporate governance is more USA- or globally-based, and a-priori it appears unrelated to articles on European dual class shares.[4] Nevertheless, if attention to corporate governance is a global phenomenon, the BCW measure should be positively correlated with European media attention to and criticism of dual class firms.

The advantage of the BCW measure is its exogenous nature. One may question our first two sentiment measures on the grounds of endogeneity. We propose that negative press articles spur unifications. However, reverse causality can also be conceived, as it can be argued that actual unifications generate attention and hostile press articles towards the dual class firms that do not unify. Instead of testing and arguing which causality direction is more plausible, we attempt the BCW measure.

The BCW measure is not suspect of endogeneity because it is not based on negative articles on dual class shares and because of its American origin.

Measuring Firm Reputational Concerns

Public image and reputational concerns impact each business' success and valuation. However, naturally, in some industries firms are more sensitive to public image. For example, in retail and consumer staples, firm public image is crucial and advertising is common. We seek, however, a reputational concern measure that is more general, and that can encompass most industries.

We suggest the industry average Corporate Social Responsibility (CSR) score as a measure of firm public image concerns. While it is clear that ethical behavior and kind consideration of stakeholders and the environment have several materialistic and non-materialistic motives, we suggest like Albuquerque et al. (2014) that the level of CSR activity is rationally chosen by each firm, i.e., is part of firm's value maximization process. Accordingly, if in a certain industry public image is important for firm success and valuation, on average firms in that industry would invest more and score higher on the CSR scale.

Industry CSR scores are computed from MSCI's ESG (Environmental, Social and Governance) data. First, we follow Alburquerque et al. (2014) methodology of constructing a firm-level "aggregate CSR" score that aggregates six attributes: community, diversity, employee, environment, product, and human rights. Firm's score on each attribute is calculated as the difference between firm's strengths and weaknesses regarding that attribute. Then, we compute the mean CSR score for each two-digit SIC industry during 1996-2002 (our unification years).

CORPORATE GOVERNANCE AND VALUATION GAINS UPON UNIFICATION

Table 1 presents some descriptive statistics for our 72 unifying and 214 non-unifying (control) firms' sample. On the eve of the unification, unifying firms appear somewhat smaller, yet of similar profitability (Return on Assets) and higher relative market valuation (Tobin's Q) than non-unifying firms. On average, unifying firms also appear to have lower holdings of the largest shareholder – 46.4% of vote compared to 52.0% of vote in non-unifying firms. The dual class share unification diluted the largest shareholder vote by about 9.4% - at the end of the unification year, the largest shareholder vote decreased to 37%, on average.

Insert Table 1 about here

Panel B of Table 1 provides some demographic information on the unifying firms. Unification rates are higher between 1998 and 2001, with a peak of 17 unifications on 2001. Our sample comprises 30 German, 19 Swiss, 13 Nordic (Denmark, Finland, Norway and Sweden), and 10 Italian unifications.

Table 2 records the mean vote of the largest shareholder from two years before to seven years after the unification year (year 0), for both unifying and non-unifying firms. The methodology employed follows Lauterbach and Yafeh (2011).

Insert Table 2 about here

Table 2 shows that before the unification (year -2), the mean vote of the largest shareholder in unifying firms is 4.9% lower than that of non-unifying firms. After the unification (year 7), the corresponding mean vote difference expands to 15.6%. This 10.7% widening of the gap between unifying and non-unifying firms

suggests that the eventual unification-induced vote loss of controlling shareholders in unifying firms is about 11%. Formal t-tests establish that the mean 10.7% long-term vote loss of controlling shareholders is statistically significant at the 1% level. In addition, we find that in a significant proportion (72.2%) of the unifying firms controlling shareholders eventually lost vote.

The demise of disproportionality (wedge between ownership and vote proportions) and the eventual considerable vote loss of controlling shareholders suggest a non-trivial corporate governance improvement in unifying firms. Thus, it is interesting to examine whether or not this improvement increased firm valuation.

Table 3 presents unifying and non-unifying firms' industry-adjusted mean Tobin's Q from year -2 to year +7 relative to the unification year (year 0). Industry adjustment is based on two-digits SIC code, and before the industry-adjustment, Tobin's Q is winsorized each calendar year at the 5th and 95th percentile, using the whole universe of dual- and single-class firms in our seven sample countries.

Insert Table 3 about here

On year -2 unifying firms have a 0.11 higher mean Q than non-unifying firms, and on year +7 it widens to 0.26. It appears that unification increases the relative market valuation of the firm by about 0.15. The relative valuation gain of unifying firms appears economically significant. However, since the Q relative advance of 0.15 is statistically insignificant (p = .124), we cannot ascertain reliable long-term valuation gains upon unification.

Finally, we examine the stock returns surrounding unifications. It is clear that unifications promoted the value of inferior-vote shares by increasing their voting

rights. However, some might suspect that the superior-vote shareholders lost. Interestingly, we find that the mean net of market cumulative return of the superior-vote shares in the three years surrounding the unification (year -1 through 1) is 41.2% (p = .057).[5] Dittman and Ulbricht (2008) also report positive excess return to both inferior- and superior-vote shares around unification announcements. Thus, it appears that unifications are a win-win operation, with all stock classes gaining from it on average. The increase of the price of all share prices also explains why controlling shareholders agree and perhaps initiate unifications. Unifications offer controlling shareholders an increase in the market value of their holdings in return for some lost private benefits.

TESTS OF MEDIA IMPACT ON UNIFICATIONS

Hypothesis 1 asserts that when the negative media sentiment towards dual class shares intensifies, the discount in dual class share prices deepens, and more firms choose to unify their dual class shares. This time-series proposition has two parts: the deepening of the discount, and the increase in unification propensity. However, first we have to characterize the negative media sentiment toward dual class firms.

Table 4 summarizes yearly data on Wall Street Journal Europe (WSJE) and Financial Times (FT) relevant articles in the period 1994-2009. In total we find 121 articles that mention variations of the phrase "dual class shares" and regard our 72 unifying firms. Out of these 121 articles, 12 are coded by us as "negative sentiment", that is articles that complain about or refer negatively to the dual class structure or corporate governance of the company. Similarly, we count a total of 842 articles on

our control firms, 131 of which are "negative sentiment". Finally, the last column in the table reports yearly data on the number of articles that mention "one share one vote". In total there are 129 "one share one vote" articles during 1994-2009. These articles are critical about the dual class structure.

Insert Table 4 about here

Media Sentiment and the Dual Class Shares' Price Discount

Table 5 examines the correlation between media's negative sentiment and dual class firms' valuation discount (approximated by their mean industry-adjusted Tobin's Q). First, in Panel A we observe that in all sample years the mean industry-adjusted Tobin's Q of dual class firms is negative. Evidently, dual class firms "suffer" on average valuation discounts relative to single-class firms in the same industry. The mean valuation discount across 1994-2009 is 0.14. This valuation discount is smaller than the mean valuation discount of about 0.25 recorded in Bennedsen et al. (2010), perhaps because we use industry-adjusted Qs whereas Bennedsen et al. (2010) use simple Qs. In addition, Bennedsen et al. (2010) sample more European countries than us, while we sample more years. In any case, both studies demonstrate that the dual class firms' valuation discount is significant.

Insert Table 5 about here

Panel A of Table 5 also reveals a non-trivial time series fluctuation in the dual-class firms' valuation discount. The mean industry-adjusted Tobin's Q ranges from 0.042 (in 1994) to 0.319 (in 1999), and the median ranges between 0.144 (in 1994) and 0.466 (in 1999). Interestingly, the media sentiment measures presented in Panel A also fluctuate considerably over time.

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Hypothesis 1 of the study suggests that the valuation-discount fluctuations are correlated with the media sentiment fluctuations. Consistent with Hypothesis 1 we find a negative correlation of -0.24 to -0.41 between media negativity (number of negative articles) and dual class firms' mean industry adjusted Q – see Panel A. This indicates that as media negative sentiment increases, dual class firms' industry-adjusted Qs tend to decrease (discount deepens). However, probably due to the small sample of 16 years only, the negative correlations documented are statistically insignificant.

In Panel B of Table 5 we further examine the relation between dual-class firms' discount and media sentiment by distinguishing between above- and below-median media hostility years. It appears that in years of more hostile media, firm discount intensifies. For example, in years with below-median number of negative articles, the mean dual class firms' discount is 0.12, whereas in years with above-median number of negative articles, the mean dual class firms' discount is 0.18 (i.e., about 50% more). This evidence is consistent with the first part of Hypothesis 1. Apparently, media hostility is associated with non-trivial depressions in dual class firms' valuations.

At this point it is appropriate to admit that our correlation-type evidence does not prove that media hostility depresses dual class share values. However, given more direct evidence on the effect of media pressure in specific cases (see Dyck et al., 2008, and Liu et al., 2013), the relation we suggest between media hostility, firm reputation, and firm market valuation discount, appears reasonable.

The deepening of the discount might convince some controlling shareholders to rationally abort the dual class structure of their firms. This is because their loss

from the dual class structure - the market value discount of their holdings - might exceed their gain - the private benefits afforded by the dual class structure. The next subsection examines whether intensified media hostility and lower market valuations do, in practice, amplify the unification propensity.

Can The Media Induce Unifications?

Figure 1 plots the time series of number of unifications and scaled number of negative articles (number of negative articles scaled by their 1994 level) during the sample period (1996-2009). A positive correlation between number of negative articles and number of unifications can be observed: before 2001 both series trend up, and after it both series trend down. However, more rigorous tests are required before we can deduce a credible relation between media's negative sentiment and number of unifications.

Insert Figure 1 about here

Table 6 presents results of Probit regressions of the choice to unify, using a standard set of explanatory variables plus an anti-dual-class sentiment indicator. Regression (1) in Panel A replicates the original Maury and Pajuste (2011) regression in our 72+214 firm sample. The explanatory variables are defined and computed as in Maury et al. (2011). Four explanatory variables are significant: 1) Institutional (=regulatory) pressure (β = .67, p = .02) – a country-specific yearly dummy variable that equals 1 if local regulation towards dual class shares was stricter in this year than at the start of our sample (the beginning of 1996), and equals 0 otherwise (see Appendix A for more information); 2) Control minus ownership (β = -.01, p = .01) – the wedge, percentage of vote minus percentage of equity held by the largest shareholder; 3) Financial investor (β = .61, p = .00) – a dummy variable that equals 1

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if the largest shareholder is a financial institution, and equals 0 otherwise; and 4) Cross-listing (β = .43, p = .03) – a dummy variable that equals 1 if the company is also listed on a U.S. exchange, and equals 0 otherwise.

Consistent with Maury et al. (2011), Regression (1) finds that institutional pressure, financial investor dominance, and cross-listing, increase the likelihood of unification, while the control minus ownership wedge decreases it. When the institutional pressure, financial investor, and cross-listing dummy variables change from 0 to 1, the odds of unification increase by 5.7%, 6.5%, and 3.9% a year, respectively; and a one standard deviation decrease in control minus ownership increases the probability of unification by 1.3% a year.

These results appear logical. Institutional pressure and cross listing generate a (local and foreign) regulatory pressure to unify. Financial institutions are more regulated and less prone to extract private benefits; hence unifications are less costly to them. Finally, a large wedge between largest shareholder's proportion in vote and proportion in ownership naturally deters the controlling shareholders from unifying because upon unification their vote (and control) loss might be substantive.

A more general possible interpretation of the above results is that as private benefits shrink, unifications become more likely. Higher institutional pressure, larger financial institution holdings, a cross listing (that subjects the firm to yet another regulator), and a lower wedge (lower incentive to extract private benefits) are all associated with lower private benefits. Naturally, as private benefits decrease, the cost of unification to controlling shareholders diminishes and unifications become more likely.

Regression (2) of Panel A adds the number of OSOV articles to the regression. Unifications are found to be significantly more likely when the anti-dual-class sentiment intensifies (p = .02). One more OSOV article per year increases the probability of unification by 0.2% a year. In our view, the media pressure deepens the valuation discount and the larger discount promises controlling shareholders more gains upon unification. Controlling shareholders are encouraged to unify dual class shares via the increased benefit of such an action.

In Regression (2) institutional pressure is statistically insignificant probably because of the multicollinearity between institutional pressure and the number of OSOV articles. This multicollinearity is hardly surprising since the media and public opinion anti-dual class sentiment most probably also drive some stiffening of the regulation.

Two more regressions are documented in Panel A. The parsimonious Regression (3) omits institutional pressure from the regression, and Regression (4) replaces the number of OSOV articles by the lagged (one-year) number of OSOV articles. Regression (4) is important because it addresses some reverse causality concerns. It can be argued that causality runs from unifications to negative articles and not from negative articles to unification as Hypothesis 1 suggests. According to this reverse causality view, unifications invoke media interest in dual class firms and incite media criticism. Regression (4) somewhat relieves this criticism of Hypothesis 1 by assuring that the media sentiment (lagged OSOV articles) typically precedes unifications.[6] Anyway, in both regressions (3) and (4) the effect of OSOV articles on

the likelihood of unifications remains positive and significant at the 5% level – media dislike of dual class structures appears to be positively associated with unifications.

Panel B of Table 6 presents regressions with two other anti-dual-class sentiment indicators. The first indicator is the number of negative-sentiment articles about our control sample (of 214 non-unifying firms). As in Panel A, Regression (1) replicates the original Maury et al (2011) Probit regression in our sample, for reference purposes and as a benchmark. Regression (2) adds the new sentiment variable as an explanatory variable and omits institutional pressure because of the quite-expected multicollinearity problem between number of negative articles and institutional (=regulatory) pressure. (Essentially, this is the same multicollinearity problem discussed above.) The coefficient of number of negative-sentiment articles is positive and statistically significant (β = .02, p = .03), supporting our hypothesis – negative media attitude appears to promote unifications. One more negative-sentiment article per year increases the probability of unification by 0.2% a year, and in years with above-median number of negative-sentiment articles, the odds of unification increase by 2.4%.

Some variations of Regression (2) are attempted. Regression (3) in Panel B demonstrates that the lagged (one year) number of negative sentiment articles is even a better predictor (than the number of contemporaneous negative articles) of the tendency to unify. Regressions (4) and (5) employ as an anti-dual-class indicator a dummy variable that equals 1 in years where the number of negative sentiment articles is above its median (and equals 0 otherwise). Similar if not stronger results are obtained.[7]

We also repeat the Probit analysis for each of our four "countries" (Germany, Italy, Nordic and Switzerland) separately. The goal is to explore the relation between the unification choice of firms in country X (say Germany) and the number of negative articles against country X (say German) non-unifying dual class firms. Unfortunately, our sample size is too small. When we run country-specific Probit regressions, all explanatory variables in Table 6B are statistically insignificant.

Regressions (6) and (7) in Table 6B employ our third anti-dual class indicator - the Bebchuk, Cohen and Wang (2013) "number of CG articles" measure (BCW measure, in short). Because of its US origin and non-direct relation to dual class firms, the BCW measure is less suspect of endogeneity and reverse causality. However, if media pressure affects unification propensity, and if media pressure variations are a global phenomenon, the BCW measure should be positively correlated with the frequency and number of European dual class share unifications.

First, we compute the correlation between the BCW measure and our two other media pressure measures. The correlation between the BCW measure and the number of OSOV articles (the number of negative articles on non-unifying firms) is 0.71 (0.26, respectively), with p-values of 0.003 (0.35, respectively). These results appear plausible. If there exists a moderate global corporate governance factor, generating coordinated up and down awareness periods throughout the world, the correlation between our measures should be positive as they indeed are. The higher correlation of the number of OSOV articles and the BCW measure is also sensible. It suggests that global concern is more likely to translate into general articles about dual-class shares (OSOV articles). Firm-specific negative articles are less-directly related to the global corporate governance atmosphere.

When we introduce the BCW measure into the Probit regressions (see Regressions 6 and 7 in Panel B of Table 6) its coefficients are positive (β = .04, p = .07 and β = .11, p = .05, for the contemporaneous and lagged variable, respectively). Apparently, a rise in global awareness to corporate governance increases European firms' unification propensity. This result is important because it strengthens the position that causality runs from media pressure and dual class firms' discounts to actual unifications.

Our findings are related and perhaps complement recent studies such as Bennedsen, Nielsen and Nielsen (2012) and Liu and McConnell (2013). Bennedsen et al. (2012) study voluntary provisions of tag-along rights (rights that secure an equal takeover price to public investors) in Brazilian firms. They suggest and support the hypothesis that controlling shareholders voluntarily grant this beneficial protection to public shareholders in order to mitigate the share price discounts caused by poor corporate governance. Our case is similar. In our sample, controlling shareholders voluntarily improve corporate governance (abolish the dual-class structure) in order to get rid of the heavy dual class discount. The interesting message of both studies is that voluntary "private contracting" between controlling shareholders and public investors can resolve some agency problems.

Liu et al. (2013) show how media hostility forces CEOs of disperse-ownership firms to abandon value-decreasing acquisition attempts. We also find that media hostility (anti-dual-class sentiment) disciplines firms and facilitates corporate governance improvements. Clearly, media power and impact cannot be discounted.

FIRMS' REPUTATIONAL CONCERNS AND UNIFICATIONS

Hypothesis 2 proposes that the higher is firm's sensitivity to public image and reputation, the more prone it is towards a dual-class share unification. Firms in industries where public image is important for business, and firms before an equity offer, find it difficult to afford the non-trivial reputational toll of the dual class structure; thus, they are more likely to unify their dual class shares.

Hypothesis 2a is based on the premise that firms that are more sensitive to public image tend to invest more in Corporate Social Responsibility (CSR) activities because such activities promote firm reputation. This assumption originates from and corresponds well with Albuquerque et al. (2014) thesis that there are good economic reasons for firms to engage in CSR. If firm's CSR score is positively correlated with firm's reputational concerns, firms with relatively high CSR scores should unify their dual class shares more readily. However, since an individual-firm CSR activity is affected by other factors as well, for example by non-materialistic truly altruistic reasons, we compute the (two-digit) industry mean CSR scores, and use them as a measure of firm sensitivity to public image.[8]

The exact proposition of Hypothesis 2a is that firms in industries with higher mean CSR scores are more prone to unify their dual class shares. Table 7 presents results of Probit regressions that add the industry mean CSR score to our previous list of explanatory variables. The coefficient of industry mean CSR score is positive and statistically significant ($\beta = .23$, $p = .01$). A one standard deviation increase in the mean industry CSR score increases unification probability by 1.6%. This evidence appears to support Hypothesis 2a.

One may ponder about the mechanism by which reputational concerns operate to persuade controlling shareholders to unify their dual class firm shares. We believe it is the same mechanism by which media hostility works. That is, we propose that the valuation discount of dual class firms in industries that are relatively more sensitive to public image are deeper than their counterparts in industries that are less sensitive to public image. Consequently, the benefit to controlling shareholders upon unification is larger in firms that are more sensitive to reputation.

To test this mechanism conjecture we compute the mean dual-class firms' discount in industries with above- and below-median CSR scores. In our subsample of 214 non-unifying firms, the mean industry-adjusted Q of dual class firms in industries with above-median (below-median) CSR score is -0.21 (-0.11, respectively). This difference in discounts is economically and statistically significant ($p = .02$). It suggests that dual class firms in industries with higher public image sensitivity incur larger valuation discounts, which incentivizes their controlling shareholders to abort the dual class structure, i.e. unify.

Hypothesis 2b focuses on the effect of an imminent (secondary) equity offer. It suggests that plans to issue additional equity make the firm (and its controlling shareholders) more sensitive to public image, and propel equity structure reforms such as unifications. To test it, we have constructed an equity-issue dummy variable that equals 1 if the unifying or control firm raised equity in a specific year or in the year that followed it. Thus, for example, if a control firm issued equity in 2000, its equity-issue dummy equals 1 in years 1999 and 2000 (and equals zero in other years). While

this dummy variable is coded based on ex-post data, one can argue that for the firm controlling shareholders (who make the unification decision) the equity issuing plan was planned and known ex-ante.

When we add the equity-issue dummy to the choice regressions (see Table 7), its coefficient is positive and statistically significant ($\beta = .33$, $p = .03$). This finding is consistent with Hypothesis 2b. A unification is typically favorably accepted by public investors. It generates a positive public opinion about the firm and it boosts the equity issue success prospects and the equity issue proceeds. Thus, controlling shareholders in dual class firms consider and frequently decide in favor of a unification before a secondary equity issue.

The tendency of dual class firms to unify their shares before equity issues is documented in previous studies (see Maury and Pajuste, 2011, for example). We only reconfirm it and argue that its roots are our reputation concern hypothesis. In any case, the support of Hypotheses 2a and 2b in our empirical tests manifests that reputational considerations and concerns may affect firms' unification decision.[9]

SUMMARY AND CONCLUSIONS

In recent years the valuation effects of firm's public image and reputation as well as media impact on these attributes have caught the attention of financial economists. In the field of corporate governance it has been documented that the media may help trim down private benefits (Dyck and Zingales, 2004) and through its effect on firm's public image can reverse or mend some weak corporate governance wrong-doings or scandals (Farrel et al., 2002; Dyck et al., 2008; Joe et al., 2009; Liu et al., 2013).

Our study examines the roles of the media and firm's reputational concerns in promoting corporate governance improvements. Our test case is a sample of 72 European dual class share firms that voluntarily unified their shares into a single class. A dual class share structure typically generates a wedge between the controlling shareholders' percentage in vote and their percentage in equity. This wedge or disproportionality affords control over the firm with less equity holdings, and it aggravates the agency problem of private benefits consumption by controlling shareholders (see Bebchuk et. al, 2000). Thus, dual class share unifications into a single class of "one share one vote" shares are widely considered as an important corporate governance improvement.

We propose that the voluntary unifications in our sample are partly due to the media pressure and to reputational considerations. Consistent with this proposition we find that when the press' anti-dual-class-sentiment intensifies, the rate of voluntary unifications increases. We further show that when media hostility increases the mean dual class firms valuation discount (discount relative to single-class firms in the same industry) increases. This suggests that media pressure works through its effect on dual-class firms' valuation. Apparently, the dual class structure imposes a reputational discount on the firm, and when this reputational toll increases (i.e., when the anti-dual-class-sentiment intensifies) some controlling shareholders rationally succumb and unify the firm's shares. These controlling shareholders rationally give up the extra private benefits afforded by the dual class structure in return for the extra valuation of their holdings (elimination of the dual class discount).

Cross-sectional tests further demonstrate the potential effects of firm's reputational consideration. We propose that firms that are more sensitive to public

image also invest more in Corporate Social Responsibility (CSR). When we add firm's industry mean CSR score to the Probit analysis we find that firms in industries investing more in CSR are more prone to unification. In our view, firms that are more sensitive to public image suffer a larger reputational loss (valuation discount) due to their dual class structure. Thus, for them, unification becomes more beneficial and more likely. Another instance in which firms are relatively sensitive to public opinion is prior to equity offers. Consistent with the reputation hypothesis we find that firms are more likely to unify their dual class shares on the eve of a secondary equity issue.

Future studies should further explore the media and public perception impact on firm's valuation, firm's decisions, and firm's ethics.

BIOGRAPHICAL INFORMATION

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NOTES

1. Other possible reasons for unifications include cynical expropriation of minority shareholders (see Bigelli et. al., 2011) and the wish to be included in a prestigious exchange index (Betzer et al., 2012).

2. It is noteworthy that sometimes media power appears excessive. It may create wrong stereotypes and promote imprudent reforms. However, this negative aspect of media activism is outside the scope of our study.

3. We use the following keywords in combination with company name: B share, B shares, preference share, preference shares, preferred share, preferred shares, class K, class I, class II, class B, class A share, class A shares dual-class, dual class, multiple voting, multiple vote, inferior vote, inferior voting, superior vote, superior voting, non-voting, nonvoting, saving share, saving shares, limited voting, limited vote, one share one vote, proportionality principle, multiple classes of shares, multiple voting rights, voting rights restrictions, voting rights restriction, voting right restriction, voting restrictions, voting restriction.

4. There might be some overlap between the articles used for constructing the BCW measure and the articles we use for generating our European dual class sentiment measures. However, we argue that overlap in articles between BCW and our measures is probably miniscule (and negligible) because: 1) The BCW measure is global and much wider than our European measures. During 1994-2008 the BCW measure encompasses 8215 articles (compared to 941 articles

used by our widest European measure); and 2) The search phrase of the BCW measure (Corporate Governance) is different than our search words.

5. Our return sample in this analysis comprises 55 unifying firms because in the remaining 17 firms the superior vote shares were not listed prior to the unification.

6. Unification proposals are typically announced in firms' annual meetings, and (if approved) the unifications occur within 2-6 months after their proposal. Thus, unifications and their proposal typically occur in the same calendar year. This assures that lagged-year OSOV articles typically precede the unification proposal year.

7. Another variable that may influence the tendency to unify is the availability of compensation to the superior-vote shares upon unification. Such compensation might sweeten the deal for controlling shareholders (who hold primarily superior-vote shares) and induce them to unify. In our sample of 72 unifying there are only 6 firms that compensated their superior-vote shareholders. When we exclude these six firms from the Probit analysis, the results are almost identical to those reported in Table 6.

8. In addition, for most of our sample firms we could not find CSR scores. Thus, the use of industry-mean CSR scores becomes essential.

9. We have also attempted introducing firm maturity (defined as time since firm's initial public offer) as a predictive variable. The idea is that as a dual class firm matures, its agency-related problems worsen and its reputational losses (valuation discounts) intensify, making unification more likely. When we add

firm maturity to the Probit regressions, its coefficient is positive yet statistically insignificant. Maturity appears to be a secondary factor in the unification decision. Interestingly, the average maturity of unifying (non-unifying) firms in our sample is 14.9 years (12.4 years, respectively).

APPENDIX A

Coding of the "Institutional Pressure" Variable.

	1996	1997	1998	1999	2000	2001	2002	Respective institutional pressure (the trigger)
Denmark	0	0	0	0	0	1	1	The Association of Danish Shareholders (2000) urges firms to abolish dual-class shares. The **Nørby Committee**'s (set up in March 2001) report: "It is recommended that there is proportionality between capital investments and voting rights and that the board refrains from countering takeover bids on its own". The Copenhagen Stock Exchange has recommended the listed companies to relate to the Nørby Committee's recommendations for good corporate governance in their annual reports and accounts. Sources: European Commission report (2002).
Finland	0	0	1	1	1	1	1	The change in the **Companies Act** (in effect from 1 September 1997) stipulates that a 2/3 majority is required in every share class for certain important corporate decisions to be made. This change effectively increased the capital needed to secure control. Source: Companies Act and European Commission report (2002).
Germany	0	0	0	0	0	0	0	
Italy	0	0	0	1	1	1	1	In 1998, legal protection for investors was improved with the so called **Draghi's law**. The threshold to call a shareholder meeting was reduced to 10 %. Minority shareholders were given more rights to voice their opinions. Source: European Commission report (2002).
Norway	0	0	0	0	0	0	0	
Sweden	0	0	1	1	1	1	1	Since 1997, shares can be issued only at a maximum ratio of 1:10 votes (previously, up to 1:1000 was allowed). Sources: **Companies Act** and European Commission report (2002).
Switzerland	0	0	0	0	0	0	0	

Institutional pressure is a country-specific yearly dummy variable that equals 1 if local regulation towards dual class shares is stricter in year t than at the beginning of 1996, and 0 otherwise. This table shows the values of this dummy by country and by year, as well as discusses the respective institutional pressure that triggered a tighter legislative environment towards dual-class shares.

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TABLE 1

Sample Descriptive Statistics.

Panel A: Descriptive statistics of unifying and non-unifying firms

	Unifying firms (n=72)		Non-unifying firms (n=214)	
	Mean	Median	Mean	Median
<u>Firm characteristics</u>				
Total assets (in million USD)	2 601	447	4 355	334
% Return on assets (ROA)	5.2	5.5	5.1	5.2
Tobin's Q before unification	1.87	1.27	1.49	1.17
Tobin's Q after unification	1.84	1.40	1.44	1.13
<u>Controlling shareholder</u>				
Voting rights before unification (-1)	46.4%	49.5%	52.0%	51.1%
Voting rights after unification (+0)	37.0%	32.8%	51.7%	51.0%
Loss of voting power (-1,0)	9.4%	5.1%		

Panel B: Share unifications by year and country

	1996	1997	1998	1999	2000	2001	2002	Total by country
Denmark			1					1
Finland		1		2				3
Germany	5		4	4	8	8	1	30
Italy			1	2	1	3	3	10
Norway				1		2		3
Sweden			1		2	2	1	6
Switzerland	1	3	6	2	3	2	2	19
Total by year	6	4	13	11	14	17	7	72

In Panel A sample statistics for unifying firms are calculated at the end of the calendar year preceding the unification, except for post-unification Q and voting power, which are calculated at the end of the unification year. For the control sample of non-unifying firms, we first compute yearly means and medians, and then derive weighted statistics, where the weights correspond to the percent of unifications in each year. Tobin's Q is the book value of assets minus the book value of equity plus the market value of equity, all divided by the book value of assets. Voting rights before unification are the percent of total voting rights held by the largest shareholder at end of the year preceding the unification (or year -2 if year -1 data are missing). Voting rights after unification are the percent of total voting rights held by the largest shareholder at the end of the unification year. Loss of voting power is the difference between the voting rights before and after the unification. Panel B reports the frequency of unifications by country and year.

TABLE 2

Controlling Shareholder's Voting Power Before and After Share Unifications.

	Year relative to the unification									
	-2	-1	0	1	2	3	4	5	6	7
The mean % vote of controlling shareholder in 72 unifying firms	46.1	46.0	37.0	36.4	36.5	37.6	37.2	36.9	35.0	36.5
The mean % vote of controlling shareholder in non-unifying firms (control sample)	52.0	52.0	51.7	52.0	51.9	51.8	51.7	51.5	51.6	52.1

The numbers in the table are computed as follows. First, we compute for the control sample (214 non-unifying firms) the average voting rights of the controlling shareholders (in percent) in each of the years 1994-2009. Then, each specific unifying firm is compared with the corresponding (same calendar year) average control sample statistic. For example, if company Z unified its dual class shares in 1998, then: 1) 1998 is defined as year zero; 2) data on firm Z's controlling shareholders' voting rights are collected from 1996 (year -2) through 2006 (year 7); and 3) a corresponding control vector of 10 observations is constructed. In this control vector, against (or for comparison with) firm Z's year -2 percentage vote, we put the average control firms' percentage vote in 1996, etc…

TABLE 3

Tobin's Q around Dual Class Share Unifications.

	Year relative to the unification									
	-2	-1	0	1	2	3	4	5	6	7
Mean Industry-adjusted Tobin's Q of 72 unifying firms	-.06	.11	.15	.26	.15	.08	.08	.08	.08	.11
Mean Industry-adjusted Tobin's Q of non-unifying firms (control sample)	-.17	-.20	-.20	-.18	-.15	-.15	-.16	-.16	-.16	-.15

Tobin's Q is the book value of assets plus the market value of equity minus the book value of equity, all divided by the book value of assets. Industry adjusted Q is calculated as the difference between firm's Tobin's Q and the mean single-class firms' Tobin's Q in the same industry (using the two-digits SIC code).

The following procedure is used for constructing the table. First, we compute for the control sample (214 non-unifying firms) the average industry-adjusted Tobin's Q in each of the years 1994-2009. Then, each unifying firm industry-adjusted Q is compared with the corresponding (same calendar year) average industry-adjusted Tobin's Q of the control sample. For example, if company Z unified its dual class shares in 1998, then: 1) 1998 is defined as year 0; 2) firm Z's Tobin's Q is collected from 1996 (year -2) through 2005 (year +7); and 3) a corresponding control vector of 10 observations is constructed. In this control vector, against (or for comparison with) firm Z's year -2 industry-adjusted Tobin's Q, we put the average control sample industry-adjusted Q in 1996, etc…

TABLE 4

Yearly Statistics on Relevant Wall Street Journal Europe and Financial Times Articles.

Year	Number of articles mentioning sample (72+214) companies		Number of articles mentioning unifying firms		Number of articles mentioning non-unifying (control) firms		Number of "one share one vote" articles
	Total	Negative sentiment	Total	Negative sentiment	Total	Negative sentiment	
1994	83	3	16	0	67	3	3
1995	64	0	15	0	49	0	3
1996	88	5	22	0	66	5	1
1997	90	7	13	0	77	7	1
1998	87	9	25	2	62	7	4
1999	112	16	3	0	109	16	5
2000	87	12	13	3	74	9	10
2001	68	30	14	7	54	23	7
2002	43	17	0	0	43	17	15
2003	46	10	.	.	46	10	13
2004	41	10	.	.	41	10	7
2005	28	9	.	.	28	9	12
2006	55	3	.	.	55	3	14
2007	26	3	.	.	26	3	23
2008	23	6	.	.	23	6	4
2009	22	3	.	.	22	3	7
Total	963	143	121	12	842	131	129

The table reports the number of articles retrieved from the Wall Street Journal Europe and the Financial Times during the period 1994-2009 using the Factiva database. We search the database using the company name of the 72 unifying and 214 non-unifying (control) firms, and the following keywords: [B share, B shares, preference share, preference shares, preferred share, preferred shares, class K, class I, class II, class B, class A share, class A shares dual-class, dual class, multiple voting, multiple vote, inferior vote, inferior voting, superior vote, superior voting, non-voting, nonvoting, saving share, saving shares, limited voting, limited vote, one share one vote, proportionality principle, multiple classes of shares, multiple voting rights, voting rights restrictions, voting rights restriction, voting right restriction, voting restrictions, voting restriction]. Next, the search results are manually cleaned, removing any duplicates and articles not related to the sample companies. Then, we read the remaining articles and mark their content as "negative sentiment" if the article criticizes the company dual class structure, using terms such as "unproportional voting power", "poor corporate governance", "against the one share one vote principle" and the like. The last column in the table summarizes the results of another search in Factiva, a search of articles that contain the phrase "one share one vote".

TABLE 5

Media Hostility and Dual Class Firms Valuation Discounts.

Panel A: Correlations between media negative sentiment and valuation discounts of dual class firms

Year	Number of negative articles (scaled by 1994)	Number of OSOV articles (scaled by 1994)	Mean industry-adjusted Tobin's Q in non-unifying firms	Median industry-adjusted Tobin's Q in non-unifying firms
1994	1.00	1.00	-.042	-.144
1995	0.00	1.00	-.050	-.191
1996	1.67	0.33	-.079	-.209
1997	2.33	0.33	-.144	-.309
1998	2.33	1.33	-.192	-.308
1999	5.33	1.67	-.319	-.466
2000	3.00	3.33	-.273	-.444
2001	7.67	2.33	-.100	-.247
2002	5.67	5.00	-.080	-.154
2003	3.33	4.33	-.125	-.238
2004	3.33	2.33	-.151	-.266
2005	3.00	4.00	-.202	-.292
2006	1.00	4.67	-.176	-.331
2007	1.00	7.67	-.192	-.351
2008	2.00	1.33	-.084	-.165
2009	1.00	2.33	-.086	-.213
Pearson correlation with mean industry-adjusted-Q (p-value)	-.24 (.37)	-.27 (.31)		
Spearman correlation with mean industry-adjusted-Q (p-value)	-.34 (.20)	-.41 (.11)		

Panel B: Mean valuation discounts of dual class firms in years of high and low media hostility

	Years with		Years with	
	Below median negative articles	Above median negative articles	Below median one-share one vote (OSOV) articles	Above median one-share-one-vote (OSOV) articles
Mean industry-adjusted Q of non-unifying firms	-.119	-.178	-.128	-.175
p-value of difference		.01		.04

Media hostility is measured by the number of "one share one vote" (OSOV) articles and by the number of negative articles about our control sample of 214 non-unifying dual-class firms – see Table 4. Firm valuation is approximated by industry-adjusted Tobin's Q. Tobin's Q is the book value of assets plus the market value of equity minus the book value of equity, all divided by the book value of assets. Industry adjusted Q is calculated as the difference between firm's Tobin's Q and the mean single-class firms' Tobin's Q in the same industry (using the two-digits SIC code).

TABLE 6

The Determinants of Firm's Choice to Unify its Dual Class Shares.

Panel A: Anti-dual-class sentiment indicator = number of OSOV articles

VARIABLES	(1)	(2)	(3)	(4)
Number of OSOV articles		.030**	.039***	
		(.022)	(.001)	
Number of OSOV articles, lag				.050**
				(.013)
Institutional pressure	.666**	.459		
	(.018)	(.131)		
Firm size (lagged log assets)	-.033	-.039	-.040	-.039
	(.368)	(.301)	(.286)	(.291)
Control minus ownership, percent	-.013***	-.014***	-.014***	-.014***
	(.008)	(.008)	(.008)	(.006)
Financial investor	.611***	.626***	.625***	.610***
	(.000)	(.000)	(.000)	(.000)
Cross-listing	.428**	.453**	.441**	.424**
	(.032)	(.028)	(.030)	(.035)
Constant	-1.341***	-1.463***	-1.494***	-1.512***
	(.000)	(.000)	(.000)	(.000)
Country dummies	Yes	Yes	Yes	Yes
Observations	1,359	1,359	1,359	1,359
Pseudo R-squared	.105	.112	.108	.103

The table reports estimates of the probability of share class unifications using Probit regression models. The full sample includes 286 dual-class firms from Western Europe of which 72 firms experience unification over the period 1996-2002. Firms drop out of the sample after the unification. The dependent variable equals 1 if the firm unifies its shares in a given year, and equals 0 otherwise. The independent variables are: control minus ownership, the control rights minus ownership rights held by the largest shareholder (in %); cross-listing, equals 1 if the firm has ADRs, and 0 otherwise; financial investor, equals 1 if the largest shareholder is a financial investor, and 0 otherwise; institutional pressure, a country-specific yearly dummy variable that equals 1 if local regulation towards dual class shares is stricter in year t than at the beginning of 1996, and 0 otherwise (this variable coding is explained in Appendix A); firm size, the natural logarithm of total assets (where assets are in million USD); dummy variables for country. Three media pressure or anti-dual-class sentiment indicators are included in the regressions: 1) the number of "one share one vote" (OSOV) articles in the Wall Street Journal Europe (WSJE) and the Financial Times (FT) in year t and its lagged one-year value (see Panel A); 2) the number of negative-sentiment (WSJE or FT) articles about the control sample of 214 non-unifying firms in year t and its lagged one-year value (reported in Panel B): 3) Bebchuk, Cohen and Wang (2013) "number of CG articles" measure that counts each year the total number of articles mentioning "corporate governance" in 4 newspapers (New York Times, Washington Post, USA Today and Financial Times). We also employ a negative articles dummy variable that equals 1 in years where the number of negative-sentiment articles is above its 1994-2009 median, and 0 otherwise. P-values, calculated from standard errors that correct for clustering at the firm level, are reported in parentheses below the coefficient estimates. *, **, *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE 6 (continued)

Panel B: Other anti-dual-class sentiment indicators

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Institutional pressure	.666**						
	(.018)						
Firm size (lagged log assets)	-.033	-.037	-.038	-.039	-.041	-.032	-.033
	(.368)	(.308)	(.298)	(.288)	(.273)	(.357)	(.349)
Control minus ownership, percent	-.013***	-.014***	-.014***	-.014***	-.014***	-.015***	-.015***
	(.008)	(.007)	(.007)	(.006)	(.006)	(.003)	(.003)
Financial investor	.611***	.609***	.625***	.611***	.622***	.635***	.635***
	(.000)	(.000)	(.000)	(.000)	(.000)	(.000)	(.000)
Cross-listing	.428**	.417**	.438**	.427**	.449**	.445**	.450**
	(.032)	(.038)	(.030)	(.036)	(.028)	(.023)	(.024)
Negative articles		.021**					
		(.030)					
Negative articles, lag			.024***				
			(.002)				
Negative articles, dummy				.348***			
				(.009)			
Negative articles, dummy, lag					.394***		
					(.002)		
Bebchuk, Cohen and Wang (2013) measure						.043*	
						(.067)	
Bebchuk, Cohen and Wang (2013) measure, lag							.107*
							(.050)
Constant	-1.341***	-1.563***	-1.487***	-1.478***	-1.434***	-1.552***	-1.658***
	(.000)	(.000)	(.000)	(.000)	(.000)	(.000)	(.000)
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,359	1,359	1,359	1,359	1,359	1,359	1,359
Pseudo R-squared	.105	.100	.105	.106	.110	.089	.091

TABLE 7

The Effect of Firm Reputational Concerns on Unification Decisions.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Equity issue dummy	.330**	.310**	.302**	.322**	.303**	.301**
	(.033)	(.042)	(.047)	(.037)	(.047)	(.048)
Mean aggregate CSR in the industry	.226***	.222***	.219***	.223***	.216***	.217**
	(.008)	(.009)	(.010)	(.008)	(.009)	(.010)
Firm size (lagged log assets)	-.051	-.049	-.048	-.050	-.046	-.047
	(.191)	(.205)	(.216)	(.201)	(.223)	(.220)
Control minus ownership, percent	-.016***	-.016***	-.016***	-.016***	-.016***	-.016***
	(.003)	(.002)	(.002)	(.002)	(.002)	(.002)
Financial investor	.680***	.658***	.658***	.680***	.667***	.666***
	(.000)	(.000)	(.000)	(.000)	(.000)	(.000)
Cross-listing	.417**	.395*	.387*	.414**	.392**	.394*
	(.042)	(.053)	(.057)	(.042)	(.048)	(.050)
Number of OSOV articles	.044***					
	(.000)					
Number of OSOV articles, lag		.055***				
		(.007)				
Negative articles			.024**			
			(.016)			
Negative articles, lag				.027***		
				(.001)		
Bebchuk, Cohen and Wang (2013) measure					.053**	
					(.025)	
Bebchuk, Cohen and Wang (2013) measure, lag						.125**
						(.028)
Constant	-1.702***	-1.667***	-1.711***	-1.693***	-1.623***	-1.734***
	(.000)	(.000)	(.000)	(.000)	(.000)	(.000)
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,359	1,359	1,359	1,359	1,359	1,359
Pseudo R-squared	.125	.120	.117	.122	.113	.115

The table reports estimates of the probability of share class unifications using Probit regression models. The full sample includes 286 dual-class firms from Western Europe of which 72 firms experience unification over the period 1996-2002. Firms drop out of the sample after the unification. The dependent variable equals 1 if the firm unifies its shares in a given year, and equals 0 otherwise. The independent variables are those of Table 6 + two new variables: 1) An equity issue dummy equal to 1 if the firm issued equity in the same or following year (and equal to 0 otherwise), and 2) The mean Corporate Social Responsibility Score (CSR) of firm's industry. P-values, calculated from standard errors that correct for clustering at the firm level, are reported in parentheses below the coefficient estimates. *, **, *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

FIGURE 1

Number of Unifications and Scaled Number of Negative-Sentiment Articles during 1996-2009
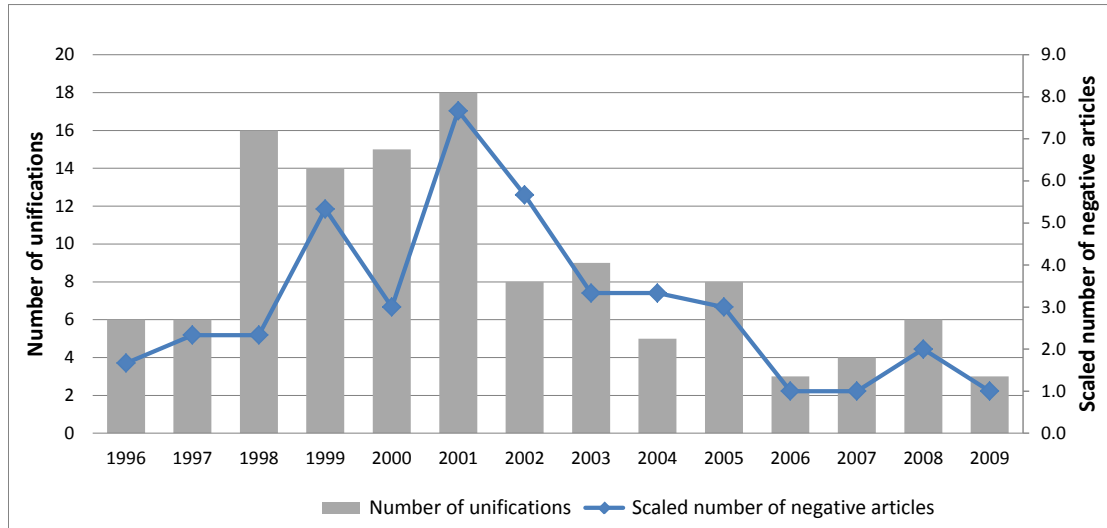
In the Figure "Scaled number of negative articles" is the ratio of calendar year t to calendar year 1994 number of negative-sentiment articles. Negative sentiment articles about the control sample of 214 non-unifying firms are extracted from the Financial Times and the Wall Street Journal Europe.