ecgi

Bolstering Family Control: Evidence from Loyalty Shares

Finance Working Paper N° 619/2019
April 2020

Emanuele Bajo
University of Bologna

Massimiliano Barbi
University of Bologna

Marco Bigelli
University of Bologna

Ettore Croci
Università Cattolica del Sacro Cuore Milan

ECGI Working Paper Series in Finance

Bolstering Family Control: Evidence from Loyalty Shares

Working Paper N°619/2019

April 2020

Emanuele Bajo
Massimiliano Barbi
Marco Bigelli
Ettore Croci

We are thankful for very constructive comments from Roberto Barontini, Jiao Ji, Hanwen Sun, the participants at the 2018 ECGI Roundtable on Loyalty Shares in Brussels, the 2019 Paris Financial Management Conf erence, the 2019 ADEIMF conference in Turin, and participants at the 2019 seminar at the University of Paris XII. Furthermore, we wish to thank Massimo Belcredi, Stefano Bozzi, and Assonime for access to the board composition data used in their annual report "Corporate Governance in Italy: Compliance, Remunerations and Quality of the Comply-or-Explain," as well as Nadia Linciano and Angela Ciavarella (CONSOB) for providing data on control-enhancing mechanisms of Italian listed firms. We are alsograteful to Aleksandra Baros for her research assistance.

Abstract

We study the introduction of a new control-enhancing mechanism in Italy, a country characterized by family-controlled firms and growing shareholders' protection by institutional investors. Since 2014, Italian firms have been able to adopt loyalty shares, which allow a double voting right if shares are continuously held for at least two years. We find that about 20 percent of listed firms have introduced loyalty shares, and family-controlled firms are the most likely adopters. Loyalty shares neither anticipate acquisitions, nor equity issues by the adopting firm. Instead, they allow controlling shareholders to reduce their equity stake without losing control. We report no evidence of an adverse wealth effect both at the adoption and in the years following it. Institutional investors oppose the introduction of loyalty shares, yet they do not reduce their holdings in adopting firms. Overall, our evidence suggests that bolstering family control is the main effect of the introduction of loyalty shares.

Keywords: Loyalty shares, Family firms, Long-term shareholders; Control-enhancing mechanisms

JEL Classifications: G32, G34

Emanuele Bajo
Professor of Finance
University of Bologna, Department of Economics
Piazza Scaravilli 2
40126 Bologna , Italy
phone: +39 051 209 8026
e-mail: emanuele.bajo@unibo.it

Massimiliano Barbi*
Associate Professor
University of Bologna, Department of Management
Via Capo di Lucca 34
40126 Bologna , Italy
phone: +39 051 209 8063
e-mail: massimiliano.barbi@unibo.it

Marco Bigelli
Professor
University of Bologna, Department of Management
Via Capo di Lucca 34
40126 Bologna , Italy
phone: +39 051 209 8060
e-mail: marco.bigelli@unibo.it

Ettore Croci
Professor
Università Cattolica del Sacro Cuore Milan, Department of Economics and Business Management
Via Necchi 7
20123 Milan, Italy
phone: +39 027 234 3012
e-mail: ettore.croci@unicatt.it

*Corresponding Author

Bolstering Family Control:
Evidence from Loyalty Shares

Emanuele Bajo Massimiliano Barbi

Marco Bigelli Ettore Croci

Abstract

We study the introduction of a new control-enhancing mechanism in Italy, a country characterized by family-controlled firms and growing shareholders' protection by institutional investors. Since 2014, Italian firms have been able to adopt loyalty shares, which allow a double voting right if shares are continuously held for at least two years. We find that about 20 percent of listed firms have introduced loyalty shares, and family-controlled firms are the most likely adopters. Loyalty shares neither anticipate acquisitions, nor equity issues by the adopting firm. Instead, they allow controlling shareholders to reduce their equity stake without losing control. We report no evidence of an adverse wealth effect both at the adoption and in the years following it. Institutional investors oppose the introduction of loyalty shares, yet they do not reduce their holdings in adopting firms. Overall, our evidence suggests that bolstering family control is the main effect of the introduction of loyalty shares.

JEL classification: G32; G34.

Keywords: Loyalty shares; Family firms; Long-term shareholders; Control-enhancing mechanisms.

Emanuele Bajo is from the Department of Economics, University of Bologna (Italy). Massimiliano Barbi (corresponding author, massimiliano.barbi@unibo.it) and Marco Bigelli are from the Department of Management, University of Bologna (Italy). Ettore Croci is from the Department of Economics and Business Management Sciences, Università Cattolica del Sacro Cuore in Milan (Italy). We are thankful for very constructive comments from Roberto Barontini, Jiao Ji, Hanwen Sun, the participants at the 2018 ECGI Roundtable on Loyalty Shares in Brussels, the 2019 Paris Financial Management Conference, the 2019 ADEIMF conference in Turin, and participants at the 2019 seminar at the University of Paris XII. Furthermore, we wish to thank Massimo Belcredi, Stefano Bozzi, and Assonime for access to the board composition data used in their annual report "*Corporate Governance in Italy: Compliance, Remunerations and Quality of the Comply-or-Explain*," as well as Nadia Linciano and Angela Ciavarella (CONSOB) for providing data on control-enhancing mechanisms of Italian listed firms. We are also grateful to Aleksandra Baros for her research assistance.

1. Introduction

The dramatic increase in assets managed by institutional investors has heightened the short-term pressure exercised by the stock market on listed companies (Asker et al., 2015; Brochet et al., 2015; Edmans et al., 2017; Agarwal et al., 2018). This short-term pressure has led managers, regulators, and politicians to discuss and examine solutions aimed at promoting more extended holding periods and long-term behavior of shareholders. Among several proposals, the 2012 European Commission's Action Plan on "*Modernising Company Law and Enhancing Corporate Governance in the European Union*" suggested the introduction of instruments, like loyalty shares, aimed at stimulating long-term investments by shareholders and counteracting short-termism (Bolton and Samama, 2013). Following this debate, some European countries like France, Italy, Belgium, and the Netherlands promulgated laws that either introduced or modified the discipline of loyalty shares.

Loyalty shares create deviations from the one-share one-vote principle recommended by several corporate governance codes around the world. Such deviations have been found to favor tunneling (Johnson et al., 2000), reduce market discipline in takeover contests (Grossman and Hart, 1988; Harris and Raviv, 1988), and generally be detrimental to shareholder value (Bebchuk et al., 2000; Adams and Ferreira, 2008). Corporate governance activists and institutional investors heavily promoted one-share one-vote in the 1990s and early 2000s, resulting in a wave of dual-class unifications (Hauser and Lauterbach, 2004; Lauterbach and Pajuste, 2015).[1,2] While proponents of loyalty shares stress their

[1] At the same time, an attempt to ban dual class firms at the European level (see the European Commission "*High Level Group of Company Law Experts*" report, also known as Winter report; HLG, 2002a, 2002b) was aborted, as mixed evidence on their effects on total shareholder value was reported by survey studies commissioned by the European Commission (Adams and Ferreira, 2008; Burkart and Lee, 2008).

[2] Dual class shares and control-enhancing mechanisms in general have recently gained new momentum. Famous tech giants such as Google, Facebook, LinkedIn, and Alibaba have adopted multiple voting shares to keep their

bright side, i.e. the alleged ability to mitigate short-termism, a dark side exists as well. Controlling shareholders can use loyalty shares as a control-enhancing mechanism to insulate themselves from market pressures and weaken minority investors. This concern is particularly relevant in continental Europe, where ownership is often concentrated, and family control is common (Faccio and Lang, 2002; Barontini and Caprio, 2006; Lins et al., 2013). Under this view, loyalty shares could serve as a replacement for mechanisms, like dual-class share structures, that were once common in continental Europe. Therefore, the costs from the increased separation between ownership and control may outweigh the benefits of favoring long-term investment.

To examine this question, we study the effect of adopting loyalty shares in Italy, a country dominated by large shareholders, but where the role and power of institutional shareholders have substantially increased over time. Italy has long been known as a country characterized by a strong prevalence of firms with concentrated ownership and poor investor protection (Zingales, 1994; La Porta et al., 2000). Here, the largest shareholder is typically a family owning more than 50 percent of the firm's equity (Faccio and Lang, 2002; Barontini and Caprio, 2006). While ownership is still concentrated and in the hands of families, investor protection has improved, thanks to several reforms that have given more power to minority shareholders and favored their activism (Belcredi and Enriques, 2015).[3] This shareholder empowerment has also led to a drastic reduction of control-enhancing mechanisms like dual-class shares (Bigelli et al., 2011), on which controlling families have historically relied (Caprio and Croci, 2008). The introduction of loyalty shares in Italy allows us to

---

founders in control. In 2018, the Hong Kong Stock Exchange overturned rules barring the listing of companies with multiple voting rights in order not to lose tech companies in favor of US stock exchanges.

[3] These reforms include, e.g., a broader range of issues to be decided at the general meeting (from 1998), a say-on-pay vote (from 2012), the extension of slate voting to the board of directors of all listed firms (from 2005). See Belcredi and Enriques (2015) for a discussion of these reforms.

investigate the response of institutional investors to the adoption of a new control-enhancing mechanism, at a time when the importance of such investors is extremely high, and minority shareholders' interests are more protected, also through a granted board representation.

The opportunity to adopt loyalty shares was given to Italian firms by a law passed in 2014, allowing them the option to reward "loyal" shareholders with an additional vote per share.[4] Unlike in France, where loyalty shares already existed before the 2014 Florange Act,[5] this legal mechanism was not available to Italian listed firms before 2014, and it represented a remarkable novelty. Forty-nine Italian listed firms in our sample (approximately, one-fifth of all firms listed on the main segment of Borsa Italiana) introduced this device between 2015 and 2019. The peak of adoptions was reached in 2015, with 18 instances. After that, the number of adoptions has stabilized at around 9 per year.

By contrasting the sample of Italian listed firms adopting loyalty shares to the universe of Italian listed firms, we document that family status increases the likelihood of implementing the new voting system. This result is economically sizeable, as family firms are from 5 to 7 times more likely to opt for loyalty shares than non-family firms. At first sight, this additional control-enhancing mechanism may appear not to be markedly valuable to family controlling shareholders, given their already significant ownership stake. However, we document that these families exploit the new device even to strengthen their grip on the firm. We also report that majority shareholders use loyalty shares to decrease their holdings without losing their control over the firm. Since the controlling family is usually under-diversified, loyalty shares may allow for idiosyncratic risk to be reduced. Family firms may also be prone to adopt loyalty shares in preparation for an expected equity-diluting operation, such

[4] Registration in a special register and a continuous holding period of at least two years are required.

[5] According to this law, already-existing loyalty shares were transformed from optional to mandatory for all listed companies, unless they chose to opt out.

as a merger or an equity issue. Our evidence does not support this conjecture, as the decrease in their controlling stakes is not correlated with ownership-diluting events, like acquisitions and seasoned equity offerings. Hence, loyalty shares seem to be adopted for reasons other than preserving family control in times of external growth or financing. Overall, we interpret these findings as evidence that families exploit loyalty shares to reduce their exposure to firm-specific investment while preserving control, but not to foster external growth.

While controlling shareholders have welcomed loyalty shares, institutional investors in Italian listed companies have voiced their opposition at the shareholder meetings calling for their adoption. As in France (Belot et al., 2019), we document that institutional investors have opposed to loyalty shares and have voted against their introduction at the shareholder meeting. However, even if institutional investors have manifested discontent, we find that they have not voted with their feet. We do not observe a negative market reaction either at the announcement or at the adoption. Contrarily to their ex-ante opposition, institutional investors do not decrease their stake in adopting firms, but they slightly increase it. The evidence differs from Bourveau et al. (2019), who show a decrease in institutional ownership, especially foreign investors. This behavior can be motivated by several concurring explanations. First, loyalty share adopters in Italy are on average more profitable than non-adopters; thus, it could be costly for institutional investors to exit these companies. Second, companies adopting loyalty shares are mostly family firms, and the controlling shareholder already owns more than 50 percent of the voting capital. Therefore, their increase in voting power does not materially alter the position of institutional investors. Finally, related to the previous argument, institutional investors can still elect directors in the company, through the so-called "slate voting." Directors appointed by minorities have no connections with the controlling shareholder and serve as a monitoring device. In

line with this contention, we document that the presence of minority-appointed directors significantly reduces the likelihood of adopting loyalty shares.

Our paper extends and complements previous works on loyalty shares. We add to this literature by examining the introduction of loyalty shares in Italy. Italy is an ideal venue for this type of study because of the contemporaneous presence of both dominant controlling shareholders and, after the improvement in shareholder protection, more empowered institutional investors. While introduced in 2014 to foster institutional investors' long-term investments, loyalty shares have the potential to strengthen the power of controlling shareholders. We provide evidence suggesting that loyalty shares mainly serve the latter purpose. Previous literature has mostly focused on France, where the Florange Act of 2014 made loyalty shares mandatory for all listed companies unless they opt out.[6] Becht et al. (2018) analyze the 120 largest French companies included in the SBF120 index and report that 70 percent of them opted out after the 2014 forced adoption. Belot et al. (2019) document that loyalty shares were already popular in France before 2014, especially among family firms. They primarily focus on the choice of opting out, finding that it harms a firm's value. However, the shareholders' favorable view of loyalty shares found by Belot et al. (2019) is not confirmed by Bourveau et al. (2019), who report a positive reaction to successful opt-out votes. Our results suggest that family firms are also eager to introduce loyalty shares in Italy, but there is no evidence of a wealth effect at their adoption. The different results for these two countries, characterized by relatively similar institutions and legal origin (La Porta et al., 1998), suggest that investors behave differently depending on the situation they face. Unlike the 2014 French law, which automatically introduced loyalty shares in all listed firms, unless shareholders decide to opt out, Italian firms must voluntarily adopt loyalty shares.

[6] In a study of loyalty shares in France in the pre-Florange Act era, Ginglinger and Hamon (2012) find that loyalty shares cause the liquidity of small-cap companies to increase.

The remainder of the paper continues as follows. In the next section, we describe the institutional background, the data we use in our study and the descriptive statistics of our sample. Section 3 reports and discusses the empirical results. Section 4 concludes.

2. Institutional background to loyalty shares and data

2.1 Institutional background

Until mid-1990s, Italy was one of the European countries where the ownership-control separation was more severe, thanks to extensive use of control-enhancing mechanisms (CEMs), such as shareholder agreements, pyramidal groups, non-voting shares, and often a combination of these (Faccio and Lang, 2002). Over time, these CEMs have lost their appeal, and Italian companies have relied progressively less on them for several reasons. A stricter discipline on related-party transactions was passed in 2010 (CONSOB regulation 17221/2010), limiting the private benefits potentially delivered by shareholder agreements. Besides, the 2017 change in the tax regime of dividends paid to controlling companies reduced the appeal of pyramidal groups. Even more importantly, non-voting shares have almost completely disappeared for two main reasons. First, institutional investors and hedge funds have gradually directed their investments to one-share one-vote companies. Second, the dramatic decrease in interest rates made the mandatory dividend privilege offered to such shareholders extremely expensive for the issuing firms (Bigelli and Croci, 2013). As a consequence, many companies decided to return to a one-share one-vote equity structure through a dual-class unification (Bigelli et al., 2011), and listed firms using non-voting shares dropped from 31.9 percent in 1998 to a modest 7.4 percent in 2017 (CONSOB, 2018).

Inspired by the regulation discussed at the European level, a new CEM was made available to Italian firms in 2014 (Law 116/2014 and art. 127 quinquies of the Consolidated Law on Finance, TUF).

Listed firms can now introduce loyalty shares, allowing "loyal" shareholders an extra vote per share after a continuous holding period of at least two years.[7] The Italian legislator implemented an opt-in regime, leaving firms the choice on the adoption of loyalty shares. This solution differs from that which was chosen by French legislators in the contemporaneous Florange Act, enforcing an opt-out regime.

2.2 Mechanics of loyalty shares

Under the Italian regulation, the granting of enhanced voting rights does not create any new special category of shares. All shares meeting the requirements set forth by the law and the issuer's bylaws can have their votes increased. This increase is up to two votes, and it is applicable only to shares continuously held by the same shareholder for at least two consecutive years. The transfer of the shares automatically terminates the enhanced voting rights (unless they are inherited). Shareholders opting for enhanced voting rights must be registered with the issuer. The double vote then comes into effect two years from this date for shareholders of already-listed companies, and immediately for newly listed firms. Introducing loyalty shares requires an amendment of the company's bylaws, which has to be approved by the extraordinary general meeting with a two-thirds majority resolution.[8]

Loyalty shares enhance shareholders' voting rights only in particular circumstances. They carry up to two votes only at the shareholder meetings, but not when exercising some minority rights, such as calling a meeting, suing directors, etc. Finally, loyalty shares may affect control contests. Shareholders can exceed the threshold triggering a totalitarian takeover in compliance with the equal opportunity rule

[7] The same law allowed unlisted companies to issue multiple voting shares, carrying up to three votes each.
[8] The required majority was only 50 percent plus one vote in the first six months after the introduction of the law.

because of the double voting power of their shares. However, when a takeover attempt is pending, loyalty shares do not allow the extra vote.

2.3 Data

Our analysis covers the period from 2015 to the end of 2019. The sample period begins in 2015 because loyalty shares were introduced in Italy on August 11, 2014 (Development Decree, Act 116/2014 converted in Law 116/2014), and companies have started to adopt the new voting system since January 2015.[9] For our analysis, we create a sample of Italian listed companies (including those adopting loyalty shares) available in the Thomson Reuters Worldscope database (now Refinitiv).[10] This initial list contains 343 firms, including firms that carried out their IPO between 2015 and 2019. For all these companies, we verify the availability of stock prices and financial data from Thomson Reuters Datastream and Worldscope, respectively, as well as corporate governance, ownership, and CEMs information. Corporate governance data on the composition of the boards are gathered from the Association of Italian Joint Stock Companies (Assonime) annual report "*Corporate Governance in Italy: Compliance, Remunerations and Quality of the Comply-or-Explain*". Ownership data for the largest blockholders are from the CONSOB website, while data for institutional investor ownership are taken from the Thomson Reuters Eikon database. This allows the inclusion of institutional investor holdings below the threshold of 3 percent that do not require a filing with the regulator. Data for non-voting shares and pyramidal group from 2008 to 2019 are from the CONSOB. Finally, data on acquisitions and equity issuance are from Thomson Reuters' Thomson One Banker M&A and Equity issues databases, respectively. The final sample includes 260 firms.

[9] The first company opting for loyalty shares was Campari on January 29, 2015, date of the general meeting.
[10] We use the companies included in the list WSCOPEIT.

We collect information on the introduction of loyalty shares from the Italian market regulator (CONSOB) website, which maintains an updated list of companies adopting loyalty shares.[11] Forty-nine companies in our sample adopted loyalty shares between 2015 and 2019, six of which announced the adoption at the time of their IPO.[12] We manually collect information on the announcement date using internet searches. Data on the outcome of the general meeting vote and the percentage of voting capital are obtained from the companies' official filings.

3. Results

3.1 Introduction of loyalty shares

Table 1 shows that 49 companies adopted loyalty shares between 2015 and 2019. Considering that there are 260 unique firms in our sample, about 19 percent of the sample companies have introduced loyalty shares, confirming the relevance of the phenomenon.[13] The breakup by year in table 1, panel A, shows that 18 companies (37 percent of all the firms adopting loyalty shares) amended their bylaws in 2015, as soon as the Development Decree allowed them to opt for the new voting system. The same panel suggests that, out of these 49 companies, six have chosen to adopt loyalty shares in preparation of their IPO. Panel B of the same table provides, for each sample-year, details on the number of firms entering or exiting the Italian stock exchange, as well as the number of companies with CEMs in place (dual-class shares and pyramidal structures). Depending on the year, 7 to 9.4 (17.8

[11] The list is available at the following URL: http://www.consob.it/web/area-pubblica/quotate/main/emittenti/societa_quotate/voto_maggiorato_plurimo_lnk.htm?nav=true.

[12] The CONSOB list reports 55 firms adopting loyalty shares between 2015 and 2019. Six of these firms are not in our sample because of lack of data.

[13] The total number of listed companies in Italy at the end of 2019 (as reported by the Italian Stock Exchange) was 375, 65 percent of them (242 companies) belonging to the main market segment, the remainder being listed on the AIM Italia. This confirms the representativity of the sample used in the paper.

to 21) percent of the companies had dual-class shares (pyramidal structures) in place, confirming the decline in the use of such devices.

Please insert table 1 here

Table 2 provides some information on the voting results of the extraordinary general meeting in which loyalty shares were introduced, as reported by the minutes of the meetings. The number of companies goes down from 49 to 43 in Table 2. Six companies introduced loyalty shares at the time of their IPO, and they were private companies at the date of the shareholder meeting, making the minutes of the meetings publicly unavailable. From reading the board of directors' proposals to the shareholder meetings on the adoption of loyalty shares, we find that the main official reason for their introduction is to build shareholder loyalty and favor their long-term involvement in the firm. On average, companies introducing loyalty shares are characterized by a controlling shareholder holding almost 55 percent of the equity capital, while the second-largest shareholder has a stake of about 6 percent. Table 2 also reports that, on average, 68 percent of the capital was represented at the extraordinary general meeting, and 60.5 percent voted in favor of the introduction of loyalty shares. Interestingly, 7.4 percent of the capital voted against, and 0.1 percent chose to abstain. This preliminary evidence suggests that it is mainly the controlling shareholder's votes that drive the results of the extraordinary general meeting. According to the Italian legislation, resolutions at that meeting are passed with the favorable vote of at least two-thirds of the voting capital represented. Due to the presence of the controlling shareholder, loyalty shares were adopted by a large majority, i.e. 88 percent on average (= 60.5 percent out of 68 percent).

Please insert table 2 here

Institutional investors consistently voted against the introduction of loyalty shares. If it had not been for the controlling shareholder, the resolution would have been largely rejected by 59 percent of the remaining capital represented at the meeting (= 7.8/(68.0 – 54.7)). This suggests that the perceived benefits of the new voting systems are different between the majority shareholder and the minorities. In particular, the opposition of institutional investors during the extraordinary general meeting underlies their perceived increased risk of agency costs brought about by a larger separation between ownership and control.

The Development Decree allowed companies to adopt loyalty shares with a simple majority vote until January 31, 2015. Only three companies chose to call the extraordinary general meeting before this date, i.e. Campari, Astaldi, and Amplifon. Table 2 also reports descriptive statistics for these three companies. Despite the limited statistical inference, we notice that shareholders voting against the adoption of loyalty shares represent a much larger percentage in these cases relative to the other loyalty share adopters (21.8 percent against 7.4 percent). This may suggest that these firms likely took advantage of this opportunity because they were concerned about failing to reach the 66.67 percent voting quorum required after January 31, 2015, amid the opposition of attending institutional investors.

3.2 Comparative analysis of companies with loyalty shares

Table 3 describes the characteristics of the companies adopting loyalty shares and compares them with the universe of Italian listed firms. Variables are defined in Appendix A. Firms with loyalty shares are significantly smaller on average, considering total assets and sales. However, when looking at medians, differences narrow considerably, and loyalty share companies do not appear significantly

different from the others. This is because size is largely skewed to the right. For example, in terms of sales, the largest 17 companies in our sample account for about 72 percent of the total 2018 figure, and none of them adopted loyalty shares. Firms adopting loyalty shares are valued more by the market (median Tobin's Q equal to 1.2x v. 1.1x) and are more profitable (median ROA is 3.2 percent v. 1.1 percent). Also, they are cash-richer (median cash over total assets equal to 12.0 percent v. 8.4 percent), more able to pay dividends (68.2 percent v. 60.8 percent), and they invest more (the differential median CAPEX is 0.6 percent of total assets). In a nutshell, companies with loyalty shares are more profitable, generate more cash, pay more dividends, invest more, and hence are more valued by the market.

Please insert table 3 here

The second set of variables in table 3 represents the ownership structure and governance characteristics of the two subsamples of firms adopting loyalty shares and non-adopters. The table presents firm-year observations. Companies adopting loyalty shares have a more concentrated ownership structure, as the first shareholder's average (median) voting capital is 52.1 (53.1) percent, against 46.7 (51.0) percent for the complementary subsample. Also, 91 percent of the companies opting for the new voting system are controlled by a family, against a smaller 58 percent for companies with no loyalty shares. The involvement of the controlling families is also larger in the subsample of firms adopting loyalty shares. In this subsample, which is almost completely composed of family firms, we find that family members are present on the board in 84.8 percent of the observations. Also, controlling families are often represented in the top positions of the firm, with a family member being either the CEO or the chair of the board in 78.1 percent of the observations. However, the family firms sample splits almost equally when we look only at the CEO position. Families' engagement in their companies

is also widespread in non-adopters, but to a lower extent. The voting capital held by institutional investors is higher for loyalty share companies (15.6 percent v. 13.4 percent). This is likely the consequence of the higher profitability, cash richness, and larger growth opportunities suggested by the previous descriptive analysis.

When we look at the corporate governance characteristics of the two subsamples, we find some differences in terms of board size and independence. Only *Minority directors dummy* is strongly significant, as 32 percent of companies with loyalty shares have a minority director (against 48 percent for the complementary subsample).

Regarding future transactions that could dilute the ownership of the controlling shareholders, like equity issues and acquisitions, we do not find a statistically significant difference between the two subsamples. The table also reports information on the past (from 2008 to 2013) and current (from 2014 to 2019) use of alternative control-enhancing mechanisms (dual-class shares and pyramidal groups). Companies without loyalty shares made more extensive use of such devices, both in the past and during the investigation period, with more clear-cut evidence for pyramidal structures. A decrease in the use of dual-class shares and pyramids for both subsamples is also evident, but more marked within the sample of non-adopters.

3.3 Likelihood of introducing loyalty shares

We now extend the previous univariate analysis studying the likelihood of adopting loyalty shares in a multivariate setting. Table 4 presents the results of a Cox proportional hazard regression for the likelihood of adopting loyalty shares (Cox, 1972). For each firm, the dependent variable takes the value of 1 in the year in which loyalty shares are adopted. Survival analysis models the time to the occurrence of an event (the decision of introducing loyalty shares, in our setting), and also

accommodates censored survival times (we know which companies chose loyalty shares over the period 2015-2019, but not which companies will eventually opt for loyalty shares afterwards). Cox's proportional hazard model is widely employed, as it does not assume any prespecified baseline hazard rate. Hazard ratios, rather than coefficients, are reported in Table 4.[14]

Please insert table 4 here

Model 1 represents our baseline specification, where the likelihood of adopting loyalty shares is explained by the *Family control dummy*, firm-specific profitability, liquidity, leverage, and payout variables. In model 2 we add ownership variables, such as the voting capital of the first shareholder and that of institutional investors, while in model 3 we also add corporate governance variables, such as the size of the board of directors, the fraction of independent directors, the dummy for a CEO also serving as chair, and the presence of minority directors. Interestingly, *Family control dummy* is strongly significant in all of our models. It is also very relevant from an economic point of view. Family-controlled companies are 5 (= 5.88 – 1) to 7 (= 8.0 – 1) times more likely to adopt loyalty shares than their non-family-controlled counterparts, depending on which model we consider. This is consistent with the univariate analysis reported in the previous Table 3. As the controlling family is generally under-diversified and bears significant idiosyncratic risk, adopting loyalty shares in such companies would be compatible with a strategy of liquidating a portion of their shares without impairing their control.

[14] In the robustness section we repeat the analysis using a pooled logit regression. Our findings are unaltered.

Model 4 augments model 3 with two dummy variables which account for an SEO or an acquisition undertaken between 1 to 3 years after the adoption of loyalty shares, as well as their interactions with the family dummy. These forward-looking variables are included to examine whether the firm adopts loyalty shares in anticipation of events that could dilute their voting rights. We do not find evidence supporting this conjecture. Finally, model 5 and 6 augment model 3 with two dummies for the current (model 5) or past (model 6) presence of other control-enhancing devices, i.e. dual-class shares and pyramidal structures, respectively. The table provides consistent evidence that loyalty share adopters are less likely to be associated with the use of pyramidal structures. Hazard ratios also suggest that the effects are relevant, as the likelihood of adopting loyalty shares is approximately 70 percent lower for companies using pyramidal structures (= 0.27 – 1 in model 5, = 0.30 – 1 in model 6). This evidence corroborates the idea that loyalty shares might be substitutes for other control-enhancing devices, i.e. pyramidal structures, rather than an incentive for long-term shareholders. On the contrary, we do not find any statistically significant evidence of a relationship between the likelihood of adopting loyalty shares and past or present presence of dual-class shares.[15]

Other firm-specific variables do not significantly affect the likelihood of adopting loyalty shares, except for *Cash* (which is positive), and the presence of directors appointed by minority shareholders (which is negative). The latter effect may be explained by the greater opposition exercised by such directors to the introduction of loyalty shares at the board level decision.

[15] While there are obvious points of contact between DCS and loyalty shares as control-enhancing mechanisms, a clear link connecting the two is difficult to prove. Firms that had DCS and renounced to them took this decision almost 15-20 years ago, making it hardly relevant for the loyalty adoption. The changed composition of the listed firms (many companies that adopted DCS are no longer listed for various reasons) and the overall small number of firms still using DCS (only 29 in 2013) contributes to explaining the lack of significance for the *Dual-class shares dummy*.

Previous analyses document that the family firm status is highly associated with the likelihood to adopt loyalty shares as 45 out of 49 adopting firms are family-owned. However, not all family firms have chosen to do so. To further explore the motivations behind the loyalty share adoption, we add three variables aimed at measuring the family involvement in family firms. Specifically, we use three dummy variables taking a value of 1 if a family member is on the board (*Family board*), if a family member is the CEO (*Family CEO*), or if a family member is either the CEO and/or the chair of the board (*Family CEO/chair*). Cox's survival analysis (Table 5) documents that the likelihood of adopting loyalty shares is significantly higher when the family is involved in the firm's board, and when a family member is either the CEO or the chair of the firm. This interpretation is deduced from the higher and significant coefficients of *Family board* and *Family CEO/chair* when compared to *Family no Board* and *Family no CEO/chair*, respectively. It is also worth noting that *Family CEO* does not appear to be associated with a higher probability of adopting loyalty shares when compared to *Family no CEO*. This is in line with family firms usually delegating the CEO position to an external manager (for example, Mr. Sergio Marchionne in the FIAT group), while keeping the chair position within the board. Overall, the findings in Table 5 suggest some heterogeneity in the effect of family control on the probability of adopting loyalty shares.

Please insert table 5 here

3.4 Wealth effect

Loyalty shares contribute to increasing the wedge between ownership and control, and hence may generate incremental agency costs. If this is the case, their adoption may trigger an adverse market reaction. On the other hand, if loyalty shares encourage the long-term investment of institutional

investors, their enhanced monitoring could positively impact the firm value. To empirically test the wealth effect following the adoption of loyalty shares, we propose two approaches. Table 6 shows the results of an event study at the announcement and the approval of loyalty shares. Furthermore, in Table 7 we regress the firm value (as measured by Tobin's Q) on a dummy variable that identifies the loyalty shares adopting companies (and controls).

As for the event study, we have computed CARs using three event windows, i.e. [–1; +1], [–2; +2], and [–5; +5], centered on both the announcement date and the date of the extraordinary general meeting approving loyalty shares. CARs are small, and none of them are statistically distinguishable from zero. On the one hand, in several cases, the press release announcing the proposal of the board to introduce loyalty shares also discloses other price-sensitive financial information. On the other hand, the probability of rejecting the resolution during the shareholder meeting is very low. Looking at the ownership structure of companies introducing loyalty shares as in Table 3, the first shareholder holds on average about 54 percent of total votes, making the incremental informational content at the date of the meeting very limited. In any case, Table 6 does not provide any evidence of a tangible effect on prices from the introduction of loyalty shares.

Please insert table 6 here

The motivations for adopting loyalty shares may significantly differ between family and non-family firms. For this reason, we also look at the breakdown of CARs for the subsamples of family and

non-family firms. With the caveat of the latter being only composed of three companies,[16] we find some confirmation of a different market reaction between family and non-family firms. While for the first subsample the average market reaction is positive (approximately 1 percent in the 3 days around the announcement date), for the three non-family firms the average abnormal returns is equal to –1.12 and –1.98 percent in the 3 and 5 days around the announcement date, respectively. The sample size, however, prevents the detection of any significantly different market reaction between family and non-family firms.

As for the effect on a firm's value, we regress Tobin's Q for company *i* on year *t* against the cross-sectional *Loyalty dummy* variable (which takes the value of 1 if company *i* has adopted loyalty shares) and the time-varying variable *Post loyalty* (which takes the value of 1 from the year of adoption onwards), along with a set of controls. Similarly to a difference-in-difference approach, the former variable identifies the treated group (i.e., firms adopting loyalty shares) against the control group (i.e., firms not adopting loyalty shares), and captures the observable and unobservable characteristics common to the two groups. Instead, the latter can be interpreted as the effect of adopting loyalty shares on firm value, i.e. the change in Tobin's Q from the year of the adoption onwards, after controlling for the observable and unobservable differences between the two groups. Table 7 shows that *Post Loyalty* is insignificant. This confirms the results of the event study on the absence of any significant wealth effect from the adoption of loyalty shares.[17]

[16] As Table 1 shows, six firms introduced loyalty shares when they were private, in preparation of their IPO (of which, one is family-controlled). These six companies are not included in this event study.

[17] In an unreported table, we have also run a similar analysis using ROA as opposed to Tobin's Q. Likewise, we find no effect of loyalty firm adoption on a firm's profitability.

Please insert table 7 here

3.5 First shareholder and institutional investors

We further investigate the behavior of the first shareholder and institutional investors after the introduction of loyalty shares. Since the first shareholder is typically a family, and their wealth is highly concentrated in the firm's equity, loyalty shares may allow the under-diversified controlling shareholder to reduce the firm stake without losing control.

Please insert figure 1 here

Figure 1 shows the pattern of the average equity and voting capital of the first shareholder from two years before to three years after the adoption of the loyalty shares. By construction, before the adoption of loyalty shares, there is no distinction between the first shareholder's equity and voting capital. Starting two years after the adoption (when double voting comes into effect), the votes in the hands of the first shareholder increase, as the effect of the double vote of loyalty shares. Interestingly, the equity capital progressively declines from approximately 55 percent before the adoption, down to less than 50 percent three years after, suggesting that the first shareholder might have chosen loyalty shares to liquidate part of their stake without losing control.

Moving to a multivariate perspective, we use a DiD-like approach again, by regressing the YoY change of the first shareholder's equity stake against two dummies, *Loyalty dummy* and *Post loyalty*. The former variable captures the cross-sectional effect of firms adopting loyalty shares, while the latter yields the post-treatment effect, i.e. after the adoption of loyalty shares. Table 8 shows the results. While *Loyalty dummy* is not significant, *Post Loyalty* is negative and significant in all models,

suggesting that the stake of the first shareholder is lower for companies adopting loyalty shares in the post-adoption period. This is consistent with the univariate evidence of Figure 1. After controlling for other firm-specific variables, the coefficient of *Post Loyalty* suggests that the holdings of the first shareholder are reduced by about 2.5 percent on average after loyalty shares are in place. This evidence is in line with the hypothesis that under-diversified families seek to reduce idiosyncratic risk without losing control.

Please insert table 8 here

Table 9 focuses on institutional investors' holdings and their dynamics after the adoption of loyalty shares. Following the same DiD-like approach, the results show that institutional investors slightly increase their holdings after the approval of loyalty shares, probably attracted by the superior financial characteristics of loyalty share adopters (as reported in Table 3). In other words, institutional investors do not shy away from loyalty share companies, as their higher profitability, growth, and payout policy prevail over the risk of increased agency costs from the new control-enhancing mechanism.

Please insert table 9 here

3.6 Equity-dilutive corporate transactions

Another motivation for adopting loyalty shares could be the desire of families to retain control in case of ownership-diluting events, like seasoned equity offerings and acquisitions. Despite the short time span, we check whether the introduction of loyalty shares affects the likelihood of issuing new

equity capital or completing an acquisition in the subsequent year. To this purpose, we run logit regressions. The first set of regressions uses the completion of an SEO in year $t + 1$ as the dependent variable. The second set of regressions employs the completion of at least one acquisition in year $t + 1$ as the dependent variable. In both cases, t is the loyalty share adoption year. For both equity-dilutive corporate transactions, Table 10 and Table 11 show that *Loyalty dummy* and *Post loyalty* are insignificant in all specifications. This evidence rules out the hypothesis that loyalty shares are used to preserve family control in times of external growth or financing.

Please insert table 10 here

Please insert table 11 here

3.7 Robustness analyses

Table 4 and Table 5 show that family firms are more likely to adopt loyalty shares, especially when family members are involved in the governance of the firm. The next set of analyses aims at providing robustness to these findings.

The first robustness exercise consists of running the same set of regressions for the likelihood of adopting loyalty shares but using a pooled logit model instead of a Cox proportional hazard model. The results are reported in Table 12 and confirm what has already been reported in Table 4 and Table 5. The likelihood of adopting loyalty shares is positively associated with the status of family firms and negatively with the use of pyramidal groups and the presence of directors appointed by the minority shareholders (Panel A). Panel B also confirms the relevance of family involvement in the board and the role of a family member serving as either the CEO or the chair in increasing the likelihood of adoption.

Please insert table 12 here

Next, we repeat the analysis on the likelihood of adopting loyalty shares (both Cox proportional hazard and logit models) only on the subsample of family firms (roughly, two-thirds of the observations in our sample). Since not all family firms adopted loyalty shares, understanding the determinants of this choice within the subsample of family firms may be insightful. As Table 13 shows, the evidence that family members involved in the CEO/chair position positively affect the likelihood of adopting loyalty shares is confirmed, as well as the negative sign and significance of the variable measuring a minority representation on the board. Relative to the full sample, the latter variable enhances its significance across all models, likely because minority-appointed directors oppose to the introduction of loyalty shares in family firms, as the majority shareholder's power would be strengthened. Since at least one member of the controlling family sits on the board of directors in almost 90 percent of the observations for family firms, *Family board* is not significant in this analysis.

Please insert table 13 here

Finally, in an unreported analysis, we estimate the likelihood of adopting loyalty shares (both Cox and logit models) excluding financial companies.[18] Overall, we find that removing the financial industry from our sample does not alter the results documented in previous tables.

[18] The results are available from the authors upon request.

4. Conclusion

Shareholder engagement over a longer-term horizon is considered beneficial to reducing short-termism and favoring firm value in the long term. For this reason, regulators have suggested loyalty shares as a device apt at achieving such an objective. In the wake of a EU-wide discussion on fostering long-term shareholder investment, France made loyalty shares mandatory in 2014 (unless firms decide to opt-out), Italy introduced them for the first time in 2014, and Belgium approved a company law reform in 2019 which allows their introduction on a voluntary basis in 2020. Loyalty shares also exist in the Netherlands.

In this paper, we exploit the ideal setting of the Italian market, characterized by concentrated ownership and family firms, to study the five years that followed the introduction of loyalty shares. About one-fifth of the listed firms in our sample (i.e., 49 firms out of 260) have already taken advantage of this new control-enhancing mechanism. Our empirical investigation shows that loyalty shares are significantly more likely to be introduced by firms with a family controlling shareholder. We report no evidence of wealth effects associated with the introduction of loyalty shares, neither at the announcement (and at the general meeting) nor in the years after the adoption. Loyalty shares have encountered strong opposition by institutional investors, that generally voted against their introduction. However, their vote "with their hands" was not followed by a "vote with their feet," probably as family firms introducing loyalty shares are significantly more profitable, faster-growing, more cash-generating, and pay more cash dividends than other firms.

Aimed at favoring long-term shareholder investments, loyalty shares may also help controlling shareholders to strengthen their control over the firms. Notwithstanding the short period of analysis, we find some evidence regarding controlling shareholders reducing their holdings after loyalty shares are adopted, especially close to and after the two-year period required for doubling their voting rights. This

may suggest that the first shareholder might have chosen loyalty shares to liquidate part of their stake without losing control. This paper contributes to the existing literature on loyalty shares, which could be considered as both an instrument to reduce short-termism and an additional control-enhancing mechanism for family firms.

Appendix A – Variable definitions

Variable	Definition
Loyalty dummy	Cross-sectional dummy variable which takes the value of 1 if the firm has adopted loyalty shares
Post loyalty	Time-varying dummy variable which takes the value of 1 if the firm has adopted loyalty shares, from the year of adoption onwards
Total assets	Total assets (source: Datastream/Worldscope)
Sales	Net sales (source: Datastream/Worldscope)
Leverage	Ratio between total debt and total assets (source: Datastream/Worldscope)
CAPEX	Ratio between capital expenditures and total assets (source: Datastream/Worldscope)
Tobin's Q	Market capitalization plus total liabilities over the sum of book value of equity plus total liabilities (source: Datastream/Worldscope)
ROA	Ratio between net income and total assets (source: Datastream/Worldscope)
Dividend-paying dummy	Dummy variable which takes the value of 1 if the company pays a cash dividend (source: Datastream/Worldscope)
Cash	Ratio between cash and cash equivalents and total assets (source: Datastream/Worldscope)
Family control dummy	Dummy variable which takes the value of 1 if the firm is family-controlled (based on a threshold of 10 percent of the common equity capital) (source: CONSOB)
Family board dummy	Dummy variable which takes the value of 1 if at least one family member sits in the firm's board of directors (source: CONSOB)
Family CEO/chair dummy	Dummy variable which takes the value of 1 if a family member is either the CEO of the firm or the chair of the board of directors (source: CONSOB)
Family CEO dummy	Dummy variable which takes the value of 1 if a family member is the CEO of the firm (source: CONSOB)
First shareholder's equity	Share of common equity capital of the largest shareholder (source: CONSOB)

Institutional investors' equity	Share of common equity capital of institutional investors (source: Eikon)
Board size	Number of directors composing the board of directors (source: Assonime)
Independent directors	Share of independent directors in the board of directors (source: Assonime)
CEO duality dummy	Dummy variable which takes the value of 1 if the CEO is also chair of the board of directors (source: Assonime)
Directors from minority list dummy	Dummy variable which takes the value of 1 if there exists at least one director elected from a list presented by minority investors (source: Assonime)
SEO dummy	Dummy variable which takes the value of 1 if the firm has made a SEO between 1 to 3 years after the adoption of loyalty shares (source: Thomson One Banker Equity issues)
Acquisition dummy	Dummy variable which takes the value of 1 if the firm has completed an acquisition between 1 to 3 years after the adoption of loyalty shares (source: Thomson One Banker M&A)
Dual-class firm dummy	Dummy variable which takes the value of 1 if the firm has dual-class shares at time *t* (source: CONSOB)
Pyramidal group dummy	Dummy variable which takes the value of 1 if the firm is part of a pyramidal group (i.e., the firm is controlled by at least one listed company) at time *t* (source: CONSOB)
Dual-class firm 2008-2013 dummy	Dummy variable which takes the value of 1 if the firm had dual-class shares in the period from 2008 to 2013 (source: CONSOB)
Pyramidal group 2008-2013 dummy	Dummy variable which takes the value of 1 if the firm was part of a pyramidal group (i.e., the firm is controlled by at least one listed company) in the period from 2008 to 2013 (source: CONSOB)

References

Adams, R. and D. Ferreira, 2008, One share-one vote: The empirical evidence, *Review of Finance* 12(1), 51-91.

Agarwal, V., Vashishtha, R., and M. Venkatachalam, 2018, Mutual fund transparency and corporate myopia, *Review of Financial Studies* 31(5), 1966-2003.

Asker, J., Farre-Mensa, J., and A. Ljungqvist, 2015, Corporate investment and stock market listing: A puzzle?, *Review of Financial Studies* 28(2), 342-390.

Barontini, R. and L. Caprio, 2006, The effect of family control on firm value and performance: Evidence from continental Europe, *European Financial Management* 12(5), 689-723.

Bebchuk, L.A., Kraakman, R., G.G. Triantis, 2000, Stock pyramids, cross-ownership, and dual class equity: The mechanisms and agency costs of separating control from cash-flow rights, Morck, R.K. ed., *Concentrated Corporate Ownership*, University of Chicago Press, Chicago, 295-315.

Becht M., Kamisarenka, Y., and A. Pajuste, 2018, Loyalty shares with tenure voting – A Coasian bargain? Evidence from the Loi Florange Experiment, *ECGI Working Paper* No. 398.

Belcredi, M., Enriques, L., 2015, Institutional investor activism in a context of concentrated ownership and high private benefits of control: the case of Italy, in Thomas, R., Hill, J. ed., *Research Handbook on Shareholder Power*, Edward Elgar Publishing, Cheltenham, 383-403.

Belot, F., Ginglinger, É., and L.T. Starks, 2019, Encouraging long-term shareholders: The effects of loyalty shares with double voting rights, *SSRN Working Paper*.

Bigelli, M. and E. Croci, 2013, Dividend privileges and the value of voting rights: Evidence from Italy, *Journal of Empirical Finance* 24, 94-107.

Bigelli M., Mehrotra V., and R. Rau, 2011, Why are shareholders not paid to give up their voting privileges? Unique evidence from Italy, *Journal of Corporate Finance* 17(5), 1619-1635.

Bolton, P. and F. Samama, 2013, Loyalty-shares: Rewarding long-term investors, *Journal of Applied Corporate Finance* 25(3), 86-97.

Bourveau, T., Brochet, F., and A. Garel, 2019, The effect of tenure-based voting rights on stock market attractiveness: Evidence from the Florange Act, *SSRN Working Paper*.

Brochet, F., Loumioti, M., and G. Serafeim, 2015, Speaking of the short-term: Disclosure horizon and managerial myopia, *Review of Accounting Studies* 20(3), 1122-1163.

Burkart, M. and S. Lee, 2008, One share-one vote: The theory, *Review of Finance* 12(1), 1-49.

Caprio, L. and E. Croci, 2008, The determinants of the voting premium in Italy: The evidence from 1974 to 2003, *Journal of Banking and Finance*, 32(11), 2433-2443,

CONSOB, 2018, Report on corporate governance of Italian listed companies, available at http://www.consob.it/web/consob-and-its-activities/rcg2018.

Cox, D.R., 1972, Regression models and life tables (with discussion), *Journal of the Royal Statistical Society* 34(2), 187-220

Faccio, M. and L.H.P. Lang, 2002, The ultimate ownership of Western European corporations, *Journal of Financial Economics* 65, 365-395.

Edmans, A., Fang, V.W., and K.A. Lewellen, 2017, Equity vesting and investment, *Review of Financial Studies* 30(7), 2229-2271.

Ginglinger E. and J. Hamon, 2012, Ownership control and market liquidity, *Finance* 33(2), 61-99.

Grossman, S. and O. Hart, 1988, One share/one vote and the market for corporate control, *Journal of Financial Economics* 20, 175-202.

Harris, M. and A. Raviv, 1988, Corporate governance: Voting rights and majority rules, *Journal of Financial Economics* 20, 203-235.

Hauser, S. and B. Lauterbach, 2004, The value of voting rights to majority shareholders: Evidence from dual-class stock unifications, *Review of Financial Studies* 17(4), 1167-1184.

HLG, High Level Group of Company Law Experts, 2002a, Report on issues related to takeover bids.

HLG, High Level Group of Company Law Experts, 2002b, Report on a modern regulatory framework for company law in Europe.

Johnson, S., La Porta, R., Lopez-de-Silanes, F., and A. Shleifer, 2000, Tunneling, *American Economic Review* 90(2), 22-27.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R., 1998, Law and Finance, *Journal of Political Economy* 106(6), 1113-1155.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and R. Vishny, 2000, Investor protection and corporate governance, *Journal of Financial Economics* 58(1-2), 3-27.

Lauterbach, B. and A. Pajuste, 2015, The long-term valuation effects of voluntary dual class share unifications, *Journal of Corporate Finance* 31, 171-185.

Lins, K.V., Volpin, P., and H.F. Wagner, 2013, Does family control matter? International evidence from the 2008-2009 financial crisis, *Review of Financial Studies* 26(10), 2583-2619.

Zingales, L., 1994, The value of the voting right: A study of the Milan stock exchange experience, *Review of Financial Studies* 7(1), 125-148.

Panel A - Number of firms adopting loyalty shares by year

	Loyalty shares	***IPOs***	***Listed firms***
2014	0	0	0
2015	18	1	17
2016	8	1	7
2017	9	1	8
2018	10	3	7
2019	4	0	4
Total	49	6	43

Panel B - Total number of firms by year and other control-enhancing mechanisms

Year	***N Firms***	***In***		***Out***		***Dual-class firms***		***Pyramidal groups***	
		N	***N, %***	***N***	***N, %***	***N***	***N, %***	***N***	***N, %***
2014	233					22	9.4	49	21.0
2015	235	10	4.3	8	3.4	18	7.7	46	19.6
2016	230	5	2.2	10	4.3	21	9.1	41	17.8
2017	228	8	3.5	10	4.4	16	7.0	43	18.9
2018	221	4	1.8	11	5.0	16	7.2	42	19.0
Total	1147	27		39					

Table 1 – *Number of firms adopting loyalty shares, total number of listed firms, and other control-enhancing mechanisms by year*. Panel A of this table shows the number of companies adopting loyalty shares in our sample between 2015 and 2019, divided into newly listed companies (IPOs) and already listed firms. Panel B shows the total number of listed firms, their dynamics within our sample (entry and exit), and the time distribution of other control-enhancing mechanisms, by year.

All firms	***N***	***Mean***	***SD***	***Min***	***Median***	***Max***
First shareholder's equity capital, %	43	55.4	11.0	30.7	54.1	88.5
Second shareholder's equity capital, %	43	6.2	7.1	0.0	4.2	28.8
Equity capital at the EGM, %	43	68.0	12.9	37.0	70.6	88.2
Capital voting in favour, %	43	60.5	9.9	37.0	60.2	85.5
Capital voting against, %	43	7.4	8.0	0.0	3.8	24.7
Abstentions/not voting, %	43	0.1	0.4	0.0	0.0	2.6
Before January 31, 2015						
First shareholder's equity capital, %	3	52.6	1.3	51.0	52.7	54.1
Second shareholder's equity capital, %	3	7.0	2.7	5.1	5.1	10.8
Equity capital at the EGM, %	3	79.4	3.1	75.0	81.2	82.0
Capital voting in favour, %	3	57.6	3.3	53.6	57.3	61.8
Capital voting against, %	3	21.8	2.2	19.4	21.4	24.7
Abstentions/not voting, %	3	0.0	0.0	0.0	0.0	0.0

Table 2 – *Voting results of the extraordinary general meeting approving loyalty shares*. The table shows the voting results of the extraordinary general meeting amending the company's bylaws and approving loyalty shares, as reported by the minutes of the meeting. Relative to the number of firms reported in the previous table (49 firms), 6 of them adopted loyalty shares in preparation of the IPO, and therefore at the date of the ESM they were private. The 3 firms reported in the lower part of the table (Astaldi, Amplifon, and Campari) adopted loyalty shares prior to January 31, 2015, when the simple majority of votes (rather than the qualified majority of two-thirds of votes) was required.

	Loyalty shares					*No loyalty shares*					*Difference*	
Variable	***N***	***Mean***	***Median***	***Min***	***Max***	***N***	***Mean***	***Median***	***Min***	***Max***	***Mean***	***Median***
Financials												
Total assets, € mln	220	1,309.5	533.2	8.2	8,952.4	907	13,750.4	632.5	4.7	207,444.0	-12,440.9 ***	-99.3
Sales, € mln	220	892.5	430.0	0.0	6,134.4	904	3,257.5	286.4	0.0	83,577.0	-2,365.0 **	143.6
Leverage, %	220	26.2	25.3	0.0	63.7	904	28.9	27.8	0.0	87.9	-2.7 *	-2.5
CAPEX, %	216	3.1	2.3	0.0	21.1	875	2.6	1.5	0.0	22.2	0.6 *	0.8 ***
Tobin's Q	220	1.6	1.2	0.5	6.7	906	1.3	1.1	0.5	6.7	0.2 ***	0.1 ***
ROA, %	220	3.3	3.2	-33.0	24.9	907	-0.1	1.1	-52.8	24.9	3.4 ***	2.2 ***
Dividend-paying dummy, %	220	68.2	.	.	.	906	60.8	.	.	.	7.4 *	.
Cash, %	220	14.0	12.0	0.0	84.5	907	11.1	8.4	0.0	87.0	2.9 **	3.6 ***
Ownership and governance												
Family control dummy, %	224	91.1	.	.	.	923	58.5	.	.	.	32.6 ***	.
Family board dummy, %	224	84.8	.	.	.	922	50.2	.	.	.	34.6 ***	.
Family no board dummy, %	224	6.3	.	.	.	922	8.2	.	.	.	-2.0	.
Family CEO/chairman dummy, %	224	78.1	.	.	.	923	40.5	.	.	.	37.6 ***	.
Family no CEO/chairman dummy, %	224	12.9	.	.	.	923	18.0	.	.	.	-5.0	.
Family CEO dummy, %	224	46.9	.	.	.	922	28.5	.	.	.	18.4 ***	.
Family no CEO dummy, %	224	44.2	.	.	.	922	29.9	.	.	.	14.3 ***	.
First shareholder's equity, %	224	52.1	53.1	9.7	84.0	923	46.7	51.0	0.0	99.5	5.4 ***	2.0 **
Institutional investors' equity, %	221	15.6	16.0	0.0	78.4	922	13.4	9.3	0.0	92.1	2.2 *	6.7 **
Board size	217	10.2	10.0	5.0	18.0	883	10.0	9.0	3.0	32.0	0.2	1.0 **
Independent directors, %	217	42.6	42.9	15.4	86.7	835	47.8	45.5	7.7	100.0	-5.2 ***	-2.6 ***
CEO duality dummy, %	217	30.9	.	.	.	883	23.3	.	.	.	7.5 *	.
Directors from minority list dummy, %	217	31.8	.	.	.	883	48.2	.	.	.	-16.4 ***	.
External growth												
SEO dummy, %	224	7.1	.	.	.	923	7.8	.	.	.	-0.7	.
Acquisition dummy, %	224	13.8	.	.	.	923	9.9	.	.	.	4.0	.
Control-enhancing mechanisms												
Dual-class firm dummy, %	224	6.7	.	.	.	923	9.3	.	.	.	-2.6	.
Pyramidal group dummy, %	224	14.3	.	.	.	923	21.0	.	.	.	-6.7 *	.
Dual-class firm 2008-2013 dummy, %	224	8.5	.	.	.	923	17.2	.	.	.	-8.7 **	.
Pyramidal group 2008-2013 dummy, %	224	16.5	.	.	.	923	28.7	.	.	.	-12.2 ***	.

Table 3 – *Descriptive statistics of firms partitioned by firms adopting* v. *not adopting loyalty shares*. The table reports the descriptive statistics for the sample of Italian companies listed between 2014 and 2018, contrasting companies adopting loyalty shares (49 unique companies) to companies without loyalty shares (211 unique companies). For a description of the variables, please refer to Appendix A.

	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Family control	7.8813***	7.4245***	5.8850***	8.0356**	7.4184***	7.4401***
	(4.5923)	(4.3940)	(3.6691)	(6.9792)	(4.5020)	(4.6016)
Log total assets	0.9494	0.8927	0.8648	0.8657	0.9400	0.9570
	(0.0827)	(0.0809)	(0.0930)	(0.0945)	(0.1099)	(0.1099)
Leverage	0.2926	0.3169	0.2623	0.2965	0.2394	0.2557
	(0.2515)	(0.2666)	(0.2251)	(0.2646)	(0.2241)	(0.2282)
CAPEX	1.1223	0.7104	0.1252	0.1255	0.0526	0.0266
	(4.4231)	(2.7169)	(0.5341)	(0.5346)	(0.2274)	(0.1142)
Tobin's Q	0.9824	0.9131	0.8388	0.8435	0.8201	0.7913
	(0.1304)	(0.1311)	(0.1192)	(0.1265)	(0.1272)	(0.1261)
ROA	3.8604	2.3369	2.4494	2.5950	1.3422	2.6427
	(7.3475)	(4.7881)	(5.0026)	(5.2461)	(2.7559)	(6.7711)
Dividend-paying	1.4678	1.4655	1.5038	1.4530	1.4474	1.3759
	(0.6165)	(0.6255)	(0.6386)	(0.6145)	(0.6350)	(0.6263)
Cash	4.2582	4.3730	7.0292*	6.9413*	9.3676**	11.9453***
	(4.7204)	(4.7899)	(7.2085)	(7.0757)	(9.4980)	(11.4791)
First shareholder's equity		1.0142	1.0122	1.0137	1.0099	1.0099
		(0.0092)	(0.0096)	(0.0096)	(0.0094)	(0.0095)
Institutional investors' equity		1.0219	1.0151	1.0161	1.0152	1.0143
		(0.0136)	(0.0143)	(0.0147)	(0.0136)	(0.0136)
Board size			1.0969	1.0912	1.1010	1.1195*
			(0.0738)	(0.0702)	(0.0748)	(0.0766)
Independent directors			0.4124	0.4014	0.4605	0.3845
			(0.4512)	(0.4579)	(0.5352)	(0.4234)
CEO duality			1.0229	1.0652	0.9848	0.8952
			(0.4167)	(0.4477)	(0.4023)	(0.3662)
Directors from minority list			0.5065*	0.4922*	0.4969*	0.5287*
			(0.1920)	(0.1862)	(0.1958)	(0.2031)
SEO				4.0648		
				(3.8910)		
Acquisition				1.3560		
				(1.3098)		
Family control × SEO				0.1794		
				(0.2172)		
Family control × Acquisition				0.8433		
				(0.8742)		
Dual-class firm					1.1240	
					(0.7819)	
Dual-class firm 2008-2013						0.6944
						(0.4423)
Pyramidal group					0.2658**	
					(0.1679)	
Pyramidal group 2008-2013						0.3044**
						(0.1657)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	982	978	908	885	908	908
Pseudo R-squared	0.098	0.101	0.118	0.120	0.131	0.133

Table 4 – *Likelihood of adopting loyalty shares*. The table shows the results of a Cox proportional hazard model for the likelihood of adopting loyalty shares. Hazard ratios (i.e., exponentiated coefficients) are displayed. For a description of the variables, please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ***, **, * indicate statistical significance at the 1, 5 and 10 percent level, respectively.

	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Family board	8.3991***			6.2308***		
	(4.9260)			(3.8724)		
Family no board	2.8438			2.4277		
	(2.4779)			(2.1663)		
Family CEO/chair		9.9170***			7.4470***	
		(6.0622)			(4.7839)	
Family no CEO/chair		3.4765*			2.4276	
		(2.4431)			(1.7340)	
Family CEO			8.8165***			6.5509***
			(5.2829)			(4.1893)
Family no CEO			7.4235***			5.4278***
			(4.5990)			(3.5242)
Log total assets	0.9449	0.9339	0.9569	0.8734	0.8420	0.8572
	(0.0830)	(0.0825)	(0.0867)	(0.0954)	(0.0917)	(0.0946)
Leverage	0.3534	0.3410	0.2737	0.2971	0.3098	0.2732
	(0.3266)	(0.3089)	(0.2365)	(0.2723)	(0.2833)	(0.2365)
CAPEX	0.6102	0.9713	1.2909	0.0917	0.1179	0.1575
	(2.4711)	(3.9049)	(5.1852)	(0.3965)	(0.5057)	(0.6717)
Tobin's Q	0.9787	0.9217	0.8832	0.8371	0.7718	0.8266
	(0.1418)	(0.1336)	(0.1286)	(0.1273)	(0.1238)	(0.1201)
ROA	5.3244	4.8263	2.7782	3.1016	2.7788	2.6194
	(11.0304)	(9.9523)	(5.6167)	(6.6531)	(6.1913)	(5.3610)
Dividend-paying	1.3632	1.4453	1.4585	1.4046	1.5545	1.5138
	(0.5799)	(0.6364)	(0.6139)	(0.5892)	(0.6842)	(0.6465)
Cash	7.0353	5.6966	3.9978	10.8847**	8.5055*	7.2557*
	(8.4317)	(6.8873)	(4.5316)	(12.4001)	(10.2072)	(7.4723)
First shareholder's equity				1.0132	1.0145	1.0131
				(0.0100)	(0.0108)	(0.0098)
Institutional investors' equity				1.0144	1.0127	1.0148
				(0.0141)	(0.0142)	(0.0143)
Board size				1.0792	1.1041	1.1030
				(0.0779)	(0.0726)	(0.0756)
Independent directors				0.4404	0.4425	0.4170
				(0.4777)	(0.4713)	(0.4554)
CEO duality				0.9676	0.9383	0.9427
				(0.3882)	(0.3631)	(0.3947)
Directors from minority list				0.5224*	0.5109*	0.5047*
				(0.1992)	(0.1951)	(0.1916)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	982	982	982	908	908	908
Pseudo R-squared	0.104	0.109	0.083	0.121	0.130	0.118

Table 5 – *Likelihood of adopting loyalty shares for different types of family firms*. The table shows the results of a Cox proportional hazard model for the likelihood of adopting loyalty shares. Hazard ratios (i.e., exponentiated coefficients) are displayed. The *Family control* dummy is broken up here into *Family board* v. *Family no board* (models 1 and 4), *Family CEO/chair* v. *Family no CEO/chair* (models 2 and 5), and *Family CEO* v. *Family no CEO* (models 3 and 6). For a description of the variables, please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ***, **, * indicate statistical significance at the 1, 5 and 10 percent level, respectively.

		Announcement		*EGM*	
All firms	***N***	***Average, %***	***SE, %***	***Average, %***	***SE, %***
CAR [-1, 1]	43	0.85	0.84	-0.15	0.47
CAR [-2, +2]	43	0.53	0.85	0.11	0.55
CAR [-5, +5]	43	-0.65	1.03	0.93	0.79
Family firms					
CAR [-1, 1]	40	0.99	0.51	-0.25	0.49
CAR [-2, +2]	40	0.72	0.90	0.00	0.56
CAR [-5, +5]	40	-0.62	1.10	0.83	0.84
Non-family firms					
CAR [-1, 1]	3	-1.12	0.51	1.23	1.60
CAR [-2, +2]	3	-1.98	0.78	1.61	2.64
CAR [-5, +5]	3	-1.14	0.70	2.31	0.93

Table 6 – *Market reaction at the announcement and the adoption of loyalty shares*. The table presents the average CARs (and their standard errors, SE) at the announcement and the approval of loyalty shares (date of the extraordinary general meeting) for the 43 already-listed companies included in our sample, as well as for the two sub-samples of family v. non-family firms (40 and 3 companies, respectively).

	Model 1	*Model 2*	*Model 3*	*Model 4*
Loyalty dummy	0.0795	0.0752	0.0302	0.0757
	(0.1429)	(0.1444)	(0.1407)	(0.1439)
Post loyalty	-0.0346	-0.0321	-0.0364	-0.0339
	(0.1519)	(0.1509)	(0.1511)	(0.1535)
Family control	0.0498			
	(0.0937)			
Family board		0.0589		
		(0.0972)		
Family no board		-0.0034		
		(0.1783)		
Family CEO/chair			0.1739	
			(0.1063)	
Family no CEO/chair			-0.1697	
			(0.1091)	
Family CEO				0.1517
				(0.1263)
Family no CEO				-0.0112
				(0.0984)
Log total assets	-0.1047***	-0.1045***	-0.1073***	-0.1064***
	(0.0276)	(0.0276)	(0.0268)	(0.0272)
Leverage	-0.4219	-0.4185	-0.4164*	-0.4091
	(0.2601)	(0.2593)	(0.2510)	(0.2553)
CAPEX	0.4532	0.4118	0.3076	0.5698
	(1.2711)	(1.2522)	(1.1985)	(1.2836)
Dividend-paying	0.2180**	0.2141**	0.2216**	0.2252**
	(0.0933)	(0.0942)	(0.0897)	(0.0912)
Cash	1.1145*	1.1354*	1.2051**	1.1269*
	(0.6378)	(0.6190)	(0.6102)	(0.6315)
First shareholder's equity	0.0053*	0.0053**	0.0052*	0.0055**
	(0.0027)	(0.0027)	(0.0027)	(0.0026)
Institutional investors' equity	0.0154***	0.0153***	0.0149***	0.0152***
	(0.0036)	(0.0036)	(0.0035)	(0.0035)
Board size	0.7917***	0.7968***	0.8319***	0.8260***
	(0.2579)	(0.2567)	(0.2538)	(0.2565)
Independent directors	0.1208	0.1160	0.0746	0.0576
	(0.1118)	(0.1116)	(0.1093)	(0.1118)
CEO duality	-0.1584**	-0.1568**	-0.1602**	-0.1575**
	(0.0707)	(0.0709)	(0.0691)	(0.0712)
Directors from minority list	0.0222**	0.0218**	0.0233**	0.0234**
	(0.0108)	(0.0108)	(0.0107)	(0.0109)
Industry fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	1,011	1,011	1,011	1,011
Adjusted R-squared	0.264	0.263	0.282	0.268

Table 7 – *Wealth effect from the adoption of loyalty shares*. The table shows the results of a linear regression for Tobin's Q against the reported explanatory variables. *Loyalty dummy* is a cross-sectional dummy variable which takes the value of 1 if the company has adopted loyalty shares, *Post loyalty* is a variable which takes the value of 1 in the post-adoption period for companies adopting loyalty shares. For a description of the other variables, please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all the models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ***, **, * indicate statistical significance at the 1, 5 and 10 percent level, respectively.

	Model 1	***Model 2***	***Model 3***	***Model 4***
Loyalty dummy	0.0807	0.1806	0.1512	0.0792
	(1.3756)	(1.3813)	(1.3663)	(1.3750)
Post loyalty	-2.4802*	-2.5199*	-2.4501*	-2.4618*
	(1.4504)	(1.4436)	(1.4489)	(1.4546)
Family control	0.9568			
	(0.6992)			
Family board		0.6809		
		(0.6769)		
Family no board		2.5067		
		(1.5233)		
Family CEO/chair			0.7143	
			(0.6799)	
Family no CEO/chair			1.3554	
			(0.9741)	
Family CEO				0.4997
				(0.7679)
Family no CEO				1.2007
				(0.7687)
Log total assets	-0.1663	-0.1714	-0.1568	-0.1570
	(0.2159)	(0.2157)	(0.2182)	(0.2165)
Leverage	0.1859	0.1130	0.2079	0.1509
	(1.7242)	(1.7165)	(1.7090)	(1.7207)
CAPEX	-1.2626	-0.0016	-1.1498	-1.9928
	(11.5535)	(11.6109)	(11.3749)	(11.2764)
Tobin's Q	-0.0583	-0.0269	-0.0022	-0.0234
	(0.6529)	(0.6518)	(0.6352)	(0.6572)
ROA	5.1374	5.1877	5.1765	5.1333
	(4.9586)	(4.9665)	(4.9534)	(4.9350)
Dividend-paying	-1.2439	-1.1327	-1.2582	-1.2764
	(0.9272)	(0.9506)	(0.9243)	(0.9316)
Cash	3.7695	3.0877	3.5158	3.7024
	(3.4050)	(3.4754)	(3.4057)	(3.4057)
Board size	-0.0483	-0.0351	-0.0510	-0.0525
	(0.0867)	(0.0827)	(0.0874)	(0.0883)
Independent directors	0.8927	0.7574	0.7927	0.7398
	(2.1481)	(2.1141)	(2.1409)	(2.1872)
CEO duality	1.6072*	1.7255*	1.6816*	1.8711**
	(0.8622)	(0.8939)	(0.8914)	(0.8847)
Directors from minority list	0.4970	0.4242	0.4968	0.4943
	(0.5250)	(0.5237)	(0.5243)	(0.5242)
Industry fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	785	785	785	785
Adjusted R-squared	0.011	0.012	0.010	0.010

Table 8 – *Change in the first shareholder's common equity capital*. The table shows the results of a linear regression for the change in the equity capital of the first shareholder against the reported explanatory variables. *Loyalty dummy* is a cross-sectional dummy variable which takes the value of 1 if the company has adopted loyalty shares, *Post loyalty* is a variable which takes the value of 1 in the post-adoption period for companies adopting loyalty shares. For a description of the other variables, please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ***, **, * indicate statistical significance at the 1, 5 and 10 percent level, respectively.

	Model 1	*Model 2*	*Model 3*	*Model 4*
Loyalty dummy	-2.0824	-2.2550*	-2.2413*	-2.0811
	(1.3220)	(1.3133)	(1.3236)	(1.3180)
Post loyalty	2.5927*	2.6614*	2.5248*	2.5771*
	(1.4085)	(1.3810)	(1.3570)	(1.4080)
Family control	-0.9108			
	(0.6210)			
Family board		-0.4338		
		(0.5960)		
Family no board		-3.5904**		
		(1.6149)		
Family CEO/chair			-0.3643	
			(0.5839)	
Family no CEO/chair			-1.8091**	
			(0.9103)	
Family CEO				-0.5250
				(0.6808)
Family no CEO				-1.1166*
				(0.6421)
Log total assets	0.1089	0.1178	0.0875	0.1010
	(0.1415)	(0.1388)	(0.1433)	(0.1418)
Leverage	-0.7144	-0.5885	-0.7642	-0.6848
	(1.4168)	(1.4237)	(1.4046)	(1.4157)
CAPEX	-11.2801	-13.4602	-11.5344	-10.6639
	(18.7206)	(19.0370)	(18.9198)	(18.7483)
Tobin's Q	0.8060**	0.7516**	0.6796**	0.7765**
	(0.3732)	(0.3417)	(0.3378)	(0.3716)
ROA	-3.8918	-3.9788	-3.9799	-3.8884
	(5.2616)	(5.3101)	(5.2868)	(5.2706)
Dividend-paying	0.8880	0.6956	0.9201	0.9154
	(0.8210)	(0.7547)	(0.8193)	(0.8212)
Cash	-0.5073	0.6716	0.0646	-0.4506
	(2.3213)	(2.3028)	(2.2713)	(2.3264)
Board size	-0.1104*	-0.1333**	-0.1042	-0.1068
	(0.0654)	(0.0649)	(0.0655)	(0.0654)
Independent directors	-1.8338	-1.5999	-1.6084	-1.7048
	(1.7389)	(1.7319)	(1.7449)	(1.7598)
CEO duality	-0.6952	-0.8998*	-0.8630*	-0.9179*
	(0.4823)	(0.4669)	(0.4930)	(0.5493)
Directors from minority list	0.1089	0.2347	0.1093	0.1111
	(0.5452)	(0.5544)	(0.5452)	(0.5460)
Industry fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	785	785	785	785
Adjusted R-squared	0.010	0.022	0.014	0.010

Table 9 – *Change in the institutional investors' common equity capital*. The table shows the results of a linear regression for the change in the equity capital of institutional investors against the reported explanatory variables. *Loyalty dummy* is a cross-sectional dummy variable which takes the value of 1 if the company has adopted loyalty shares, *Post loyalty* is a variable which takes the value of 1 in the post-adoption period for companies adopting loyalty shares. For a description of the other variables, please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ***, **, * indicate statistical significance at the 1, 5 and 10 percent level, respectively.

	Model 1	*Model 2*	*Model 3*	*Model 4*
Loyalty dummy	0.0027	0.0019	0.0042	0.0042
	(0.0340)	(0.0342)	(0.0346)	(0.0336)
Post loyalty	0.0156	0.0165	0.0150	0.0160
	(0.0418)	(0.0418)	(0.0420)	(0.0411)
Family control	-0.0324			
	(0.0240)			
Family board		-0.0307		
		(0.0251)		
Family no board		-0.0433		
		(0.0415)		
Family CEO/chair			-0.0360	
			(0.0264)	
Family no CEO/chair			-0.0251	
			(0.0278)	
Family CEO				-0.0242
				(0.0263)
Family no CEO				-0.0404
				(0.0291)
Log total assets	0.0195***	0.0195***	0.0196***	0.0195***
	(0.0063)	(0.0063)	(0.0063)	(0.0063)
Leverage	0.0266	0.0256	0.0265	0.0282
	(0.0625)	(0.0629)	(0.0627)	(0.0627)
CAPEX	0.1340	0.1267	0.1422	0.1504
	(0.3174)	(0.3206)	(0.3154)	(0.3184)
Tobin's Q	0.0515***	0.0517***	0.0518***	0.0515***
	(0.0114)	(0.0115)	(0.0114)	(0.0113)
ROA	-0.1604	-0.1608	-0.1600	-0.1568
	(0.1158)	(0.1158)	(0.1165)	(0.1166)
Dividend-paying	-0.0489**	-0.0496**	-0.0491**	-0.0487**
	(0.0238)	(0.0244)	(0.0236)	(0.0237)
Cash	-0.1020	-0.1033	-0.1024	-0.1048
	(0.0987)	(0.0995)	(0.0989)	(0.0992)
First shareholder's equity	-0.0007	-0.0007	-0.0007	-0.0007
	(0.0005)	(0.0005)	(0.0005)	(0.0005)
Institutional investors' equity	0.0014**	0.0014**	0.0014**	0.0014**
	(0.0006)	(0.0006)	(0.0006)	(0.0006)
Board size	-0.0010	-0.0011	-0.0010	-0.0010
	(0.0029)	(0.0029)	(0.0029)	(0.0029)
Independent directors	-0.0763	-0.0737	-0.0784	-0.0724
	(0.0750)	(0.0757)	(0.0747)	(0.0755)
CEO duality	0.0278	0.0268	0.0293	0.0216
	(0.0226)	(0.0228)	(0.0233)	(0.0232)
Directors from minority list	-0.0119	-0.0121	-0.0117	-0.0123
	(0.0177)	(0.0177)	(0.0178)	(0.0178)
Industry fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	1,003	1,003	1,003	1,003
Pseudo R-squared	0.178	0.178	0.178	0.179

Table 10 – *Likelihood of a SEO*. The table shows the results of a logit regression for the likelihood of an SEO in year t against the reported lagged (t – 1) explanatory variables. Average marginal effects are displayed. *Loyalty dummy* is a cross-sectional dummy variable which takes the value of 1 if the company has adopted loyalty shares, *Post loyalty* is a variable which takes the value of 1 in the post-adoption period for companies adopting loyalty shares. For a description of the other variables please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ∗∗∗, ∗∗, ∗ indicate statistical significance at the 1, 5 and 10 percent level, respectively.

	Model 1	*Model 2*	*Model 3*	*Model 4*
Loyalty dummy	0.0428	0.0429	0.0388	0.0433
	(0.0370)	(0.0371)	(0.0376)	(0.0370)
Post loyalty	-0.0194	-0.0194	-0.0197	-0.0203
	(0.0433)	(0.0433)	(0.0430)	(0.0435)
Family control	-0.0271			
	(0.0337)			
Family board		-0.0274		
		(0.0338)		
Family no board		-0.0237		
		(0.0736)		
Family CEO/chair			-0.0175	
			(0.0366)	
Family no CEO/chair			-0.0488	
			(0.0420)	
Family CEO				-0.0365
				(0.0403)
Family no CEO				-0.0216
				(0.0376)
Log total assets	-0.0005	-0.0005	-0.0009	-0.0003
	(0.0080)	(0.0080)	(0.0079)	(0.0080)
Leverage	0.0066	0.0064	0.0060	0.0062
	(0.0668)	(0.0666)	(0.0670)	(0.0670)
CAPEX	0.6752**	0.6767**	0.6588**	0.6654**
	(0.3102)	(0.3113)	(0.3168)	(0.3138)
Tobin's Q	-0.0031	-0.0030	-0.0046	-0.0028
	(0.0154)	(0.0154)	(0.0156)	(0.0154)
ROA	0.3418*	0.3407*	0.3475*	0.3389*
	(0.1899)	(0.1937)	(0.1919)	(0.1895)
Dividend-paying	0.0768**	0.0772**	0.0758**	0.0765**
	(0.0310)	(0.0316)	(0.0311)	(0.0310)
Cash	0.0519	0.0506	0.0568	0.0522
	(0.1356)	(0.1352)	(0.1368)	(0.1344)
First shareholder's equity	0.0002	0.0002	0.0002	0.0002
	(0.0006)	(0.0007)	(0.0006)	(0.0006)
Institutional investors' equity	0.0010	0.0010	0.0010	0.0011
	(0.0009)	(0.0008)	(0.0009)	(0.0008)
Board size	0.0021	0.0021	0.0021	0.0020
	(0.0039)	(0.0039)	(0.0038)	(0.0039)
Independent directors	0.0547	0.0546	0.0573	0.0530
	(0.0851)	(0.0851)	(0.0844)	(0.0854)
CEO duality	0.0195	0.0198	0.0170	0.0246
	(0.0346)	(0.0344)	(0.0345)	(0.0364)
Directors from minority list	0.0106	0.0105	0.0106	0.0101
	(0.0270)	(0.0271)	(0.0269)	(0.0267)
Industry fixed effect	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	1,003	1,003	1,003	1,003
Pseudo R-squared	0.102	0.102	0.103	0.102

Table 11 – *Likelihood of an acquisition*. The table shows the results of a logit regression for the likelihood of a completing an acquisition in year *t* against the reported lagged ($t-1$) explanatory variables. Average marginal effects are displayed. *Loyalty dummy* is a cross-sectional dummy variable which takes the value of 1 if the company has adopted loyalty shares, *Post loyalty* is a variable which takes the value of 1 in the post-adoption period for companies adopting loyalty shares. For a description of the other variables please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ∗∗∗, ∗∗, ∗ indicate statistical significance at the 1, 5 and 10 percent level, respectively.

Panel A	***Model 1***	***Model 2***	***Model 3***	***Model 4***
Family control	0.0663***	0.0801**	0.0768***	0.0736***
	(0.0232)	(0.0345)	(0.0226)	(0.0226)
Directors from minority list	-0.0235*	-0.0251*	-0.0245*	-0.0220*
	(0.0134)	(0.0137)	(0.0138)	(0.0134)
SEO		0.0544		
		(0.0386)		
Acquisition		0.0092		
		(0.0392)		
Family control × SEO		-0.0648		
		(0.0495)		
Family control × Acquisition		-0.0070		
		(0.0435)		
Dual class firm			0.0058	
			(0.0239)	
Dual class firm 2008-2013				-0.0073
				(0.0227)
Pyramidal group			-0.0553**	
			(0.0256)	
Pyramidal group 2008-2013				-0.0431**
				(0.0205)
Financial control variables	Yes	Yes	Yes	Yes
Ownership and governance variables	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	985	963	985	985
Pseudo R-squared	0.148	0.150	0.167	0.163

Panel B	***Model 1***	***Model 2***	***Model 3***
Family board	0.0684***		
	(0.0232)		
Family no board	0.0308		
	(0.0330)		
Family CEO/chair		0.0745***	
		(0.0238)	
Family no CEO/chair		0.0327	
		(0.0251)	
Family CEO			0.0681***
			(0.0240)
Family no CEO			0.0649***
			(0.0241)
Directors from minority list	-0.0224*	-0.0233*	-0.0235*
	(0.0135)	(0.0135)	(0.0134)
Financial control variables	Yes	Yes	Yes
Ownership and governance variables	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes
Number of observations	985	985	985
Pseudo R-squared	0.153	0.161	0.148

Table 12 – *Likelihood of adopting loyalty shares, logit models*. The table shows the results of a logit regression for the likelihood of adopting loyalty shares against the explanatory variables. Average marginal effects are displayed. For a description of the variables please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ∗∗∗, ∗∗, ∗ indicate statistical significance at the 1, 5 and 10 percent level, respectively.

	Cox 1	***Cox 2***	***Cox 3***	***Logit 1***	***Logit 2***	***Logit 3***
Family board	2.8165			0.0607		
	(2.1211)			(0.0418)		
Family CEO/chair		3.5493**			0.0690**	
		(1.9034)			(0.0274)	
Family CEO			1.1909			0.0070
			(0.4430)			(0.0177)
Directors from minority list	0.4066**	0.3900**	0.3888**	-0.0472**	-0.0493**	-0.0492**
	(0.1786)	(0.1706)	(0.1695)	(0.0216)	(0.0216)	(0.0215)
Financial control variables	Yes	Yes	Yes	Yes	Yes	Yes
Ownership and governance variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	564	564	564	639	639	639
Pseudo R-squared	0.090	0.102	0.086	0.127	0.140	0.121

Table 13 – *Likelihood of adopting loyalty shares for the sub-sample of family firms*. The table shows the results of a Cox proportional hazard model (models 1 through 3) and a logit regression (models 4 through 6) for the likelihood of adopting loyalty shares against the explanatory variables for the sub-sample of family firms. Hazard ratios (i.e., exponentiated coefficients) are displayed for Cox models, and average marginal effects are displayed for logit models. The *Family control* dummy is broken up here into *Family board* v. *Family no board* (models Cox 1 and Logit 1), *Family CEO/chair* v. *Family no CEO/chair* (models Cox 2 and Logit 2), and *Family CEO* v. *Family no CEO* (models Cox 3 and Logit 3). For a description of the variables, please refer to Appendix A. Industry fixed effects following Fama-French 12-industry classification and time fixed effects are included in all models. Heteroskedasticity-consistent standard errors clustered at firm-level are reported in parentheses. ∗∗∗, ∗∗, ∗ indicate statistical significance at the 1, 5 and 10 percent level, respectively.

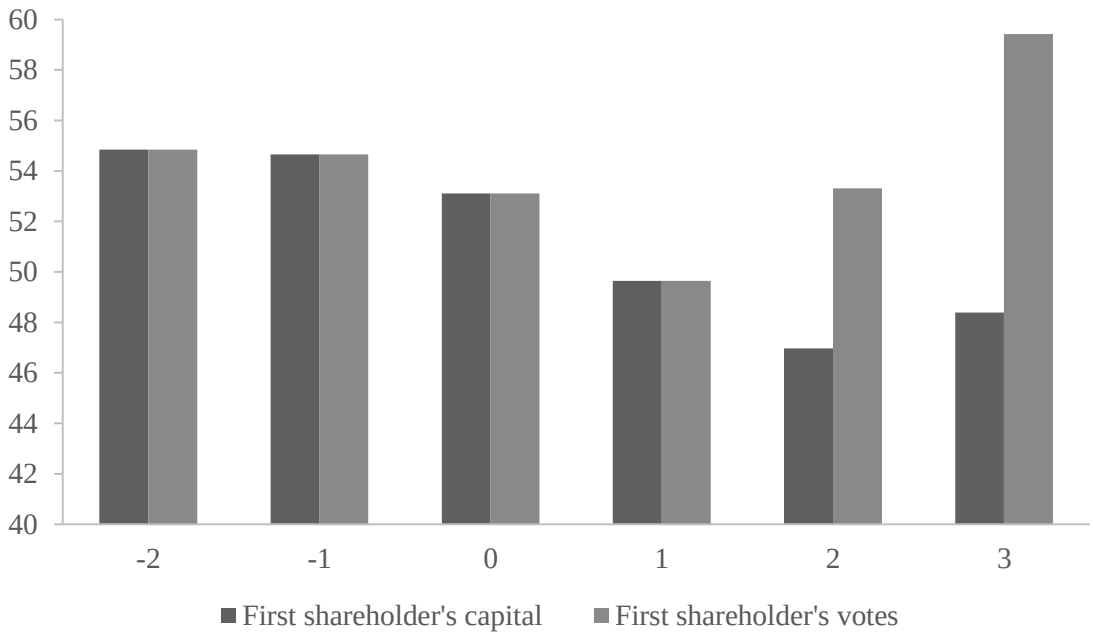

Figure 1 – *Dynamics of the average equity and voting capital of the first shareholder.* The figure depicts the average equity and voting capital of the first shareholder at the adoption of loyalty shares ($t = 0$), up to 2 years before ($t = -1$ and $t = -2$), and up to 3 years after ($t = 1$, $t = 2$, and $t = 3$).

	Variable	*#1*	*#2*	*#3*	*#4*	*#5*	*#6*	*#7*	*#8*	*#9*	*#10*	*#11*	*#12*	*#13*	*#14*	*#15*	*#16*	*#17*	*#18*	*#19*	*#20*	*#21*	*#22*	*#23*	*#24*	*#25*
#1	*Loyalty dummy*	1.00																								
#2	*Total assets*	-0.14	1.00																							
#3	*Sales*	-0.09	0.76	1.00																						
#4	*Leverage*	-0.06	0.01	-0.05	1.00																					
#5	*CAPEX*	0.07	-0.12	0.04	-0.01	1.00																				
#6	*Dividend-paying*	0.06	0.22	0.17	-0.17	0.03	1.00																			
#7	*Tobin's Q*	0.11	-0.14	-0.09	-0.14	0.11	0.04	1.00																		
#8	*Cash*	0.10	-0.17	-0.07	-0.17	0.08	0.04	0.26	1.00																	
#9	*ROA*	0.14	0.00	0.02	-0.18	0.07	0.39	0.13	-0.02	1.00																
#10	*Family control*	0.27	-0.34	-0.22	-0.01	0.05	-0.12	0.13	0.20	0.00	1.00															
#11	*Family board*	0.28	-0.29	-0.19	-0.03	0.08	-0.03	0.10	0.12	0.04	0.85	1.00														
#12	*Family CEO/chairman*	0.30	-0.25	-0.16	-0.02	0.08	-0.05	0.17	0.09	0.06	0.71	0.83	1.00													
#13	*Family CEO*	0.16	-0.18	-0.11	-0.03	0.01	-0.08	0.08	0.07	0.00	0.51	0.60	0.72	1.00												
#14	*First shareholder's votes*	0.10	-0.35	-0.20	-0.03	0.13	-0.11	0.11	0.16	0.04	0.30	0.25	0.22	0.12	1.00											
#15	*Institutional investors' votes*	0.06	0.20	0.14	-0.06	-0.01	0.30	0.14	-0.06	0.27	-0.25	-0.19	-0.15	-0.14	-0.37	1.00										
#16	*Board size*	0.03	0.46	0.20	-0.02	-0.09	0.29	-0.09	-0.19	0.13	-0.21	-0.14	-0.16	-0.19	-0.30	0.27	1.00									
#17	*Independent directors*	-0.13	0.29	0.26	0.08	-0.01	0.10	0.00	-0.02	0.02	-0.32	-0.32	-0.29	-0.27	-0.21	0.19	0.15	1.00								
#18	*CEO duality*	0.07	-0.16	-0.10	0.02	0.15	-0.03	0.10	0.04	0.00	0.27	0.31	0.34	0.50	0.10	-0.14	-0.23	-0.18	1.00							
#19	*Directors from minority list*	-0.13	0.24	0.20	0.04	0.00	0.21	-0.10	-0.13	0.05	-0.19	-0.18	-0.15	-0.16	-0.17	0.16	0.23	0.36	-0.17	1.00						
#20	*SEO*	-0.01	0.06	0.03	0.04	0.03	-0.02	0.13	-0.02	-0.03	-0.05	-0.03	-0.01	0.01	-0.08	0.13	0.07	-0.01	0.02	-0.01	1.00					
#21	*M&A*	0.05	0.03	0.03	0.00	0.07	0.15	0.02	-0.01	0.10	-0.08	-0.05	-0.02	-0.06	-0.07	0.11	0.08	0.05	0.00	0.06	0.08	1.00				
#22	*Dual-class firm*	-0.04	0.17	0.09	0.05	-0.07	0.02	-0.12	-0.05	-0.02	-0.04	-0.10	-0.08	-0.02	-0.04	0.01	0.13	0.12	-0.06	0.05	0.04	0.00	1.00			
#23	*Pyramidal group*	-0.07	0.24	0.28	0.03	-0.06	0.05	-0.10	0.02	-0.01	0.04	-0.01	-0.07	-0.07	0.00	0.06	0.17	0.17	-0.15	0.17	-0.03	-0.06	0.08	1.00		
#24	*Dual-class firm 2008-2013*	-0.10	0.19	0.10	-0.01	-0.03	0.07	-0.05	-0.04	0.04	-0.09	-0.13	-0.13	-0.05	-0.05	0.05	0.14	0.13	-0.08	0.03	0.07	0.04	0.69	0.14	1.00	
#25	*Pyramidal group 2008-2013*	-0.11	0.23	0.26	0.03	-0.02	0.06	-0.05	-0.02	-0.02	-0.12	-0.16	-0.18	-0.14	-0.05	0.10	0.21	0.19	-0.17	0.21	0.06	-0.04	0.04	0.65	0.19	1.00

Table B1 – *Pairwise correlation of variables.*

about ECGI

The European Corporate Governance Institute has been established to improve *corporate governance through fostering independent scientific research and related activities.*

The ECGI will produce and disseminate high quality research while remaining close to the concerns and interests of corporate, financial and public policy makers. It will draw on the expertise of scholars from numerous countries and bring together a critical mass of expertise and interest to bear on this important subject.

The views expressed in this working paper are those of the authors, not those of the ECGI or its members.

ECGI Working Paper Series in Finance

Electronic Access to the Working Paper Series

The full set of ECGI working papers can be accessed through the Institute's Web-site (https://ecgi.global/content/working-papers) or SSRN:

Finance Paper Series	http://www.ssrn.com/link/ECGI-Fin.html
Law Paper Series	http://www.ssrn.com/link/ECGI-Law.html