



The Media Role in Corporate Governance Improvement: Lessons from Dual Class Share Unifications

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Dual Class Shares

- A considerable proportion of publicly traded firms around the world have a dual class share structure, namely offer low-vote and high-vote shares.
- In dual class firms, controlling shareholders concentrate their holdings in the high-vote shares, because it's the cheapest way to gain control, which creates disproportionality – a gap or wedge between their (high) vote and (lower) equity holdings in the firm. This gap aggravates the controlling shareholder agency problem.
- The dual class structure is probably beneficiary at the initial fast-growth stage of firm's life-cycle. However, as firm matures, agency problems take the front stage.
- Bebchuk (1999) claims that gap structures are the worse form of corporate governance and Bennedsen and Nielsen (2010) show that the dual class structure discounts firm market value by 25% on average.

Dual Class Share Unifications

- The unique agency problems of dual class firms can be solved by a dual class share unification: transforming all company shares into a single “one share one vote” class.
- Unification is considered a corporate governance improvement because the gap or disproportionality are eliminated and because it typically dilutes the voting power of controlling shareholders.
- Israel has basically “forced” by law dual class share unifications (Lauterbach and Yafeh, 2011). However, more commonly, unifications are voluntary decisions by the firms.
- We study the media role in such “voluntary” unifications. **Can the media convince firms to unify? Can it impact the magnitude of controlling shareholders’ vote loss upon unification?**

Outline of Results

Examining 72 European unifications in 1996-2002, two central findings emerge:

- 1. When the press' anti-dual-class-shares sentiment increases, more companies unify their dual class shares.**
- 2. The long-run reduction in the voting power of controlling shareholders is larger for unifying firms that are under the media limelight.**

What drives voluntary unifications?

- Motivation 1 (Maury and Pajuste, 2011): Reduce the cost of external financing. Dual class structure signals high private benefits and expropriation. This deters simple and institutional investors. After unification access to capital markets becomes easier and cheaper.
- Motivation 2 (Bigelli, Mehrotra and Rau, 2011): Sometimes unification is just another trick of controlling shareholders to exploit the public. Before unifications shareholders purchase low-vote shares, so eventually their wealth increases upon unification.

Our “new” explanation

- We propose that unifications are semi-voluntary and also emanate from public opinion and media pressure.
- Dyck, Volchkova and Zingales (2008) describe “firm public opinion reputation” as an asset that companies struggle to develop and keep.
- If public sentiment turns against dual class structures, firms try to recover their eroded “public image” asset by unifying their dual class shares. More precisely, some controlling shareholders choose to give up the extra private benefits afforded by the dual class structure in return for the extra reputation of single class firms.

The dual role of the media

1. Media is an activist reform-demanding agent. From a cynical point of view, “crusades” to restrain “greedy” CEOs and “exploitive” controlling shareholders are a sure readership-booster. Anyway, media campaigns hurt the reputation of firms with “bad corporate governance” and convince them to improve.
2. Media is a “watch-dog”. Firms that are interesting to the media, media-attended firms, cannot afford violations and cannot reverse corporate governance improvements because those would be reported immediately.

The role of the media

Dyck and Zingales (2004) estimate private benefits of control in 39 countries. After a multivariate analysis they conclude that **media pressure and tax enforcement seem to be the dominating factors in restraining private benefits.**

Tests of the “new” explanation

- **Testable hypothesis 1** - Negative Sentiment: When media sentiment towards dual class shares worsens, the tendency to unify and the rate of unifications increase.
- **Testable hypothesis 2** – Media Oversight: The higher is media interest in a company, the larger is the vote loss of its controlling shareholders upon unification and in the long-run (seven years after the unification).

Our Sample:

Voluntary Unifications in Europe

European Sample description (Maury and Pajuste, 2011)

- Total 1996-2002 unifying firms sample 109
- Unifying firm, still listed, no ownership data on crucial dates 7
- Unifying firms delisted 30
- Final sample: Unifying firms, still listed 72

- Total control sample of dual class shares 384
- Dual-class, delisted since 2002 126
- Dual-class, unifying after 2002, still listed 44
- Final control sample: Dual-class, still listed 214

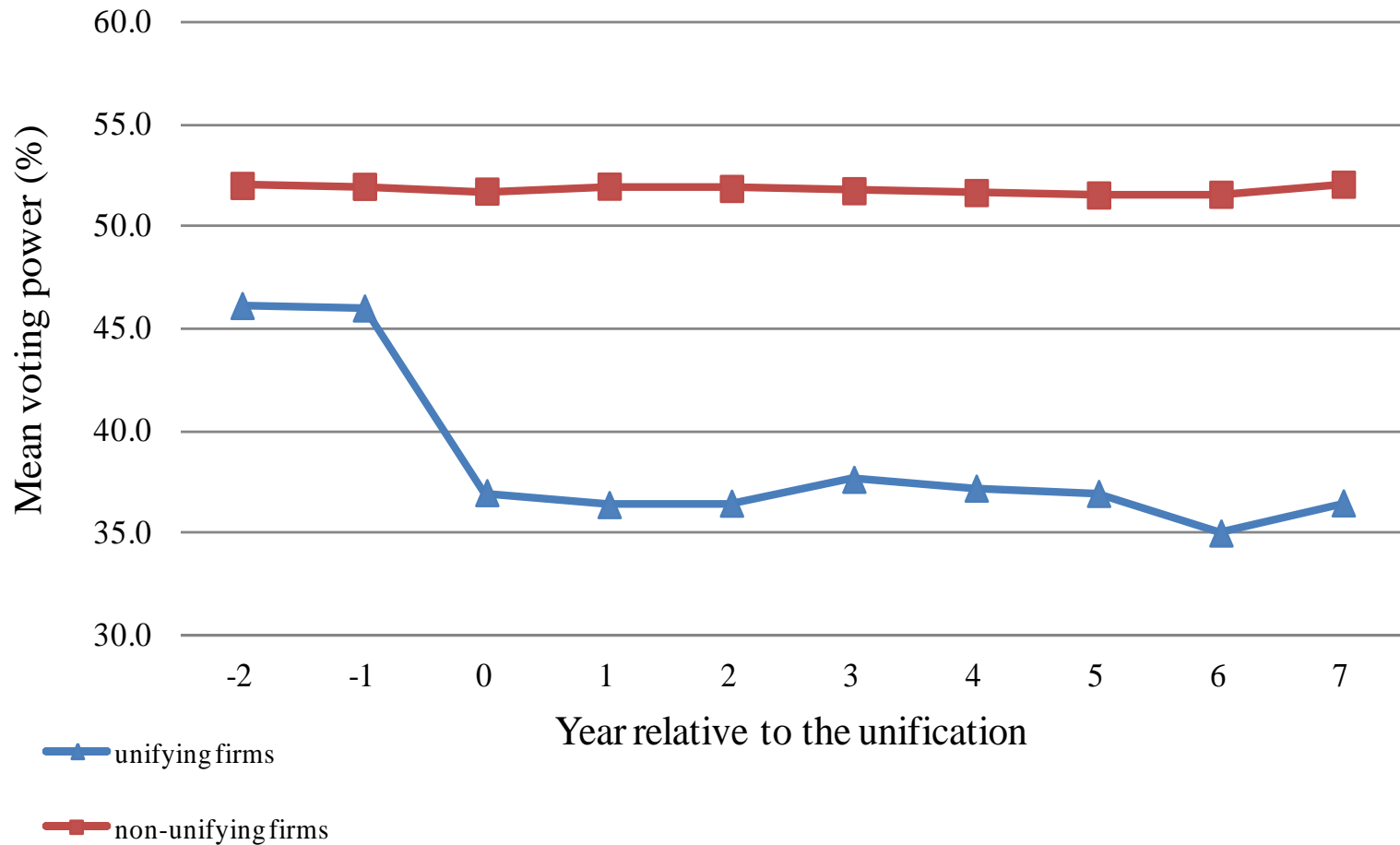
Unifying firms demographics

	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

Descriptive statistics

	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%		

Voting Power Dilution



Long-term changes in relative voting power for 72 unifying firms

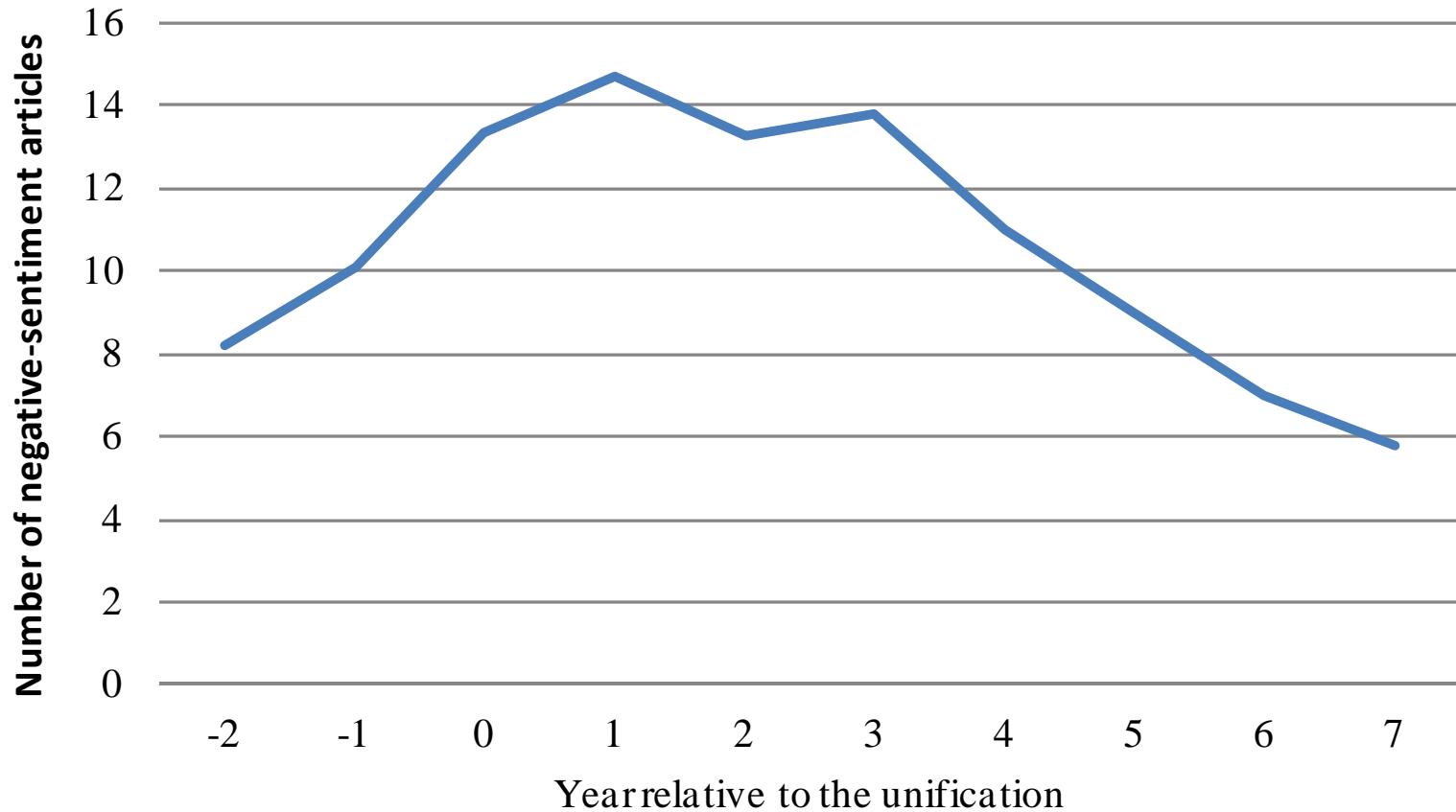
Mean difference in controlling shareholders' voting power between unifying and non-unifying firms before unification (year -2) ^a	-4.7%
Mean difference in controlling shareholders' voting power between unifying and non-unifying firms in year 7	-15.6%
Increase in the voting power difference between pre-unification and year 7 (= the eventual post-unification relative vote decrease in unifying firms)	10.9%
<i>p-value</i> of the above post-unification relative vote increase	0.001
Proportion of unifying firms with a negative relative change in controlling shareholders' voting power	72.2%
<i>p-value</i> of above proportion (null: proportion is 0.5)	0.000



Media Coverage and Negative Sentiment

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

Increasing media pressure before unifications



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		0.0285** (0.0313)	0.0373*** (0.0012)	
Number of OSOV articles, lag				0.0469** (0.0242)
Institutional pressure	0.633** (0.0227)	0.436 (0.1482)		
Firm size	-0.0239 (0.7006)	-0.0347 (0.5825)	-0.0352 (0.5749)	-0.0325 (0.6022)
Control minus ownership	-0.894** (0.0269)	-0.920** (0.0264)	-0.939** (0.0234)	-0.953** (0.0210)
Financial investor	0.549*** (0.0010)	0.564*** (0.0010)	0.562*** (0.0010)	0.549*** (0.0011)
Cross-listing	0.434** (0.0211)	0.456** (0.0186)	0.444** (0.0201)	0.428** (0.0234)
Constant	-1.608*** (0.0002)	-1.711*** (0.0001)	-1.749*** (0.0001)	-1.768*** (0.0001)
Country dummies	Yes	Yes	Yes	Yes
Observations	1,355	1,355	1,355	1,355
Pseudo R-squared	0.0930	0.100	0.0955	0.0912

The determinants of firm's choice to unify its dual class shares (2)

Panel B: Anti-dual-class sentiment indicator = number of negative-sentiment control firm articles

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Institutional pressure	0.633** (0.0227)							
Firm size	-0.0239 (0.7006)	-0.0308 (0.6182)	-0.0327 (0.5999)	-0.0316 (0.6144)	-0.0351 (0.5783)	-0.0329 (0.5943)	-0.0283 (0.6429)	-0.0413 (0.5164)
Control minus ownership	-0.894** (0.0269)	-0.946** (0.0210)	-0.933** (0.0229)	-0.958** (0.0208)	-0.956** (0.0218)	-0.940** (0.0219)	-0.922** (0.0224)	-0.942** (0.0177)
Financial investor	0.549*** (0.0010)	0.547*** (0.0011)	0.561*** (0.0010)	0.548*** (0.0013)	0.562*** (0.0010)	0.553*** (0.0010)	0.550*** (0.0010)	0.556*** (0.0007)
Cross-listing	0.434** (0.0211)	0.422** (0.0252)	0.441** (0.0200)	0.429** (0.0253)	0.449** (0.0191)	0.429** (0.0224)	0.423** (0.0227)	0.346* (0.0748)
Negative articles		0.0201** (0.0424)						
Negative articles, lag			0.0226*** (0.0036)					
Negative articles, dummy				0.326** (0.0132)				
Negative articles, dummy, lag					0.367*** (0.0037)			
Negative articles, percent of total articles						0.925** (0.0367)		
Negative articles, percent of total articles, lag							0.792* (0.0630)	
Media attention, last 5 years								0.147 (0.3847)
Constant	-1.608*** (0.0002)	-1.814*** (0.0000)	-1.747*** (0.0001)	-1.746*** (0.0001)	-1.699*** (0.0001)	-1.734*** (0.0001)	-1.663*** (0.0001)	-1.515*** (0.0008)
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,355	1,355	1,355	1,355	1,355	1,355	1,355	1,355
Pseudo R-squared	0.0930	0.0888	0.0930	0.0939	0.0975	0.0889	0.0855	0.0825

The effect of media oversight on controlling shareholders' vote loss

Panel A: Vote loss and media oversight

	All unifying firms	Media-attended firms	Media un-attended firms	Equal means test: (a) = (b) p-value
		(a)	(b)	
	n=72	n=21	n=51	
Initial vote loss (-2, 0) ^a	10.3%	14.7%	8.5%	0.094
Long term vote loss (-2,+7) ^a	10.8%	20.0%	7.0%	0.035
Post-unification vote loss (0,+7)	0.5%	5.3%	-1.5%	0.132

The effect of media oversight on controlling shareholders' vote loss (2)

Panel B: Long term vote loss in media attended and un-attended firms, by firm size

	Media-attended firms		Media un-attended firms	Mean vote loss
	With negative sentiment articles	With neutral articles		
Large size (upper 25%)	18.6% (3)	16.7% (9)	-10.0% (6)	8.1%
Medium size (mid 50%)	19.3% (2)	25.1% (7)	8.2% (27)	12.1%
Small size (lower 25%)	-	-	11.0% (18)	11.0%
Number of firms	5	16	51	
Mean vote loss	18.9%	20.4%	7.0%	10.8%

Factors affecting the long term vote loss of controlling shareholders in unifying firms

VARIABLES	(1)	(2)	(3)
Media attention, last 5 years		13.34** (0.0313)	13.89** (0.0269)
Control minus ownership	1.150*** (0.0000)	1.055*** (0.0001)	0.963*** (0.0001)
Firm size	0.0513 (0.9783)	-1.533 (0.4699)	-1.287 (0.5458)
Institutional pressure	13.93** (0.0262)	13.46** (0.0384)	
Constant	-8.442 (0.5795)	-1.226 (0.9391)	1.759 (0.9087)
Observations	65	65	65
R-squared	0.290	0.323	0.284

Conclusions

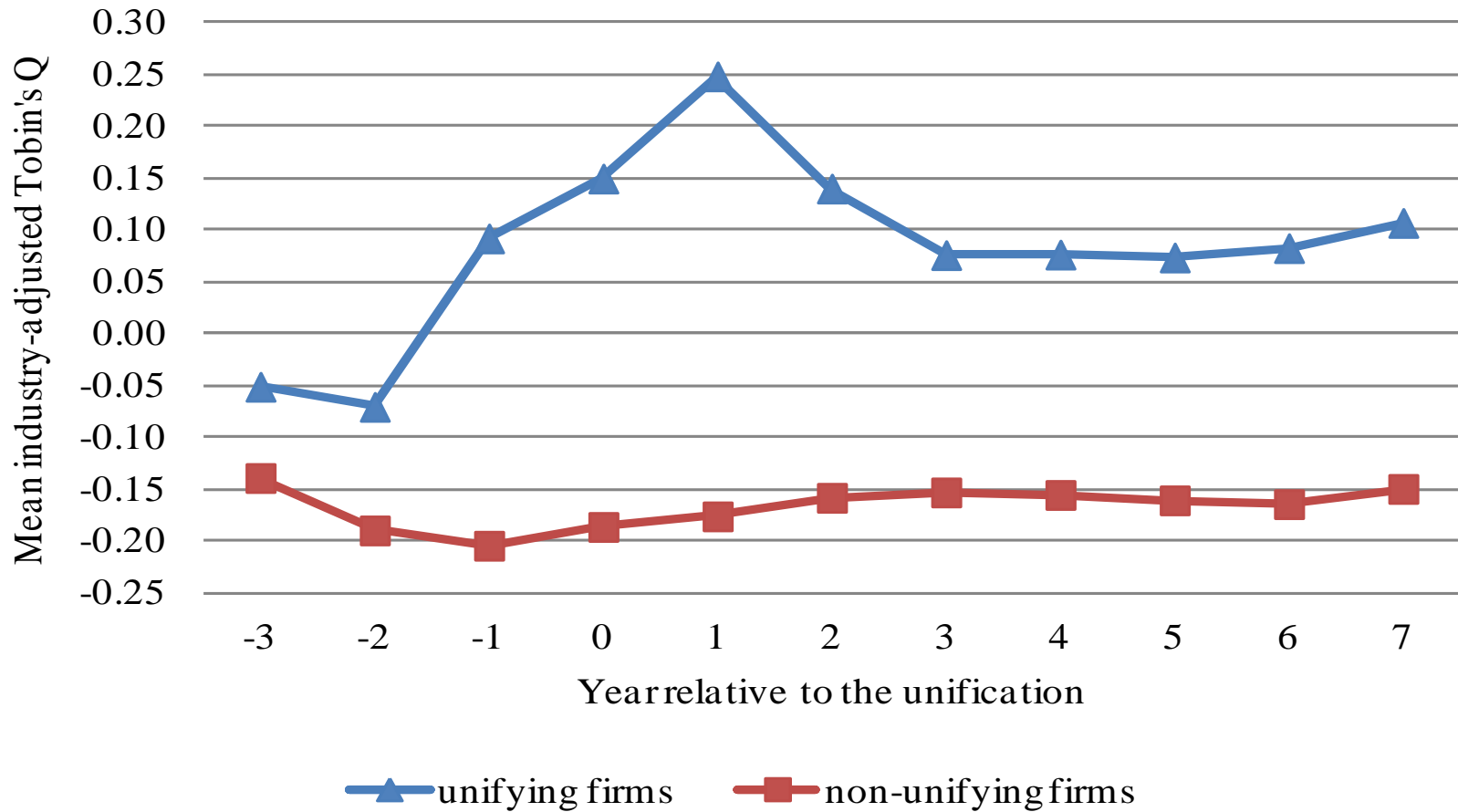
- Media and public opinion pressure (negative sentiment) help in convincing firms to improve corporate governance, give up their dual class share structure in our case.
- Media continuous coverage and attention to the firm affects the degree of corporate governance improvements, deepens the long-term vote concession of firm controlling shareholders. Media is an effective “watchdog”.

Message

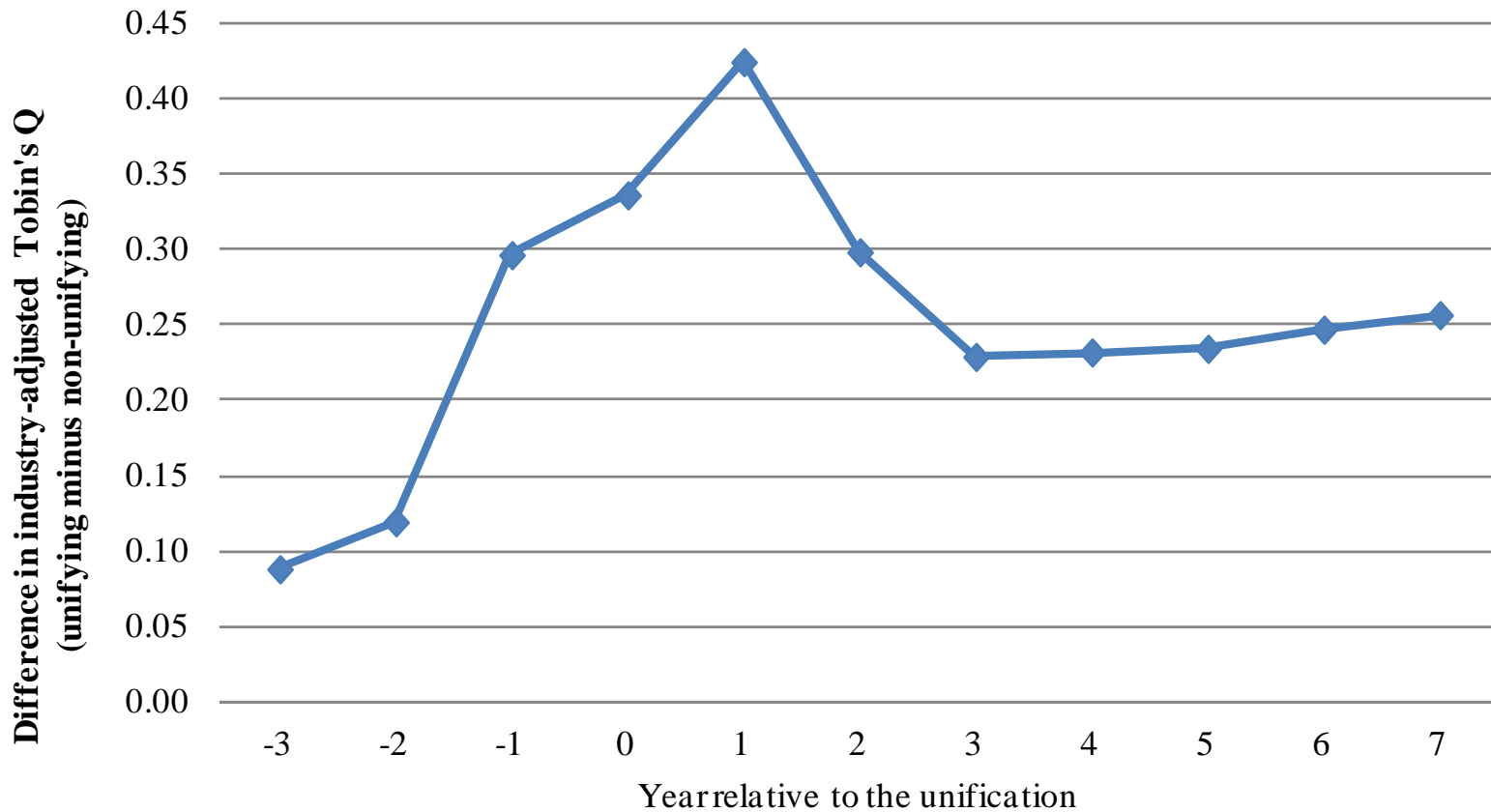
The seventh-power rules!

And its impact should be further studied...

Tobin's Q Evidence (if time permits)



Tobin's Q Evidence (if time permits)





Thank you