

Loyalty Shares with Tenure Voting - Does the Default Rule Matter? Evidence from the Loi Florange Experiment

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Abstract

The contractual theory of the firm predicts that companies adopt charters that maximise firm value, regardless of the default rule. We test this proposition empirically around a major legal reform. French companies going public used to give shareholders one vote per share by default. The contracting parties could opt-out via a charter amendment granting double voting rights to shareholders holding the title for at least two years (tenure voting). In 2014 the rule was reversed and tenure voting became the default. Companies wishing to go public with one share – one vote needed to introduce a charter amendment. The new rule also applied to the stock of listed companies; without a charter amendment one share – one companies were switched to tenure voting. The empirical evidence is largely consistent with the predictions of contractarian theory. French IPO companies make flexible use of tenure voting and the change in default rule had no significant impact on the IPO flow or valuations. Companies that had listed already without tenure voting reverted to one share - one vote, unless the French state was the major shareholder.

Keywords: Loyalty shares, tenure voting, time-phased voting, dual-class shares, one-share-one-vote, contractarian theory, default rules

JEL Classifications: D23, K22, G32, G34

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Loyalty Shares with Tenure Voting – Does the Default Rule Matter? Evidence from the *Loi Florange* Experiment

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Abstract

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1. Introduction

The contractual theory of the firm stipulates that public corporations are a nexus of contracts that maximise the value of the firm when agents that establish the corporation's governance structure internalize the costs and benefits of the structure they establish (Easterbrook and Fischel, 1991; Klausner, 2005).⁴ Value maximising is reflected in the pricing of shares during the initial public offering (IPO) and subsequently through trading in secondary market. The contract is defined by corporate law of the country or state and the specific rules a firm adopts. Corporate law can set "immutable" rules that parties are unable to change, or default rules that companies can alter by "opting-out" (Ayres and Gertner, 1989).⁵

Empirically contractarian theory predicts that heterogeneous firms have diverse contractual arrangements, unless rules are immutable. The theory also makes the normative claim that default rules are preferable to hard rules, because the latter will be sub-optimal for many firms. The theory has been tested in the context of IPO charters in the United States. Pre-IPO shareholders should want a firm's shares to sell at the highest possible price and "they have incentives to create the kind of firm, governance structure, and securities the customer in capital markets want" (Easterbrook and Fischel, 1991, p. 4). In contrast with the predictions of the theory, U.S. IPO charters are remarkably homogenous in their general structure (Klausner, 2013). There are substantial differences in antitakeover provisions, but often these do not maximise firm value, again in contradiction with the theory (Daines & Klausner, 2001). In addition, default rules that favour management are considerably less likely to be changed by companies than default rules favouring investors (Listokin, 2009).

In this paper we test the predictions of contractarian theory when applied to IPO charters in the context of a legal reform in France that changed the default rule from one share-one vote to tenure voting.⁶ The reform also forced many firms listed already out of their post-IPO equilibrium. If firms

⁴ In general the theory relies on the Coase Theorem (Coase, 1960) and related work (Hart, 1989; Holmstrom and Tirole, 1989; Jensen and Meckling, 1976).

⁵ Altering rules define what a firm must do to change a default rule (Ayres, 2006). Depending on the altering rule, default rules can be more or less "sticky" (McDonnell, 2007).

⁶ Tenure voting (loyalty shares with tenure voting) provides shareholders with multiple voting rights as a function of the holding period, it anchored in the corporate charter or corporate law and does not change the capital structure. Tenure voting is less controversial than dual-class shares because it treats all shareholders equally, at least in legal terms (Berger, Davidoff Solomon, and Benjamin, 2017). Loyalty share charters already exist in the United States (Dallas and Barry, 2015), but their operation is fraught with difficulties (Berger et al., 2017). Technological solutions are available and a group of technology entrepreneurs has obtained regulatory approval to set up the Long-Term Stock Exchange (LTSE), that is planning to make tenure voting an integral part of the its listing rules (Osipovich and Berman, 2017).

adopt IPO charters that maximize firm value we should observe no change in the proportion of firms that opt-out of one share one-vote before and after the reform, nor should we see any IPO value effects from the reform. Likewise, if the pre-reform arrangements were the outcome of an efficient bargain, listed companies with one-share one-vote forced to adopt tenure voting statutes should opt out of tenure voting after the reform.⁷ A simple change in the default rule should not change what was optimal before the reform. We empirically test these propositions in two samples, namely the sample of IPO flow firms (*flow analysis*) and of the midstream firms (*stock analysis*).

France has a long tradition of loyalty shares with tenure voting, that are used by more than half of French listed companies (Belot, 2005; Chene, 2008). Traditionally one-share-one-vote was the default rule, but shareholders were allowed to *opt-out* by adopting statutes that give double voting rights to “loyal” shareholders, typically after a holding period of two years, or longer. Companies that wanted to opt-out could adopt tenure voting by adding a suitably formulated article to their IPO statutes.⁸ Opting out could occur, for example, because loyalty shares with tenure voting are attractive for founders or families that want to retain control while offering institutional investors high degrees of secondary market liquidity (Becht, 1999; Bolton and von Thadden, 2002). With loyalty shares blockholders need fewer outstanding shares for control and the shares that are not absorbed for control purposes become available for trading. In widely held companies with one-share-one-vote investors reveal to prefer liquidity over control (Bhide, 1993).⁹ Shareholders could also opt-in or out of a loyalty share statute later (midstream) through a shareholder resolution and a 2/3 majority binding vote. Italy adopted a similar system in 2014 (Santoro, Di Palma, Guarneri, and Capogrosso, 2015). Loyalty shares with tenure voting are primarily used to preserve family control after the IPO (Bajo, Barbi, Bigelli, and Croci, 2019).

On 29 March 2014, the French government introduced a new law, known as *Loi Florange*, that changed the default voting system from one share-one vote to tenure voting. The *Loi Florange* stipulated that as of 3 April 2016 shares held in registered form by the same shareholder for at least two years are automatically granted double voting rights, unless the company *opts out* of this system

Consequently, tenure voting structures are receiving increased attention in the United States (Edelman, Jiang, and Thomas, 2018).

⁷ The new default rule for the stock is likely to be “sticky” because the reversal requires a supermajority vote.

⁸ There were two variants: (1) retroactive tenure voting: pre-IPO shareholders with a certain holding period acquired double voting rights immediately while new shareholders had to wait for at least two years, (2) new tenure voting: all holding periods were set to zero at the IPO and all shareholders had to wait for at least two years to acquire double voting rights. The former is close to a dual-class IPO, the latter is a genuine loyalty share offering that treats all shareholders equally from the first day of listing.

⁹ There is empirical evidence of a tradeoff between ownership, control and liquidity in France for the period 1998-2002 involving loyalty shares (Ginglinger and Hamon, 2012)

through a charter amendment (via a 2/3 supermajority vote). Listed companies that wanted to keep one share-one vote had just over two years to opt-out via the same type of supermajority vote. Equally, the default rule for public offerings became 2-year loyalty shares, so IPO firms now had to deliberately *opt out* by writing one-share-one-vote into their statutes.

Contractarian theory predicts that the change in the default rule will not affect which charters are adopted during the IPO process. For the stock of listed companies, one share-one vote companies pre-*Florange* should wish to revert by opting out of tenure voting post-*Florange*. In this paper, we use the actual behaviour of companies affected by the *Loi Florange* to test these propositions.

We find empirical evidence consistent with the contractarian view. For the flow of firms, the fraction of firms going public with tenure voting shares before and after the reform is not significantly different - 50% and 61%, respectively, and there is no significant difference in the IPO value before and after the reform. Likewise, most of the midstream firms (70% of total) opted out of the new (double voting) default rule. The direct cost of opting out was negligible as the relevant decision was typically a resolution at an Extraordinary General Meeting (EGM) that took place at the time of the Annual General Meeting (AGM). On average, there were 97.4% votes *for* maintaining the one-share-one-vote system, 2.2% *against*, and 0.4% *abstain*. The change in the default rule in France did not affect the contracting equilibrium.

The only exception were companies with a significant involvement by the French state. As the law did not grandfather existing control structures, France the regulator, gave favourable treatment to France, the shareholder. Pre-reform, the French state could not opt-out of one share-one vote for most of its holdings because the state lacked the necessary supermajority; post-reform, the state had enough votes to lock in tenure voting. The operation has allowed the French state to reduce its ownership interest, while maintaining its pre-reform voting share.

Our contribution to the literature is two-fold. First, we offer empirical evidence supporting the “contractarian view” of Easterbrook and Fischel (1991) and the analysis of default rules by Ayres and Gertner (1989). Using a legal experiment in France, we contribute to the legal literature on IPO charters and default rules, for example the work of Daines and Klausner (2001), Listokin (2009), and Klausner (2013). These authors examine IPO charters in the United States. Klausner (2013) finds uniformity for general provisions that he explain with positive externalities from familiarity and network effects that are relevant to a common law system where precedent matters. Daines and Klausner (2001) do find differences in anti-takeover provisions, with 50% of U.S. IPO companies adopting staggered boards or other provisions designed to prevent hostile bids. They consider the

adoption of antitakeover provisions as evidence for managerial entrenchment and not maximising firm values, a contradiction with contractarian theory. We show that in France about half of the IPO firms used tenure voting before the reform, which is also reflected in the stock. Loyalty shares have a negative effect on hostile takeover probabilities by giving more voting power to incumbent shareholders. We show that the adoption of loyalty shares in France has no negative effects for pre-IPO shareholders. In addition, the change in the default rule did not affect the contracting equilibrium.

Second, we investigate the impact on firm values when tenure voting is used as a control enhancing mechanism that is legally different, but functionally similar to dual class shares. There is evidence that firms with voting rights that are proportional to cash flow rights have higher stock valuations (Bebchuk, Cohen, and Ferrell, 2009; Bennedsen and Nielsen, 2010; Gompers, Ishii, and Metrick, 2010), an observation that is often attributed to anticipated takeover premia (Adams and Ferreira, 2008; Becht, Bolton, and Röell, 2003). Tenure voting makes hostile takeovers more difficult, but the effect is more moderate than for dual-class shares. Any shareholder can benefit from double voting rights and the superior voting power is not transferable. Our empirical evidence shows a positive (but insignificant) value premium (Tobin's Q) in firms using tenure voting both before and after the *Loi Florange*.¹⁰ Low valuations are associated with the presence of the French state, not with tenure voting.

The remainder of the paper is organized as follows. Section 1 describes our methodology, the 2014 law reform (the *Loi Florange*) we use for identification and describes the data, Section 2 reports the impact of the reform on the IPO flow and the stock of listed companies and Section 3 concludes. Appendix 1 provides variable definitions and Appendix 2 sets out the law reform in more detail.

2. Methodology and Data

Contractarian theory predicts that default rules should not matter for tenure voting. Firms adopt the charter that maximizes firm value by modifying the default rule, if and when it is necessary. Companies will make the necessary changes to implement or preserve the value maximising contract. To test this proposition we rely on identifying variation introduced by Law 2014-384 of 29 March 2014, better known as *Loi Florange* (henceforth referred to as “the Act”).¹¹ Article L225-123

¹⁰ The positive valuation for French loyalty share structures adopted before the *Loi Florange* contrasts with the valuation discount observed in dual-class share companies worldwide (Bennedsen and Nielsen, 2010; Gompers, Ishii, and Metrick, 2010).

¹¹ Appendix 1 provides details of the law and its origins.

of the French commercial code allowed listed companies to adopt tenure voting by modifying their statutes (corporate charter), doubling the voting rights of shareholders who were loyal to the company for at least two years. The Act modified Article L225-123 and set tenure voting as the default rule. The new provision came into force on 3 April 2016. Companies wishing to keep a one share-one vote structure had just over two years to opt out of the new Article L225-123. The required 2/3 supermajority charter amendment had to pass by 31 March 2016, otherwise tenure voting applied.

For IPO companies the new default also came into force on 31 March 2016, but *de facto* it became effective on 29 March 2014. Companies that wanted to list with a one share-one vote charter knew that they would be switched to tenure voting on 31 March 2016. They anticipated the switch by opting-out via a charter amendment from 29 March 2014 onwards. For example, the 2015 IPO prospectus of Amundi, the French asset manager, states: “The double voting right set down by article L. 225-123 of the French Commercial Code (Code de commerce) is expressly excluded.” Table 1 reports further examples from IPO prospectuses for one share-one vote and tenure voting charters during the pre-reform, transition and post-reform periods. Accordingly, we use 29 March 2014 as the reform date for the IPO analysis.

(Insert Table 1 about here)

Table 2 reports the list of companies used in the IPO flow analysis. The sample includes all the IPOs by firms incorporated in France that listed on Euronext Paris, Euronext Growth or the Alternext market four years prior to the reform and four years after the reform (i.e., during March 28, 2010 – March 28, 2018). Altogether 122 companies went public in this time period. For each company we hand collected the IPO prospectus (*document de base*) to check if the company had opted-out of one share-one vote. In the full sample 69 IPO companies (56.6% of total) adopted tenure voting. The required “loyalty period” is typically two, in some cases three or four years.

(Insert Table 2 about here)

Table 3 shows the companies included in the stock analysis. The list is based on the SBF 120 index on 1 January 2016 that comprises the most frequently traded stocks listed on the Paris Stock Exchange (Euronext Paris). We exclude ten firms incorporated outside of France, since the changes in French corporate law did not affect them. We also exclude six companies that went public after the introduction of the Act on 29 March 2014. The final sample includes 104 companies. For each company we collected the 2014 and the 2016 annual report and checked if the firm had implemented tenure voting. Again the required “loyalty period” is typically two, but in some cases 3, 4, 5 or 10

years. In 2014 there were 45 companies (45%) that had adopted one share-one vote by default and were forced out of equilibrium by the reform. In contrast 59 companies (57%) had already adopted tenure voting and were unaffected.

(Insert Table 3 about here)

The leverage the largest shareholder in each company obtains from tenure voting is shown graphically in Figure 1. The capital stake of the largest owner is recorded on the horizontal axis and the corresponding voting stake on the vertical axis. One share – one vote companies are marked with a triangle and line up on the 45 degree line. Companies with tenure voting charters are marked with a circle. They are scattered on or below the 45 degree line and illustrate the non-linear relationship between the size of capital stakes and votes under a tenure voting charter. It also illustrates that the number of votes of the largest long-holder shareholder depends on the presence of other long-holder shareholders.¹² When no shareholder has held the stock for more than two years or all the shareholders have held the stock for more than two years, the fraction of votes held by the largest shareholder is equal to the fraction of capital held. Also, some stakes under tenure voting are on the 45 degree line. In these cases the largest blockholder has held the shares for less than two years and the same is true for all other shareholders. In one case the voting share is smaller than the capital share, because another shareholder already has double voting rights while the largest blockholder does not. Any shareholder with a voting share in excess of 33.33% could block a charter amendment aiming to remove tenure voting.

(Insert Figure 1 about here)

Prior to the 2014 reform companies could adopt tenure voting during the IPO or after going public with one share – one vote through a subsequent supermajority amendment. To find out how the 59 companies in the stock sample ended up with tenure voting we investigate the nature of the pre-reform opt-out. We could obtain data going back to June 1999, which allowed use to classify 12 of the 59 tenure voting companies. In all cases tenure voting was introduced at the time of the IPO. We also investigated the age of the firms in the two groups. Firms with tenure voting were older on average. In March 2014 the median age of the 59 firms with tenure voting was 27 years, compared with 19 years for the 45 firms with one share-one vote. The difference is significant at the 1% level.

¹² In companies with dual class capital structures that grant different number of votes in each class, the total number of votes is fixed.

To test the default rule irrelevance hypothesis, we start by analysing the impact of the Act on the IPO flow of firms and continue by exploring the behaviour and value effects of the stock of firms directly affected by the reform.

3. Empirical results

Did the Act alter IPOs?

Panel A of Table 4 presents the distribution of the sample of 122 IPOs from March 28, 2010 to March 28, 2018, that is four years before and after the reform (March 28, 2014). The fraction of IPO firms that include the tenure voting provision in their initial charter is 50% and 61% before and after the reform, respectively; the difference is statistically insignificant. Likewise, the fraction of tenure voting firms that grant double voting rights retroactively (pre-IPO tenure counts) is not significantly different before and after the reform (81% and 70%, respectively). The remaining firms set the tenure clock to zero at the IPO.

(Insert Table 4 about here)

Panel B of Table 4 shows the pre-IPO ownership structure. There is no significant difference between family, venture capital and private equity firm ownership before and after the reform. The fraction of pre-IPO capital owned by families is higher in tenure voting firms than in one share-one vote firms throughout the sample period. The average family controlled stake is 45.6% in tenure voting firms and 24.1% in one share-one vote firms. The percent of pre-IPO capital controlled by venture capital and private equity firms is slightly higher among one share-one vote firms (25.3% vs. 20.6% in tenure voting firms), but there is no significant difference between the pre- and post-reform periods.

The summary statistics for the IPO firm characteristics are shown in Panel C of Table 4. With the exception of IPO proceeds and underwriter certification, univariate analysis show no difference between pre- and post-reform IPO firm characteristics. Over time, the size of IPO proceeds has increased both in tenure voting and one share-one vote firms, which is unlikely to be related with the *Loi Florange*. When comparing tenure voting firms before and after the reform, there is a third party underwriter employed by all the firms after the reform (100 percent) compared to 88 percent of firms before the reform, which is significantly different at the 5 percent level. The average initial-day (5-day) returns are 3.4% (3.9%) before the reform and 0.3% (0.25%) after the reform, both insignificantly different. To extend the within-group results of Table 4, in Table 5 we analyse the

difference in differences between the tenure voting and one share-one vote companies before and after the reform. The treatment here is the enactment of the *Loi Florange*.

Panel A of Table 5 presents the difference in differences analysis for the main IPO firm characteristics. The industry dummies are used in the regressions but are not reported. The results show that the gross IPO proceeds are significantly lower and family ownership stakes are significantly higher in tenure voting firms compared to one share-one vote firms both before and after the reform. There are no other significant differences between tenure voting and one share-one vote firm characteristics, nor are there any significant time (pre and post reform) and difference in differences effects in the sample IPO firms.

(Insert Table 5 about here)

Finally, in Panel B of Table 5 we estimate IPO value effects in a multivariate setting. Controlling for the most common determinants of IPO value (the proxies for ex-ante uncertainty and underwriter certification), we do not find any evidence that IPO values (1-day and 5-day market adjusted returns) of tenure voting firms (or one share-one vote firms) are any different before and after the reform. To control for size we use gross IPO proceeds rather than post-IPO market capitalization, because it shows larger between firm variation in Panel A of Table 5.¹³ The results, however, are similar if we use the post-IPO market capitalization as a firm size proxy.

Although we have not ruled out all the possible differences in tenure voting firm characteristics before and after the *Loi Florange*, our IPO flow results seem largely consistent with the contractarian view that firms choose their preferred voting structure irrespective of the default rule.

Did Listed Firms Revert?

We now turn to the analysis of the stock of firms that had already gone public at the time of the reform. We expected that the results might be quite different to the IPO flow because the default rule is a lot “stickier”. It is relatively easy to change a charter provision prior to the IPO; making a charter amendment after the firm is listed requires a 2/3 supermajority. The contractual freedom in the initial charter is considerably different from midstream (Bebchuk, 1989).

To obtain a direct measure of potential reversal we computed a pre- to post-reform transition matrix (Table 6). The first row shows that 70% (31 out of 45) of one share-one vote firms that were affected by the introduction of the new default opted out, i.e. made statute amendments to preserve

¹³ We cannot include both due to multicollinearity issues.

the single voting structure after 3 April 2016. For brevity, we call this group “single-single” firms. The remaining 30% (14 out of 45) OSOV firms switched into tenure voting (double voting) either after a failed vote to maintain the OSOV structure (7 firms) or automatically without a vote (7 firms). There were 58 firms that were not affected by the *Loi Florange* because they offered tenure voting shares already before the Act. We call this group “double-double”. Finally, there is one company (Legrand) that had loyalty shares prior to the *Loi Florange*, i.e. would not be affected by the Act, but decided to abandon the double voting system and become an OSOV company through a shareholder vote. The Legrand case illustrates that shareholders can re-contract either way through supermajority amendments.

(Insert Table 6 about here)

Table 7 reports the voting results for the resolutions to maintain the one share-one vote system.¹⁴ The respective resolution typically was one of many (20-30) on the AGM/EGM agenda. Panel A shows that in the “single-single” group all resolutions were sponsored by management (the board), on average 97.4% of shareholders participating in the meeting voted FOR maintaining the one share-one vote system. There were only 2.2% votes AGAINST and 0.4% ABSTAIN. The average participation rate (quorum) in the respective AGM/EGM was 69.6%. In one case, BNP Paribas, opposition from a minority block to revert to one share-one vote could be overcome despite a relatively low attendance rate. In each case Institutional Shareholder Services (ISS) recommended to vote in favour of the management proposal.

(Insert Table 7 about here)

Panel B of Table 7 reports the voting results for resolutions to maintain one vote per share in a sample of seven firms that rejected the respective resolution (“single-double (after failed vote)” group). To adopt the bylaw amendments that would keep one vote per share, 66.67% (2/3) FOR votes were required. If instead a simple majority 50%+1 vote had been required, only two out of seven firms (Engie and Orange) would have succeeded in abandoning the OSOV structure. The

¹⁴ For a sample resolution, see the meeting notice of Klepierre (11 December 2014). The proposed new Article 28 reads: “In all meetings, subject to any restrictions stipulated in the prevailing legislation, shareholders shall have one vote per share held or represented without restriction. Pursuant to the option provided for in article L.225-123 of the French Commercial Code, double voting rights will not be conferred on fully paid shares that have been registered in the name of the same shareholder for a period of at least two years.”.

average participation rate in these meetings was 63.0%. As a result, 49.5% of votes cast and only 31.1% of total votes could block the resolution to revert to OSOV.¹⁵

Panel B of Table 7 also shows that five of the failed resolutions were sponsored by management (the board) and two by shareholders. Again, Institutional Shareholder Services (ISS) recommended to vote in favour of one share-one vote in all cases. The French state is the dominant shareholder in all seven cases, except Vivendi, that is controlled by the Bolloré group. The recommendation of the board is more surprising. The board of Air France-KLM, Alstom SA, Engie SA and Renault SA recommended to vote for one share-one vote and thereby against the French state, the major shareholder. The board of Veolia put forward a one share-one vote resolution, but recommended to vote against it.¹⁶ The boards of Orange and Vivendi recommended to vote against the respective shareholder resolution.

Why did shareholders fail to file one share – one vote resolutions in the remaining cases? Figure 2 plots the equity stake held by the largest owner against the resulting voting stake before (Panel A) and after (Panel B) the reform. The strategic importance of the 33% blocking minority threshold for the “Single-Double” group is clearly visible. All seven firms without a shareholder vote had a shareholder commanding 33.33% or more of the voting rights. Even with an attendance rate of 100% the largest shareholder would have been able to block reversal from tenure voting to one share - one vote. In the group that voted, in six of the seven companies the largest shareholder held a stake smaller than 33.33%. There must have been residual doubt regarding the outcome, especially in the two companies with 100% free float (represented by a single marker at [0,0]). Since the outcome of the vote was unclear management or dissident shareholders put forward a charter amendment resolution. This evidence supports the notion that the *Loi Florange* changed the bargaining power of tenure voting proponents. In 11 out of 14 cases the largest owner was unable to introduce loyalty shares before the reform, but could block opting out after switch the default rule.

(Insert Figure 2 about here)

¹⁵ Participation rates at AGMs are endogenous and difficult to model. High participation rates are more likely when shareholders expect ex-ante to be pivotal (Cvijanovic, Groen-Xu, and Zachariadis, 2019).

¹⁶ The board provided the following rationale: “Your Board of Directors has decided to submit to the approval of the Shareholders Meeting decision to amend the Articles of Association in order to opt out the double voting rights for the benefit of shareholders and keep the “one share – one vote principle”. While leaving the decision to the Shareholders Meeting, your Board however does not approve this resolution and recommends voting against such an amendment in Article 10.1 of your Company’s Articles of Association as it considers that these legal provisions with respect to double voting rights are in the interest of the Company by bolstering its long-term shareholding structure.” Veolia Notice and Information Brochure, Combined General Meeting of Shareholders, 22 April 2015, pg. 27.

The divergence between the control rights and cash flow rights (wedge) in state controlled firms increased from 0.69% before the *Loi Florange* to 5.7% after passage of the Act. As an example, in a one-share-one-vote firm with market capitalization of EUR 20 billion, an investor would require EUR 1 billion to increase the voting stake by 5%. The French government could effectively enhance its control rights by changing the default option from a single into a double vote system. The *Loi Florange* created a fundamental change in property rights in some cases, and the majority opinion was oppressed, as shown in Table 7.

Did the change from one share – one vote bolster the long-term shareholding structure of companies with tenure voting, as the French state and some companies board claimed? It is possible that the switch to tenure voting increased the willingness of the controlling shareholders to hold their blocks. The average holding periods of other shareholders in tenure voting firms and OSOV firms, when measured by annual turnover, was not significantly different before and after the Act. This finding supports the sceptical view about the impact of short-termism on average holding periods (Fried, 2014; Roe, 2013). In addition, and somewhat paradoxically, the average holding period for companies where the French state is the dominant shareholder decreased during the sample period.¹⁷

Who blocked the complete reversal? Table 8 reports the distribution of control and ownership rights before the reform (31 December 2013) and after (31 December 2016). The main change occurred in the number of listed firms controlled by the state. Before the passage of the Act only three state controlled companies had adopted tenure voting; after the reform 11 companies with state involvement used tenure voting. There is less change for family firms. The only significant change occurred for companies controlled by the Bolloré family, that used the Act to tighten control over its pyramidal group. As the IPO analysis showed, families usually introduce tenure voting during the IPO. The French state often acquired ownership stakes after the IPO (privatisation) and the stakes were too small to pass supermajority amendments against the will of institutional shareholders.

(Insert Table 8 about here)

Valuation of Listed Firms

Finally, we turn to the analysis of value effects of the reform on listed companies. Table 9 presents descriptive statistics for stock analysis variables. Panel A reports the values as of 28 March 2014 and Panel B – as of 4 April 2016. The average Tobin's Q is 1.51 in both time points. The largest

¹⁷ These unreported results are available from the authors upon request.

shareholder has on average 32.9% (32.3%) of the voting rights and 28.6% (27.2%) of the cash flow rights in 2014 (2016).

(Insert Table 9 about here)

Table 10 replicates the main cross-sectional value regressions of Bennedsen and Nielsen (2010) before and after the reform – March 28, 2014 (models (1) to (4)), and April 4, 2016 (models (5) to (9)). The variable of interest is the dual dummy, which takes the value of one if a firm uses tenure voting shares. We also report a specification with the control minus ownership (wedge). The respective variables in BN (2010) are called the disproportionality dummy (DP) and the degree of disproportionality (DPP). Unlike BN, find no negative valuation effect from the disproportional ownership structure (models (1) and (2)). In fact, firms with tenure voting charters have higher (but insignificant) valuations when we introduce the standard controls. The market does not discount tenure voting charters when compared to classical differential voting. We find some weak support to the BN result that market dislikes the use disproportional ownership structures by families (model (3)). Model (4) adds an interaction between the dual dummy and the state ownership. We find weak evidence that market also dislikes the use of disproportional ownership structures by the state.

(Insert Table 10 about here)

In further models of Table 10, we estimate the cross-sectional value regressions on April 4, 2016, when the default loyalty double voting system became effective. We observe a decrease in the loyalty share “premium” from 0.15 to a discount of -0.051 (models (1) and (5)). The reason behind this drop becomes apparent in model (6). The sample of double vote firms in 2016 is “contaminated” by the switchers, the firms that used to be single vote and became double vote either automatically or after a failed vote on preserving the one vote per share. As observed in the univariate analysis, the switchers are the firms with the lowest Qs in both 2014 and 2016. The regression models (6) to (8) confirm the negative and significant value effect among these switching firms.

The main results hold in the difference-in-differences regression models in panel B of Table 10. We find no significant difference in Tobin’s Q before and after the treatment, i.e. the *Loi Florange*. In model (1) we define all OSOV companies to be treated by the *Loi Florange*. The Tobin’s Q in OSOV companies is (insignificantly) lower than in double voting companies, and there is no treatment effect. In model (2) the treated group includes only those 14 companies that switched from

single vote to double vote. Once again, we find significantly lower Tobin's Q among the switchers, both before and after the treatment.¹⁸

What explains the negative average valuation among the firms that switched from one share – one vote to tenure voting? First, most of these firms are controlled by the state, and they are likely to have social or political goals instead of pure shareholder value maximization, or they might be run less efficiently (see the regression model (9) in Panel A of Table 10). Second, loyalty shares have been suggested as good takeover defences (Moschetto and Teulon, 2015). Tenure voting in France is used by blockholders to enhance their voting power and can have a chilling effect on hostile takeovers and hedge fund activism. However, this is also true for companies that had already adopted tenure voting before 2014 and preserved it throughout the period. It is more likely that the lower valuation is due to the strong presence of the state as the main shareholder among the companies that fail to revert to one share – one vote (Table 8).

4. Conclusion

One share-one vote was the default rule for IPO companies in France before 2014. Companies could opt-out via a simple charter amendment that granted shareholders double voting rights after at least two years. The charter amendment was used by about half of IPO firms and mostly by families. The stock of listed companies largely preserved these proportions; about half of listed companies used tenure voting and most of these were family controlled.

In 2014 the French state introduced Law 2014-384 of 29 March 2014, the *Loi Florange*, that reversed the default rule. Tenure voting became the new default and shareholders had to opt-out if they wanted to adopt one share – one vote. The reform had no significant impact on IPO charters. The proportion of companies going public with one share – one vote slightly decreased, but not significantly and tenure voting continues to be associated with family firms. The persistent heterogeneity in IPO charters and the insignificant difference in IPO characteristics is consistent with contractarian theory. Pre-IPO shareholders are making a substantive choice, irrespective of the default rule.

The evidence on the stock of listed companies supports the default rule irrelevance notion. Even though a supermajority was required to revert to one share – one vote, most companies did revert.

¹⁸ We also implemented an event study around general meeting votes. The results are insignificant, but this evidence is not conclusive. There is no well-defined event date and there is a large amount of confounding information released during shareholder meetings.

Absent the French state, shareholders generally voted to return to one share – one vote. They behaved exactly as the contractarian theory predicts; *ceteris paribus* shareholders want to renegotiate and return to the original efficient contract. The idea that tenure voting and one share – one vote statutes were allocated efficiently before the reform is supported by the high and unchanged Tobin’s Q in both cases. In addition there is no significant change in Tobin’s Q for companies that maintained the same control structure.

The *Loi Florange* allowed the French state to permanently tighten its grip on a number of listed companies it considers “strategic” without the approval of existing shareholders. Otherwise, the change in default rule had no significant impact either on IPO flow or midstream companies.

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Appendix 1: Variable Definitions

<i>Ownership Variables</i>	<i>Source: Annual Reports (Document de reference)</i>
Controlling shareholder	The largest shareholder or group of shareholders acting in concert that hold at least 10 percent of the voting rights
Cash flow stake (Capital)	Controlling shareholder's share of the cash flow rights
Control minus Ownership (Wedge)	Controlling shareholder's votes minus the cash flow stake
Dual dummy	1 if company has a tenure voting provision; and 0 otherwise
Family dummy	1 if the controlling shareholder is a family; and 0 otherwise
State dummy	1 if the controlling shareholder is the government (including public sector); and 0 otherwise
Switch dummy	1 if the company switched from one-share-one-vote into loyalty share system in the sample period
Votes	Controlling shareholder's share of the voting rights
<i>IPO Flow Analysis</i>	<i>Source: Thomson Reuters Eikon</i>
Age at IPO	Number of years from a company's incorporation until the IPO.
Book-to-market ratio, BTM	Book value of equity per share divided by the IPO price (the first transaction price).
High-tech dummy	1 for high-technology companies (SIC3 codes: 283, 357, 366, 367, 382, 384, 481, 482, 489, 737, and 873), according to (Kile and Phillips, 2009).
IPO proceeds	Gross IPO proceeds (including over-allotment), in million EUR.
Market-adjusted Return (1-day, 5-day)	1-day or 5-day return calculated by deducting the SBF250 index returns from the respective stock returns relative to the IPO price (the first transaction price).
Market capitalization, MCAP	Market capitalization (in million EUR) after the IPO.
Underwritten by third party, UW	1 if the IPO is underwritten by third party.
<i>Stock of Firms Analysis</i>	<i>Source: Bloomberg</i>
Asset tangibility	Net property, plant, and equipment divided by total assets.
Industry dummies	Eleven sectors specified according to the Global Industry Classification Standard: industrials, materials, information technology, financials, health care, consumer staples, energy, consumer discretionary, utilities, real estate, and telecommunication services
Leverage	Long term debt divided by total assets.
Return on assets	Net income divided by total assets (in %).
Sales growth	Revenue growth (a year-on-year change in sales revenue).
Size	The natural logarithm of total assets (in million EUR).
Tobin's Q	(Market value of equity + Book value of total assets – Book value of equity) divided by (Book value of total assets).

Appendix 2: The *Loi Florange*

Law 2014-384 of 29 March 2014 is a “law aiming to take back control of the real economy”¹⁹ by strengthening long-term investors at the expense of short-term speculators. It is better known as *Loi Florange*, named after the city of Florange in the North East of France, a region that has been dominated by mining and steel. It was motivated by events that took place in 2012. ArcelorMittal—the steel group created in 2006 by the merger of Arcelor and Mittal Steel—took the decision to close a set of profitable blast furnaces in Florange. The Mittal group was built and is controlled by the entrepreneur Lakshmi Mittal through the serial acquisitions of underperforming steel assets. Once the assets were brought under Mittal Steel control they were restructured, often involving plant closures and layoffs. The operations were often debt financed. In 2005 Forbes Magazine listed London based Mr Mittal as the third wealthiest individual in the World, with an estimated net worth of 25 US\$ billion. The announced closure coincided with the re-election campaign of socialist President François Hollande, who promised reforms.

The *Loi Florange* contains three chapters. Chapters 1 and 2 are directly related to plant closures. Chapter 1 forces companies to look for a buyer before allowing the permanent closure of a plant. Chapter 2 gives workers the possibility to purchase the assets. Chapter 3 contains “measures to promote long term shareholding” in listed companies.

To achieve the latter, *inter alia*, Article 7 modified French company law (the *Code de commerce*). Article L225-123 of the Commercial Code allowed listed companies to adopt a tenure voting provision in their statutes that gave shareholders two votes per share after a certain holding period. It was modified by Article 7 (V) of the Act that set loyalty shares as the default rule. The new Article states that “in all companies admitted for trading on a regulated market, the double voting rights set out in the first paragraph [of this Article], unless there is a statutory provision to the contrary before the Act comes into force, [...] will apply by law to all shares [...] which have been held by the same shareholder for two years”.²⁰

The Act came into force on 3 April 2016 so companies had just over two years to opt out. For an amendment to come into force, two-thirds of the company’s shareholders had to vote for the

¹⁹ LOI n° 2014-384 du 29 mars 2014 visant à reconquérir l’économie réelle (<https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000028811102>).

²⁰ “Dans les sociétés dont les actions sont admises aux négociations sur un marché réglementé, les droits de vote double prévus au premier alinéa sont de droit, sauf clause contraire des statuts adoptée postérieurement à la promulgation de la loi n° 2014-384 du 29 mars 2014 visant à reconquérir l’économie réelle, pour toutes les actions entièrement libérées pour lesquelles il est justifié d’une inscription nominative depuis deux ans au nom du même actionnaire.”

resolution *not* to grant the double voting rights, i.e. to *opt out* of the *Loi Florange*. The companies wishing to stay with the one share – one vote structure had to pass charter amendments by 31 March 2016.

The implementation of the long-term shareholder policy was entrusted to Emmanuel Macron, the Economy Minister at the time. Mr Macron gave a series of speeches where he expressed the view that the *Loi Florange* gives the state a more dynamic and powerful role as a shareholder. The willingness of France the shareholder to use the new rules strategically became evident in a number of headline cases. At car manufacturer Renault, the state acquired €1.23bn worth of additional shares to block the return to one-share-one-vote proposed by Renault's board and supported by institutional investors. In the case of Air France the state raised its stake to 17.6% to successfully block a one-share-one-vote management proposal (Chassany, 2015; Chow, 2015). The state also defeated one share-one vote management proposals at Alstom and Engie; and a shareholder proposal at Orange, the latter with support from the board (Table 7).

Table 1
Tenure Voting Default Rules in France

	Voting Structure	
	One-Share-One-Vote	Tenure Voting
Pre-Reform (- 28 March 2014)	Default “Each share entitles its owner to vote and to be represented at the general meetings under the conditions stipulated by law and by the Bylaws. No double voting rights have been instituted.” DBV Technologies IPO Prospectus January 2012 (pg. 273)	Opt-in “Voting rights attached to shares are proportionate to the fraction of capital represented and each share entitles its holder to at least one vote. All paid-up shares, given the proportion of share capital they represent and irrespective of their class, which have been held in registered form by the same shareholder for five years or more, confer voting rights equal to twice that of other shares.” Biosynex IPO Prospectus April 2012 (pg. 237)
Transition Period (29 March 2014 – 29 March 2016)	Opt-out (after 3 April 2016) “The double voting right set down by article L. 225-123 of the French Commercial Code (Code de commerce) is expressly excluded.” Amundi IPO Prospectus (pg. 279) June 2015	Default (after 3 April 2016)²¹ “Double voting rights are granted to all fully paid up ordinary shares that have been held in registered form by the same holder for a continuous period of at least two (2) years. The length of time that shares were held prior to the listing date of the Company’s ordinary shares on Euronext Paris will not be counted towards the two-year holding period. The Company has thus not exercised the option to waive the attribution of double voting rights set out in Article L. 225-123 paragraph 3 of the French Commercial Code.” Europcar IPO Prospectus June 2015
Post-Reform (3 April 2016 -)	Opt-out “The right to vote attached to the shares is proportional to the percentage of share capital they represent. Each capital or use share gives the right to one vote. Under the special provision in the last section of Article L. 225-123 of the Commercial Code, the bylaws do not grant double voting rights to Company shares.” Cerenis IPO Prospectus April 2017 (pg. 313)	Default “The Company’s articles of association, as amended following the Company’s initial public offering on Euronext Paris, will not make use of the option to derogate from the grant of double voting rights as provided for in Article L. 225-123 of the French Commercial Code.” Inventiva IPO Prospectus April 2017 (pg. 164)

²¹ Strictly speaking the Europcar articles opt into tenure voting during the transition period and hold up the default in the post-reform period.

Table 2
Sample of 122 IPO Flow Companies

Company	IPO date	Company	IPO date	Company	IPO date
One-share-one-vote companies (N = 53)		One-share-one-vote companies (continued)		Tenure voting companies (continued)	
ALD International SA	16-Jun-17	Numericable Group SA	8-Nov-13	ID Logistics SA* (4 years)	18-Apr-12
Adeunis SA	16-Oct-17	Oncodesign SA	2-Apr-14	Innoveox SA	7-May-14
Amoeba SA	10-Jul-15	Pixium Vision SA	18-Jun-14	Intrasense SA	22-Feb-12
Amplitude Surgical SAS	26-Jun-15	Poxel SA	6-Feb-15	Inventiva SA	15-Feb-17
Amundi SA	12-Nov-15	Sensorion Sa	21-Apr-15	Kerlink SA	24-May-16
		Societe de Conseil Externalisation & En Marketing			
Balyo SA	9-Jun-17	Internet SA	25-Jan-11	La Francaise de l'Energie SA	13-Jun-16
Biom Up SAS	13-Oct-17	SpineGuard SA	29-Apr-13	Mauna Kea Technologies SA	5-Jul-11
Biophytis SA	13-Jul-15	Stentys SA	22-Oct-10	Miliboo SA	15-Dec-15
				Montagne et Neige	
Blue Solutions SA	30-Oct-13	SuperSonic Imagine SA	10-Apr-14	Developpement SA	23-Oct-13
Cellnovo Group SA	10-Jul-15	TxCell SA	14-Apr-14	Neovacs SA	15-Apr-10
Cerenis Therapeutics SA	30-Mar-15	Viideo SA	2-Jul-14	Nextstage SCA	20-Dec-16
Crossject SA	20-Feb-14	Weka Entertainment SA	25-Jun-10	Oceasoft SA	28-Jan-15
				Orphan Synergy Europe	
DBV Technologies SA	29-Mar-12	Tenure voting companies (N=69)		Pharma SA	30-Mar-15
EOS Imaging SA	16-Feb-12	(tenure period 2 years, unless marked by *)		Osmozis SA* (4 years)	8-Feb-17
Ecoslops SA	20-Feb-15	AB Science SA	21-Apr-10	Phamext SA	18-Jul-16
Ekinops SA	2-May-13	ABIVAX SA	26-Jun-15	Phenix Systems SA	8-Jul-11
Electro Power Systems SA	22-Apr-15	AKD SA* (4 years)	31-May-11	Phenixcom SA	19-Jan-11
Elior SCA	11-Jun-14	ASK SA	2-Jul-14	Poulailion SA	2-Dec-15
Gaztransport & Technigaz SAS	27-Feb-14	Abeo SA	11-Oct-16	Prodways Group SA (* 4 years)	12-May-17
Genomic Vision SA	2-Apr-14	Adocia SAS	20-Feb-12	Relaxnews SA	16-Dec-11
Genticel SA	4-Apr-14	Advicenne SA	6-Dec-17	SMCP SAS	20-Oct-17
Global Bioenergies SA	9-Jun-11	Anevia SA	3-Jun-14	SRP Groupe SA	30-Oct-15
Groupe ConcoursMania SA	10-May-11	Ateme SA	10-Jul-14	Safe Orthopaedics SA	10-Feb-15
Groupe Jemini SA	24-Feb-11	AwoX SA	22-Apr-14	SergeFerrari Group SA	25-Jun-14
Horizontal Software SA	14-Dec-16	Biocorp SA	10-Jul-15	Spie SA	10-Jun-15
Implanet SA	25-Nov-13	Biosynex SA	21-Mar-11	TUTO4PC.com Group SA	7-Jul-11
Inside Secure SA	20-Feb-12	Carbios SA	19-Dec-13	Tarkett SA* (5 years)	22-Nov-13
LeadMedia Group SA	28-Jun-11	Carmat SA	7-Jul-10	Tekka Group SA	8-Feb-11
Lucibel SA	16-Jul-14	Cerinnov Group SA	20-Jun-16	Theraclion SA	25-Apr-14
Lysogene SA	8-Feb-17	Coface SA	27-Jun-14	Theradiag SA	11-Dec-12
MNR Group SA	16-Dec-10	Cogra 48 SA	25-Nov-11	Theranexus SAS	30-Oct-17
Maisons du Monde SAS	27-May-16	Custom Solutions SA	20-May-10	Tronics Microsystems SA	13-Feb-15
McPhy Energy SA	25-Mar-14	Deinove SA	21-Apr-10	UV Germi SA* (3 years)	21-Jul-17
		Douaisienne de Basse Tension SA	23-Dec-15	Ucar SA* (4 years)	6-Jul-11
Median Technologies SA	20-May-11	Elis SA	11-Feb-15	Valbiotis SA	7-Jun-17
Mediawan SA	22-Apr-16	Enerstime SA	7-Jul-16	Vexim SA	3-May-12
Medtech SA	28-Nov-13	Erytech Pharma SA	7-May-13	Visiativ SA	28-May-14
Methanor SCA	12-Jul-12	Europcar Groupe SA	26-Jun-15	Visiomed Group SA	5-Jul-11
Moviken SA	4-Jul-11	Fermentalg SA	16-Apr-14	Wallix Group SA	16-Jun-15
Nanobiotix SA	29-Oct-12	Focus Home Interactive SA	16-Feb-15	Witbe SA	18-Apr-16
Novacyt SA	12-Oct-12	Groupe Parot SA	24-Oct-16	Worldline SA	27-Jun-14
Novagali Pharma SA	20-Jul-10			Ymagis SA	7-May-13

Note. Table shows the list of 122 IPO flow companies included in the sample. The sample includes all the IPOs on Euronext Paris, Euronext Growth and Alternext markets (during March 28, 2010 - March 28, 2018).

Table 3

Sample of 104 Midstream Companies

Company	Company	Company
One-Share-One-Vote companies (N=45)	One-share-one-vote companies (continued)	Tenure voting companies (continued)
Aeroports de Paris	SCOR SE	Ingenico Group SA
Air France-KLM	Sopra Steria Group	Ipsen SA
Air Liquide SA	Suez	IPSOS
Alstom SA	Technicolor SA	Kering
Atos SE	Television Francaise 2	Lagardere SCA* (4 years)
BNP Paribas SA	Unibail-Rodamco SE	Legrand SA
Bollore SA	Veolia Environnement SA	LVMH Moet Hennessy* (3 years)
Cappemini SA	Vinci SA	Maurel Et Prom* (4 years)
CNP Assurances	Vivendi SA	Michelin* (4 years)
Credit Agricole SA		Orpea
Dassault Aviation SA	Tenure voting companies (N=59)	Pernod Ricard SA* (10 years)
DBV Technologies SA	<i>(tenure period 2 years, unless marked by *)</i>	Peugeot SA* (4 years)
Electricite de France SA	Accor SA	Plastic Omnium
Engie SA	Alten SA* (4 years)	Publicis Groupe SA
Euler Hermes Group	Altran Technologies SA* (4 years)	Remy Cointreau SA* (4 years)
Eutelsat Communications SA	Arkema SA	Safran SA
Fonciere Des Regions	AXA SA	Saint Gobain
Gaztransport Et Technigaz SA	BioMerieux* (5 years)	Sanofi
Gecina SA	Bouygues SA	Sartorius Stedim Biotech* (4 years)
Havas SA	Bureau Veritas SA	Schneider Electric SE
ICADE	Carrefour SA	SEB SA* (5 years)
Innate Pharma SA	Casino Guichard* (4 years)	SFR Group SA
JCDecaux SA	CGG SA	Societe BIC SA
Klepierre	Danone SA	Societe Generale SA
Korian SA	Dassault Systemes SE	Sodexo SA* (4 years)
L'Oreal SA	Edenred	TechnipFMC PLC
Mercialys SA	Eiffage SA	Teleperformance* (4 years)
Metropole Television SA	Essilor International SA	Thales SA
Natixis SA	Eurazeo SA	TOTAL SA
Neopost SA	Eurofins Scientific SE* (3 years)	Ubisoft Entertainment SA
Nexans SA	Faurecia	Valeo SA* (4 years)
Nexity SA	Genfit	Vallourec SA* (4 years)
Orange SA	Groupe Eurotunnel SE	Vicat SA* (4 years)
Renault SA	Hermes International* (4 years)	Wendel SA
Rexel SA	Iliad SA* (3 years)	Zodiac Aerospace* (4 years)
Rubis SCA	Imerys SA	

Note. Table shows the list of 104 midstream companies included in the sample and their share structure as of 28 March 2014 (before the reform). The sample includes domestic companies from the SBF 120 index.

Table 4

IPO Flow on Euronext Paris, Growth and Alternext (March 28, 2010 - March 28, 2018)

Panel A. Going public with one share-one vote vs. tenure voting provision

	Number of firms			Fraction of IPO firms with tenure voting (from Total)	Fraction of firms with retroactive double vote (from tenure voting)
	One share-one vote	Loyalty shares	Total		
Before 28 March 2014	26	26	52	50.0%	80.8%
After 28 March 2014	27	43	70	61.4%	69.8%
Total	53	69	122	56.6%	73.9%
<i>p-value of (two-sided) Mean equality test (Before vs. After)</i>				0.211	0.320

Panel B. Family and Venture Capital (VC) ownership in IPOs

	(Mean) Percent of pre-IPO capital owned by:						
	Families			Venture capital and private equity firms			
	One share-one vote	Tenure voting	Total	One share-one vote	Tenure voting	Total	
Before 28 March 2014	26.2%	49.0%	37.6%	23.9%	19.8%	21.8%	
After 28 March 2014	22.0%	43.5%	35.2%	26.7%	21.1%	23.2%	
Total	24.1%	45.6%	36.2%	25.3%	20.6%	22.6%	
<i>p-value of (two-sided) Mean equality test (Before vs. After)</i>		0.613	0.518	0.703	0.705	0.820	0.753

Panel C. Descriptive statistics

Variable	N	Before 28 March 2014			After 28 March 2014		
		One share-one vote	Tenure voting	Total	One share-one vote	Tenure voting	Total
Market-adjusted Return (1 day)	116	0.049	0.020	0.034	-0.010*	0.011	0.003
Market-adjusted Return (5 days)	116	0.050	0.028	0.039	0.037	0.018	0.025
Age at IPO	116	10.05	9.96	10.00	10.74	12.63	11.90
Market capitalization (MEUR), post-IPO	116	295.54	140.78	214.79	699.07	328.72	471.57
Ln IPO proceeds	116	3.04	2.46	2.74	3.77*	3.34**	3.51
Book-to-market ratio, post-IPO	116	0.30	0.34	0.32	0.36	0.40	0.38
High-tech dummy	116	0.55	0.38	0.46	0.41	0.40	0.40
Underwritten by third party (dummy)	116	0.86	0.88	0.87	0.96	1.00**	0.99

Note. Panel A shows the number of IPOs on Euronext Paris, Euronext Growth and Alternext between March 28, 2010 and March 28, 2018, i.e. four years before and after the *Loi Florange*. The last column reports the fraction of firms with loyalty shares that offered double voting rights retroactively, i.e. all the shareholders that had held shares for at least X number of years prior to the IPO immediately received double voting rights; the remaining firms granted double voting rights *after* X number of years from the IPO date. Variable descriptions are in Appendix A.

Table 5
IPO Flow on Euronext Paris (March 28, 2010 - March 28, 2018)

Panel A. The difference-in-differences effect of tenure voting shares before and after the reform on financial variables

Variable	(1) Market- adjusted Return (1 day)	(2) Market- adjusted Return (5 days)	(3) Ln IPO proceeds	(4) Ln Market Cap	(5) Book-to- market ratio	(6) High- tech dummy	(7) UW dummy	(8) Family stake	(9) VC stake
Tenure voting dummy	-0.030 (-0.459)	-0.022 (-0.279)	-0.833** (-2.072)	-0.698* (-1.793)	0.057 (1.157)	-0.170 (-1.155)	0.011 (0.112)	0.257*** (2.776)	-0.098 (-1.304)
After reform dummy	-0.059* (-1.840)	-0.013 (-0.234)	0.368 (0.968)	0.210 (0.585)	0.014 (0.293)	-0.138 (-0.954)	0.099 (1.195)	-0.006 (-0.078)	-0.023 (-0.279)
Tenure voting # After reform (DiD)	0.051 (0.714)	0.002 (0.026)	0.540 (1.007)	0.378 (0.755)	-0.027 (-0.401)	0.158 (0.826)	0.026 (0.238)	-0.068 (-0.549)	0.062 (0.620)
Constant	0.049* (1.934)	0.050* (1.817)	3.261*** (10.752)	4.565*** (15.645)	0.328*** (9.832)	0.545*** (5.049)	0.864*** (11.599)	0.241*** (3.904)	0.283*** (5.344)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	116	116	116	116	116	116	116	116	116
Adjusted R-squared	-0.0136	-0.0236	0.257	0.241	0.279	-0.0114	0.0355	0.0939	0.0448

Panel B. IPO underpricing analysis before and after the reform

VARIABLES	Market-adjusted Return (1 day)	Market-adjusted Return (5 days)
OSOV & After (dummy)	-0.048 (-1.279)	0.002 (0.032)
Tenure voting & Before (dummy)	-0.041 (-0.746)	-0.025 (-0.357)
Tenure voting & After (dummy)	-0.005 (-0.089)	0.014 (0.270)
Ln IPO proceeds	0.003 (0.335)	0.014 (1.193)
Book-to-market ratio	0.164 (1.345)	0.244** (1.998)
High-tech dummy	-0.012 (-0.213)	-0.027 (-0.376)
Underwritten by third party dummy	-0.262 (-1.357)	-0.303 (-1.533)
Constant	0.219 (1.239)	0.194 (1.052)
Industry dummies	Yes	Yes
Observations	116	116
Adjusted R-squared	0.0496	0.0584

Note. Panel A reports the difference-in-differences analysis of tenure voting shares before and after the reform on financial variables. *Tenure voting dummy* is one for companies with tenure voting shares at the IPO; and zero otherwise. *After reform dummy* is one for companies with IPOs after March 28, 2014; and zero otherwise. *Tenure voting # After reform (DiD)* is the difference-in-differences estimator. All the financial variables are defined in Appendix A. Panel B details the regressions of Market-adjusted returns on financial variables. In column 1 (2) the dependent variable is 1-day (5-days) market-adjusted return. *OSOV & After (dummy)* is one for companies that went public with one share-one vote after March 28, 2014; and zero otherwise. *Tenure voting & Before (dummy)* is one for companies that went public with tenure voting system before March 28, 2014; and zero otherwise. *Tenure voting & After (dummy)* is one for companies that went public with tenure voting system after March 28, 2014; and zero otherwise. All the financial variables are defined in Appendix A. All regressions control for industry fixed effects. Eleven industries are specified according to the Global Industry Classification Standard. Robust t-statistics in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 6

Transition matrix of SBF 120 companies pre- and post-reform

	One share – one vote (after)	Tenure voting (after)	Total (after)
One share – one vote (before)	31 (30%)	14 (13%)	45 (43%)
Tenure voting (before)	1 (1%)	58 (56%)	59 (57%)
Total (before)	32 (31%)	72 (69%)	104 (100%)

Note. The table shows the transition of the number (and percentage) of total sample firms. There are 31 (58) firms that kept one share-one vote (tenure voting) structure and 14 (1) firms that switched from one share – one vote to tenure voting (tenure voting to one share – one vote) structure.

Table 7

Voting results for proposal to (re)introduce one share-one vote (opting out of *Loi Florange* L.225-123)

	Sponsor *	Votes				Margin (%)	Threshold (%)	Outcome	Mgmt	ISS
		Present (%)	For (%)	Against (%)	Abstain (%)					
Panel A: Single – Single										
Air Liquide SA	M	47.31	93.08	0.53	6.39	27.08	66	Pass	For	For
Atos SE	M	54.62	97.70	2.30	0.00	31.70	66	Pass	For	For
BNP Paribas SA	M	64.91	78.23	21.71	0.06	12.23	66	Pass	For	For
Capgemini SA	M	62.33	95.27	4.73	0.00	29.27	66	Pass	For	For
Euler Hermes Group	M	91.60	99.99	0.01	0.00	33.99	66	Pass	For	For
Eutelsat Communications	M	75.74	99.84	0.06	0.10	33.84	66	Pass	For	For
Fonciere Des Regions	M	79.07	99.93	0.03	0.04	33.93	66	Pass	For	For
Gecina SA	M	77.51	99.58	0.35	0.07	33.58	66	Pass	For	For
ICADE	M	76.71	99.70	0.28	0.02	33.70	66	Pass	For	For
Innate Pharma SA	M	51.86	99.58	0.42	0.00	33.58	66	Pass	For	For
Klepierre	M	84.38	99.93	0.07	0.00	33.93	66	Pass	For	For
Korian SA	M	78.58	99.64	0.36	0.00	33.64	66	Pass	For	For
L'Oreal SA	M	75.93	99.80	0.07	0.13	33.80	66	Pass	For	For
Mercialys SA	M	83.97	97.90	0.16	1.94	31.90	66	Pass	For	For
Metropole Television SA	M	61.33	99.71	0.28	0.01	33.71	66	Pass	For	For
Natixis SA	M	82.88	99.13	0.86	0.01	33.13	66	Pass	For	For
Neopost SA	M	67.40	98.81	1.19	0.00	32.81	66	Pass	For	For
Nexans SA	M	77.43	99.62	0.02	0.36	33.62	66	Pass	For	For
Nexity SA	M	75.94	99.88	0.09	0.03	33.88	66	Pass	For	For
Rexel SA	M	61.20	98.33	1.66	0.01	32.33	66	Pass	For	For
SCOR SE	M	62.06	96.59	3.41	0.00	30.59	66	Pass	For	For
Suez	M	69.80	95.29	4.70	0.01	29.29	66	Pass	For	For
Technicolor SA	M	60.54	88.46	11.52	0.02	22.46	66	Pass	For	For
Unibail-Rodamco SE	M	57.08	99.99	0.01	0.00	33.99	66	Pass	For	For
Vinci SA	M	60.35	99.34	0.58	0.08	33.34	66	Pass	For	For
Average		69.62	97.41	2.22	0.37	31.41				
Panel B: Single - Double (after failed vote)										
Air France-KLM	M	58.59	56.63	43.27	0.10	-9.37	66	Fail	For	For
Alstom SA	M	61.48	52.01	47.82	0.17	-13.99	66	Fail	For	For
Engie SA	M	65.91	39.96	60.02	0.02	-26.04	66	Fail	For	For
Orange SA	S	67.20	43.30	56.69	0.01	-22.70	66	Fail	Against	For
Renault SA	M	72.45	60.53	39.39	0.08	-5.47	66	Fail	For	For
Veolia Environnement SA	M	56.21	51.19	48.79	0.02	-14.81	66	Fail	Against	For
Vivendi SA	S	59.03	50.05	49.85	0.10	-15.95	66	Fail	Against	For
Average		62.98	50.52	49.40	0.07	-15.48				
Panel C: Double - Single (Special meeting on abandoning loyalty share system)										
Legrand	M	86.60	98.51	1.49	0.00	32.51	66	Pass	For	For

* Sponsor of the proposal: M – management; S – shareholders.

Source: ISS and annual reports

Table 8

Panel A: Distribution of Control and Ownership Rights as of 31 December 2013 (pre-reform)

Ownership type	Loyalty shares				One share – one vote		
	N	Fraction	Capital (%)	Votes (%)	N	Fraction	Capital/Votes (%)
Family	28	0.47	35.7	45.8	7	0.16	50.6
Corporation	9	0.15	39.6	51.1	14	0.30	34.2
Financial	8	0.14	14.7	20.9	7	0.16	33.8
State	3	0.05	19.5	22.2	9	0.20	41.6
Dispersed	11	0.19	.	.	8	0.18	.
Total	59	1.00	31.9	41.2	45	1.00	39.1

Panel B: Distribution of Control and Ownership Rights as of 31 December 2016 (post-reform)

Ownership type	Loyalty shares				One share – one vote		
	N	Fraction	Capital (%)	Votes (%)	N	Fraction	Capital/Votes (%)
Family	31	0.43	37.4	47.6	4	0.13	35.8
Corporation	8	0.11	38.2	50.3	10	0.31	38.2
Financial	9	0.13	13.9	18.0	7	0.22	25.5
State	11	0.15	35.4	42.2	2	0.06	31.1
Dispersed	13	0.18	.	.	9	0.28	.
Total	72	1.00	33.6	42.4	32	1.00	33.3

Note. Table shows the types of controlling shareholders and average capital and votes for each different owner category. Controlling shareholder is the largest shareholder or group of shareholders acting in concert that hold at least 10 percent of voting rights. Ownership types are: *family* including private persons with the same surname, *corporation* including private companies whose major shareholder is not one of the direct owners in the sample company, *financial* including financial institutions and insurance companies, *state* including state, cities and municipalities, *dispersed* including the companies that do not have a controlling shareholder.

Table 9

Listed Firm Characteristics: Descriptive Statistics

Panel A. Descriptive statistics as of 28 March 2014

Variable	Observations	Mean	Median	Min	Max	Standard deviation
Tobin's Q	104	1.51	1.33	0.91	3.20	0.61
Size	104	9.26	9.05	7.05	12.89	1.57
Leverage (%)	104	18.73	16.50	0.62	46.87	13.15
Sales growth (%)	104	0.56	-0.33	34.99	29.82	11.92
Return on assets (%)	104	1.36	1.45	-4.54	5.13	2.24
Asset tangibility (%)	104	21.58	13.49	0.89	82.77	22.08
Voting rights (%)	104	32.89	28.67	0.00	84.70	25.29
Cash flow stake (%)	104	28.64	23.78	0.00	84.56	23.19
Control minus Ownership Wedge (%)	104	4.25	0.00	0.00	16.80	5.76

Panel B. Descriptive statistics as of 4 April 2016

Variable	Observations	Mean	Median	Min	Max	Standard deviation
Tobin's Q	104	1.51	1.30	0.91	3.20	0.64
Size	104	9.48	9.27	7.05	12.89	1.49
Leverage (%)	104	19.02	17.11	0.62	46.87	13.21
Sales growth (%)	104	4.90	7.69	34.99	29.82	16.17
Return on assets (%)	104	1.30	1.56	-4.54	5.13	2.15
Asset tangibility (%)	104	21.03	11.71	0.89	82.77	22.53
Voting rights (%)	104	32.31	26.40	0.00	90.32	27.15
Cash flow stake (%)	104	27.16	20.25	0.00	85.73	24.00
Control minus Ownership Wedge (%)	104	5.15	2.55	-1.82	18.60	5.94

Note. *Tobin's Q* is market value of equity plus book value of total assets minus book value of equity, all divided by book value of total assets. *Size* is logarithm of total assets. *Leverage* is long term debt divided by total assets. *Growth* is a year-on-year percentage change in sales revenue. *Asset tangibility* is net property, plant, and equipment divided by total assets. *Return on assets* is net income divided by total assets. *Controlling shareholder* is the largest shareholder or group of shareholders acting in concert that hold at least 10 percent of voting rights. *Amount of voting rights* is the controlling shareholder's share of voting rights. *Cash flow stake* is the controlling shareholder's share of cash flow. *Degree of disproportionality* is the controlling shareholder's votes minus cash flow stake.

Table 10

Panel A: The effect of loyalty shares on firm value (Dependent variable = Tobin's Q)

	Results as of 28 March 2014				Results as of 4 April 2016				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Size	-0.124*** (-3.331)	-0.125*** (-3.227)	-0.124*** (-3.271)	-0.129*** (-3.297)	-0.150*** (-3.592)	-0.126*** (-2.912)	-0.138*** (-3.167)	-0.138*** (-3.150)	-0.149*** (-3.450)
Leverage	-0.326 (-0.588)	-0.386 (-0.692)	-0.280 (-0.497)	-0.348 (-0.616)	-1.162** (-2.072)	-1.260** (-2.292)	-1.191** (-2.141)	-1.206** (-2.124)	-1.185** (-2.090)
Asset tangibility	0.0244 (0.0764)	0.0492 (0.154)	0.0434 (0.125)	-0.0175 (-0.0503)	0.109 (0.343)	0.0828 (0.261)	0.0102 (0.0321)	0.00511 (0.0158)	0.0773 (0.247)
Sales growth	0.00798 (0.0201)	-0.0491 (-0.117)	-0.0529 (-0.140)	0.0109 (0.0271)	-0.0642 (-0.179)	-0.0892 (-0.250)	-0.0766 (-0.213)	-0.0673 (-0.187)	-0.0401 (-0.108)
Return on assets	0.0518** (2.018)	0.0536** (2.101)	0.0529** (2.071)	0.0544** (2.073)	0.0605* (1.805)	0.0547 (1.601)	0.0578* (1.675)	0.0570 (1.624)	0.0611* (1.755)
Cash flow stake	0.165 (0.704)	0.0631 (0.278)	0.119 (0.412)	0.135 (0.540)	0.121 (0.557)	0.248 (1.082)	0.238 (1.034)	0.237 (1.027)	0.125 (0.561)
Dual dummy	0.149 (1.334)		0.211 (1.611)	0.174 (1.471)	-0.0507 (-0.375)	0.00317 (0.0218)	0.00166 (0.0114)	0.00255 (0.0173)	-0.0197 (-0.141)
Family dummy			0.227 (0.873)						
Dual dummy * Family dummy			-0.258 (-0.908)						
Wedge		0.921 (0.910)							
State dummy				0.105 (0.622)			0.206 (1.348)	0.170 (0.691)	0.596* (1.962)
Dual dummy * State dummy				-0.303 (-1.336)					-0.683** (-2.084)
Switch dummy						-0.345** (-2.407)	-0.426*** (-2.910)	-0.457*** (-2.657)	
Switch dummy * State dummy								0.0853 (0.285)	
Constant	2.513*** (6.052)	2.604*** (5.952)	2.470*** (5.961)	2.563*** (5.865)	3.051*** (6.585)	2.838*** (5.864)	2.933*** (6.024)	2.940*** (5.961)	3.029*** (6.282)
Industry effects	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	104	104	104	104	104	104	104	104	104
Adjusted R-squared	0.370	0.364	0.364	0.360	0.387	0.407	0.408	0.402	0.392

Panel B: The difference-in-differences effect of loyalty shares on firm value (Dependent variable = Tobin's Q)

	(1)	(2)
Size	-0.139*** (-4.905)	-0.118*** (-4.105)
Leverage	-0.764** (-2.057)	-0.808** (-2.144)
Asset tangibility	0.0781 (0.365)	0.0742 (0.347)
Sales growth	-0.123 (-0.495)	-0.188 (-0.755)
Return on assets	0.0564*** (2.714)	0.0549*** (2.694)
Cash flow stake	0.149 (0.946)	0.237 (1.478)
Time dummy (1 after treatment)	0.0374 (0.391)	0.0483 (0.635)
Treated (all OSOV companies)	-0.139 (-1.389)	
Time ## Treated	0.00909 (0.0709)	
Treated switch (OSOV companies that switched)		-0.285*** (-3.026)
Time ## Treated switch		-0.0557 (-0.503)
Constant	2.869*** (8.924)	2.637*** (8.265)
Industry effects	YES	YES
Observations	208	208
Adjusted R-squared	0.420	0.434

Note. Table reports the regressions of Tobin's Q on financial, ownership and governance variables. In Panel A columns (1) to (4) report cross-sectional regression on 28 March 2014. Columns (5) to (9) report cross-sectional regressions on 4 April 2016. In panel B columns (1) and (2) report the difference-in-difference analysis (panel data). Tobin's Q is market value of equity plus book value of total assets minus book value of equity, all divided by book value of total assets. Size is logarithm of total assets. Leverage is long term debt divided by total assets. Growth is a year-on-year percentage change in sales revenues. Asset tangibility is net property, plant, and equipment divided by total assets. Return on assets is net income divided by total assets. Controlling shareholder is the largest shareholder or group of shareholders acting in concert that hold at least 10 percent of voting rights. Amount of voting rights is the controlling shareholder's share of voting rights. Cash flow stake is the controlling shareholder's share of cash flow. Wedge is the controlling shareholder's votes minus cash flow stake. Dual dummy is one for companies with a disproportional ownership structure, and zero otherwise. Family dummy is one if the controlling shareholder is a family; and zero otherwise. State dummy is one if the controlling shareholder is the government (including public sector), and zero otherwise. Switch dummy is one if the company switched from one-share-one-vote system into loyalty share system between 28 April 2014 and 4 April 2016. All regressions control for industry fixed effects. Eleven industries are specified according to the Global Industry Classification Standard. Robust t-statistics in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Figure 1

Pre-Reform Equity and Voting Stakes of Largest Owners (31 December 2013)

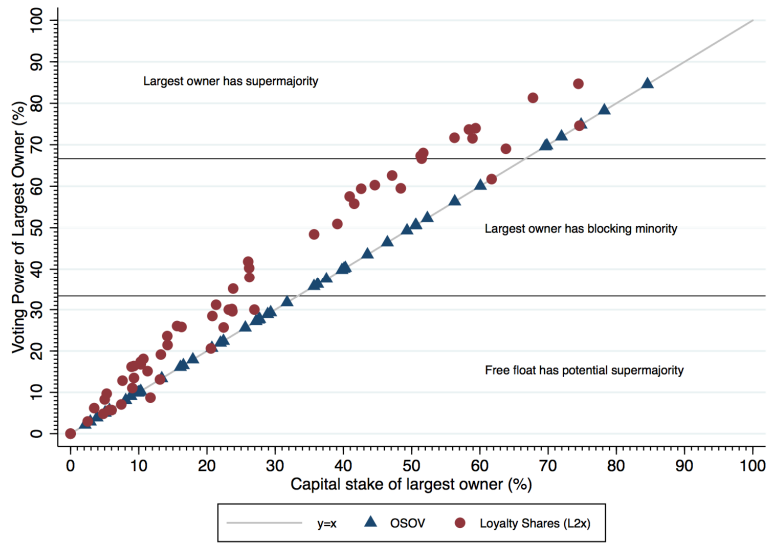
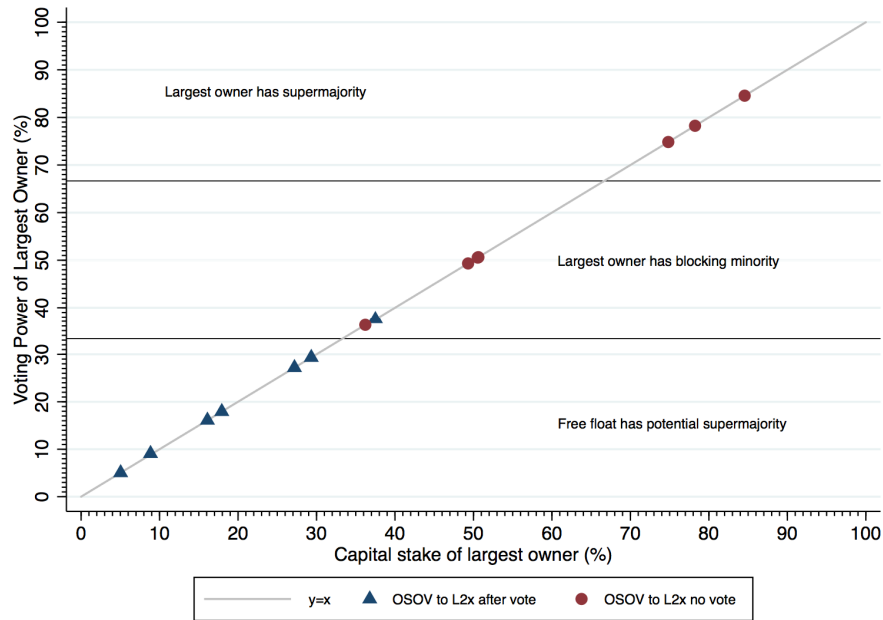
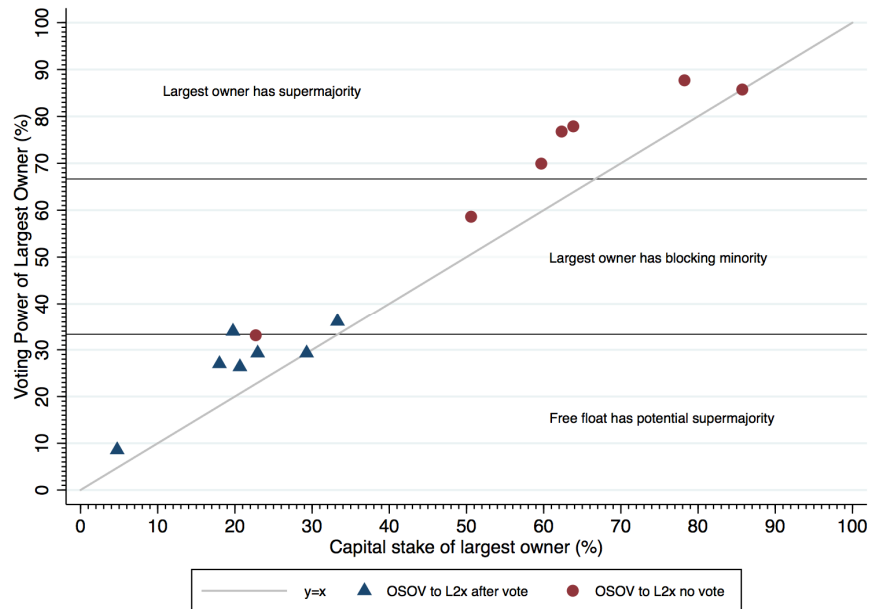


Figure 2

Panel A. Pre-Reform (31 December 2013) Equity and Voting Stake of Largest Owner for “switchers”



Panel B. Post-Reform (31 December 2016) Equity and Voting Stake of Largest Owner for “switchers”



Note: Figure shows 14 companies that switched from one share – one vote before the introduction of the *Loi Florange* to tenure voting after the law came into effect (“switchers”). The observations marked with a triangle transited after a failed shareholder vote; for the observations marked by a circle there was no shareholder vote and loyalty shares applied by default. The *Loi Florange* was in force on 31 December 2016. Hence, the voting power reported on the vertical axis in Panel B includes the voting power of the largest owner obtained as a result of switching to loyalty shares.

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