The Media Role in Corporate Governance Improvement:

Lessons from European Dual Class Share Unifications

by

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We study the role of the media in a particular form of corporate governance improvement – unifications of dual class shares into a single "one share one vote" class. Examining 72 European unifications in 1996-2002, we find that when the press' anti-dual-class-shares sentiment increases, more companies unify their dual class shares. This finding suggests that media criticism induces or at least facilitates the decision to unify. It is also noteworthy that, unlike Lauterbach and Yafeh (2011), in our sample the unification-induced corporate governance gains are not eroded in the long run. This most probably reflects the voluntary nature of our unifications.

JEL classification: G32; G34

Keywords: Corporate Governance improvements; Dual class shares; Media impact

1 Introduction

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

In this paper we deal with one corporate governance problem and the ongoing struggle for its resolution. We focus on dual class shares. Firms adopting the dual class equity structure offer two sorts of common shares: high- and low-voting power shares. Dual class shares afford a wedge between ownership and control (vote) rights. The controlling owner, family or coalition, holds primarily high-vote shares, while the public hoards the cheaper low-vote shares. (This holding structure affords the control group to secure control at the lowest cost.) Bebchuk, Kraakman and Triantis (2000) criticize sharply these "wedge" equity structures, on the ground that this wedge encourages the control group to further exploit public shareholders and increase its private benefits consumption. Bebchuk et. al. (2000) describe wedge structures as the worst form of corporate governance. Confirmatory evidence is offered by Bennedsen and Nielsen (2010) who document that the dual class structure significantly decreases the market value of the firm.

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

The European Union has debated extensively a potential mandatory "one share one vote" law, but did not adopt it also because commissioned studies (Burkart and Lee, 2008, and Adams and Ferreira, 2008) conclude that the theoretical and empirical justification for such a regulation is weak. In reality, however, one observes a worldwide tide in voluntary unifications (unifications initiated by the firms). For example, Maury and Pajuste (2011) report that between 1996 and 2002 the fraction of dual class firms in 7 European countries has decreased from 43% to 29% (of exchange-traded firms). It appears that public opinion pressure stepped in, substituting for official legislation.

In this study, we advance and examine an idea highlighted recently in research of corporate governance scandals. Each firm has also "public reputation" as an asset (see Dyck, Volchkova, and Zingales, 2008). Unifications increase a firm reputation by eliminating a negative shadow cast on the firm because of its dual class share structure (see Bennedsen and Nielsen, 2010 for the heavy market discount, i.e. lower Tobin Qs of dual class firms). Thus, it is possible that controlling shareholders loss of private benefits upon unification is more than compensated by the unification-induced increase in the market value of the firm. Positive stock price reaction to dual class unifications have been documented by Dittman and Ulbricht (2008), for example.

The idea that unifications improve firm's public image has been vaguely mentioned before (see Hauser and Lauterbach, 2004, for example). Nonetheless, we are the first to discuss it and test its implications. Our testable hypothesis is that when media sentiment towards dual class shares becomes more negative, the reputation toll levied upon dual class firms increases, and the wave of unifications intensifies. Consistent with this conjecture, we identify a positive relation between the media anti-dual-class-shares sentiment and the propensity of dual class firms to unify. This evidence leads us to conclude that part of the unifications were not purely voluntary. Rather, there are also unifications that are semi-voluntary or "forced" upon controlling shareholders and "their" firms by the negative public opinion and hostile media coverage. The idea is closely related and perhaps complements Liu and McConnell (2013) who show how media hostility forces CEOs of disperse-ownership firms to abandon value-decreasing acquisition attempts.

Section 2 briefly provides a background on dual class shares and unifications and develops our hypothesis. Section 3 describes the sample and data. Sections 4 and 5 report our results, and Section 6 concludes.

2 Firm reputation, the media, and dual class share unifications

2.1 Dual class shares and unifications

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

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

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

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

The "external financing" motive appears relevant and important in explaining voluntary decisions of firms to unify their dual class shares. Maury et al. (2011) report that about 41% of the unifying firms issued equity following the unification. (Other firms probably conceived but did not execute external financing as well.) Nevertheless, we believe that another factor had some heavy bearing on firms' decision to unify: the negative public opinion and media's pressure.[1]

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

2.2 Firm reputation and the media

One of the basic assets of a business firm is its public image or more precisely its reputation vis-à-vis the business community with which it regularly interacts. This reputational value is widely recognized. Consumer-goods firms invest in "branding" their products, service firms strive to be associated with adjectives such as "modern"

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

and "friendly", financial institutions aspire to become "solid" and "safe", and all firms seek the label of "honest" and "reliable". Good reputation is a key determinant and promoter of firm profitability and business success.

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

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

2.3 The media role in corporate governance improvements

The most annoying outcome of poor corporate governance is the ability (and practice) of the firm's top managers and controlling shareholders to extract large private benefits from the firm, at the expense of small innocent public investors. Dyck and Zingales (2004) estimate private benefits of control in 39 countries around the globe, and try to identify the reasons behind the inter-country dispersion in private benefits. Consistent with the predictions of La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2002), private benefits are lower in countries with relatively strong investor protection. However, extra-legal mechanisms are also influential: high levels of diffusion of the press, a high rate of tax compliance and a high degree of product market competition, are also associated with low private benefits of control. After further empirical analysis Dyck et al. (2004) conclude that media pressure and tax enforcement seem to be the dominating factors in restraining private benefits.

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

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

There is some previous evidence on media beneficiary impact on firms' corporate governance. Farrel and Whidbee (2002) find that press scrutiny on poor performing firms increases the likelihood of forced CEO turnover. Dyck et al. (2008) document that reports in the WSJ and FT on corporate governance violations by Russian firms, increase significantly the tendency of these firms to revert their

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

violations. Joe, Louis and Robinson (2009) show that media exposure of board ineffectiveness forces corrective actions that increase shareholders' wealth. Last, Liu and McConnell (2013) present evidence on how media coverage and "harsh tone" convince managers to abandon value-reducing acquisition attempts.

2.4 Our hypothesis

Dual class shares have been a target of the media world-wide, and are commonly believed to hurt mature firm reputation. This is because the dual class share structure affords "disproportionality". Typically, in dual class firms, the controlling shareholders proportion in vote exceeds their proportion in equity. Often the wedge between ownership and control rights is so wide that we encounter "minority controlling shareholders" (DeAngelo and DeAngelo, 1985) – controlling shareholders that hold less (and sometimes much less) than half of the firm's equity. Naturally, the disproportionality nourishes suspicion and resent from public investors and disputes with controlling shareholders (Amoako-Adu and Smith, 2001). All these frictions diminish firm reputation as "honest" or "fair", and attract media attention that only intensifies the reputational loss to the firm by propagating stories and worries about dual class firms.

The remedy to the reputational damage of the dual class equity structure is disposing of disproportionality - dual class share unifications – the transformation of all shares to "one share one vote". When considering unification, firm controlling shareholders have to weigh their extra private benefits afforded by the dual class structure against the relevant reputational costs (i.e., against controlling shareholders' share in the profitability loss and value deficit caused by the dual class structure).

In reality, media pressure and criticism of dual class firms is time varying with peak and trough periods. This leads us to hypothesize that when media pressure and anti-dual-class sentiment intensify, more firms choose to unify their dual class shares. In periods of relatively strong media pressures firm reputational costs increase; hence some controlling shareholders rationally "yield" and unify their firm shares. Controlling shareholders lose some private benefits. However, they gain from the increase in firm value (less reputational costs) that is also reflected by the abnormal increase in the prices of *both* low- and high-vote shares upon unification announcement (see Dittman and Ulbricht, 2008). Gains may also evolve from the possibility that cutting private benefits would save the dissipative costs spent to extract these private benefits (La Porta et al., 2002). In short, unification may be a win-win situation where both public and controlling shareholders gain.

3 Sample and variables

3.1 Sample

Our sample is based on Maury and Pajuste (2011) sample of European unifications. Maury et al. (2011) focus on seven Western European countries: Denmark, Finland, Germany, Italy, Norway, Sweden and Switzerland, where dual class share firms represented (on 1995) more than 20% of listed firms. They collect data on 108 unification events during 1996-2002, and on 385 dual class firms that did not unify their shares during that period and serve as control for unifying firms. (We checked the data and amended the numbers to 109 unifying and 384 non-unifying firms.) This is our raw initial sample.

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

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

3.2 Media-related variables

Another major task of this research is to conceive and collect relevant media-based explanatory variables. Dyck et al. (2008) suggest focusing attention on the international business press. According to them, the company aspires to keep its reputation within the group of business partners and organs with which it interacts. International press is important because many of the firms engage in exports, and because even the domestic reference group reads and is influenced by articles in the international press. Hence, analysis of international press is recommended.

Following Dyck et al. (2008) advice, we limit attention to two prominent European business newspapers: Financial Times (FT in short) and Wall Street Journal Europe (WSJE). Using the Factiva data base we start by searching these newspapers for articles mentioning the "one share one vote" phrase in the period 1994-2009. We find 129 such articles. All these articles are critical of the dual class share structure. Hence, the yearly number of articles mentioning "one share one vote" may serve as a time-varying anti-dual-class sentiment index. Bebchuk, Cohen and Wang (2011) also use the yearly number of articles (in four distinguished newspapers) mentioning a single phrase ("corporate governance" in their case) as an index of attention to corporate governance in the media.

In addition, for each of the 286 firms in our sample (72 unifying and 214 control firms), we search and collect articles mentioning variations of the "dual class shares" phrase.[3] Then, we read these articles and mark their content as "negative sentiment" if the article criticizes the company dual class structure, using terms such as "unproportional voting power", "poor corporate governance", "against the one share one vote principle" and the like. In the 1994-2009 period, we find 842 articles on the non-unifying (control) firms, of which 131 are classified as "negative sentiment". Interestingly, there exist about 150 other articles mentioning some liquidity problems of dual class shares. We ignore these articles, focusing on articles that explicitly criticize corporate governance.

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

We use the negative sentiment articles to construct our second anti-dual-class sentiment index. It is defined as the yearly number of negative sentiment articles about our 214 control sample firms. Modifications of this second sentiment index are also possible, and include the proportion of firms with negative sentiment articles, and the proportion of total articles that are negative. These modifications are also tested.

4 Corporate governance and valuation gains upon unification

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

(Insert Table 1 about here)

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

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

(Insert Table 2 about here)

Lauterbach and Yafeh (2011) who studied "forced" by law unifications in Israel, observe: 1) a pre-unification increase in vote of controlling shareholders (ex-ante preparation for their unification-induced vote dilution); and 2) a post-unification gradual yet partial "recovery" in the voting power of controlling shareholders. In contrast, in our "voluntary" European unifications, such phenomena are not observed. On average, in Table 2, controlling shareholders vote did not increase prior to the unification, and controlling shareholders' vote loss persists, i.e., is not reversed in the post-unification years.

Panel B of Table 2 further analyzes the vote of controlling shareholders in unifying firms. Before (after) the unification, the mean vote of the largest shareholder in unifying firms is 4.7% (15.6%, respectively) lower than that of non-unifying firms. This 10.9% widening of the wedge suggests that our best estimate of the eventual unification-induced vote loss of controlling shareholders in unifying firms is about 11%. Formal t-tests clarify that the mean 10.9% long-term vote loss of controlling shareholders is statistically significant, and that in over 70% of unifying firms controlling shareholders eventually lost vote.

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

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

On year -2 unifying firms have a 0.11 higher mean Q than non-unifying firms, and on year +7 it widens to 0.26. It appears that unification increases the relative market valuation of the firm by about 0.15. The relative valuation gain of unifying firms appears economically significant. However, since the Q relative advance of 0.15 is statistically insignificant (p-value of 0.124), we cannot ascertain reliable long-term valuation gains upon unification.

Bennedsen and Nielsen (2010) estimate that dual class structures depress Q by 0.25 compared to firms with proportional ownership structure. Hence, our estimated 0.15 Q gain in unifying firms might also suggest that dual class share unifications only partly resolve the unique agency problems of dual class firms.

5 Media impact on unifications

Table 3 summarizes yearly data on Wall Street Journal Europe (WSJE) and Financial Times (FT) relevant articles in the period 1994-2009. In total we find 121 articles that mention variations of the phrase "dual class shares" and regard our 72 unifying firms. Out of these 121 articles, 12 are coded by us as "negative sentiment", that is articles that complain about or refer negatively to the dual class structure or corporate governance of the company. Similarly, we count a total of 842 articles on our control firms, 131 of which are "negative sentiment". Finally, the last column in the table reports yearly data on the number of articles that mention "one share one vote". In total there are 129 "one share one vote" articles during 1994-2009. These articles are critical about the dual class structure.

(Insert Table 3 about here)

5.1 Can the media induce unifications?

We seek a relation between media pressure and unification rate. Media pressure intensity in a specific year is approximated by two anti-dual-class sentiment indicators: 1) the number of "one share one vote" (OSOV) articles in that year, and 2) the yearly number of negative-sentiment articles on the control sample of 214 non-unifying firms. Practically, we attach to each unification event a corresponding vector of the anti-dual-class-sentiment level in years -2 through 7 (where year 0 is the unification year). Then, we compute the (across unifications) average level of the negative sentiment in years -2 through 7. The methodology is completely analogous to that used for constructing the voting power statistics of Table 2.

Figure 1 reports the results. We observe a mounting media pressure in the pre-unification years and a stable relatively high media pressure up to 3 years after the unification. It appears that unifying firms felt the heat of the media and succumbed. It also appears that the decision to unify was rational and timely because media pressure (and reputational damages to dual class firms) persists at record high levels for three years after the unification. By unifying, these firms avoided at least three years of serious reputational damages.

(Insert Figure 1 about here)

We also attempt some inference from data on direct media pressure on the unifying firms. Given the small number of negative sentiment articles on our unifying firms (see Table 3), we compute the proportion of unifying firms with negative sentiment articles on years -1 and 0, and compare it with the proportion of non-unifying firms with negative articles on the exact same years. Interestingly, the proportion of firms with negative sentiment articles is about double in the unifying firms sample – 3% (1.5%) of unifying (non-unifying) firms had negative articles on year -1, and the corresponding numbers for year 0 are similar (about 4% and 2%, respectively). This evidence is established on a small number of observations. Thus, it only (very) weakly suggests that unifying firms may have felt somewhat more vigorous media pressure than non-unifying firms.

More formal tests on the effect of the anti-dual-class sentiment on the unification decision are presented in Table 4. We run Probit regressions of the choice to unify, using a standard set of explanatory variables plus an anti-dual-class sentiment indicator.

(Insert Table 4 about here)

Panel A presents Probit models with the number of OSOV articles as the anti-dual-class sentiment indicator. Regression (1) replicates the original Maury and Pajuste (2011) regression in our 72+214 firm sample. The explanatory variables are defined and computed as in Maury et al. (2011). Four explanatory variables are significant at the 5% level: 1) Institutional (=regulatory) pressure - a country-specific yearly dummy variable that equals 1 if local regulation towards dual class shares was stricter in this year than at the start of our sample (the beginning of 1996), and equals 0 otherwise (see Appendix A for more information); 2) Control minus ownership – percentage of vote minus percentage of equity held by the largest shareholder; 3) Financial investor – a dummy variable that equals 1 if the largest shareholder is a financial institution, and equals 0 otherwise; and 4) Cross-listing – a dummy variable that equals 1 if the company is also listed on a U.S. exchange, and equals 0 otherwise.

Consistent with Maury et al. (2011), Regression (1) finds that institutional pressure, financial investor dominance, and cross-listing, increase the likelihood of unification, while the control minus ownership wedge decreases it. When the institutional pressure, financial investor, and cross-listing dummy variables change from 0 to 1, the odds of unification increase by 5.7%, 6.5%, and 3.9% a year, respectively; and a one standard deviation decrease in control minus ownership increases the probability of unification by 1.3% a year. These results are logical. Institutional pressure and cross listing generate a (local and foreign) regulatory pressure to unify. Financial institutions are more regulated and less prone to extract private benefits; hence unifications are less costly to them. Finally, a large wedge between largest shareholder's proportion in vote and proportion in ownership naturally deters the controlling shareholders from unifying because upon unification their vote (and control) loss might be substantive.

Regression (2) in Panel A adds the number of OSOV articles to the regression. Unifications are found to be significantly more likely when the anti-dual-class sentiment intensifies. One more OSOV article per year increases the probability of unification by 0.2% a year. This evidence supports our hypothesis that media pressure induces unifications.

In Regression (2) institutional pressure is insignificant probably because of the multicollinearity between institutional pressure and the number of OSOV articles. This multicollinearity is hardly surprising since the media and public opinion anti-dual class sentiment most probably also drive some stiffening of the regulation. Two more regressions are attempted for robustness purposes. Regression (3) omits institutional pressure from the regression, while Regression (4) replaces number of

OSOV articles by the lagged (one-year) number of OSOV articles. The effect of OSOV articles on the likelihood of unifications remains positive and significant at the 5% level – media dislike of dual class structures propels unifications.

Panel B of Table 4 presents regressions with another anti-dual-class sentiment indicator – the number of negative-sentiment articles about our control sample (of 214 non-unifying firms). As in Panel A, Regression (1) replicates the original Maury *et al* (2011) Probit regression in our sample, for reference purposes and as a benchmark. Regression (2) adds the new sentiment variable as an explanatory variable and omits institutional pressure because of the quite-expected multicollinearity problem between number of negative articles and institutional (=regulatory) pressure. (Essentially, this is same multicollinearity problem discussed above.) The coefficient of number of negative-sentiment articles is positive and statistically significant, supporting our hypothesis – negative media attitude promotes unifications. One more negative-sentiment article per year increases the probability of unification by 0.2% a year, and in years with above-median number of negative-sentiment articles, the odds of unification increase by 2.4%.

Some variations of Regression (2) are attempted. Regression (3) in Panel B demonstrates that the lagged (one year) number of negative sentiment articles is even a better predictor (than the number of contemporaneous negative articles) of the tendency to unify. Regressions (4) and (5) employ as an anti-dual-class indicator a dummy variable that equals 1 in years where the number of negative sentiment articles is above its median (and equals 0 otherwise). Similar if not stronger results are obtained. Regressions (6) and (7) employ the yearly proportion of negative sentiment articles (out of the total yearly number of articles about our 214 non-unifying firms) as the anti-dual class indicator. Again, the results withhold our hypothesis.[4] Media pressure "convinces" firms to unify.

5.2 Some extensions and robustness tests

One common observation in unification studies is that following the unification there is an increased frequency of seasoned equity issues (SPOs), and the common suggestion is that unifications precede and pave the way for successful SPOs (see Maury et al. (2011) for a model). Thus, plans to raise equity may be an important potential determinant of the choice to unify and should enter our Probit analysis in Table 4.

We have generated a SPO dummy that equals 1 if the unifying or control firm raised equity in a specific year or in the year that followed it. Thus, for example, if a control firm issued equity in 2000, its SPO dummy equals 1 in years 1999 and 2000 (and equals zero in other years). While this variable is coded based on ex-post data, one can argue that for the firm controlling shareholders this plan was made and known ex-ante and influenced their choice to unify. When we add the SPO dummy to the choice regressions (for example, to regression 2 in Table 4A and to regression 2 in Table 4B), its coefficient is positive and statistically significant at the 5% level. This finding is consistent with the proposition that plans to issue additional equity propel equity structure reforms such as unifications.

Another plausible proposition is that controlling shareholders in firms with relatively high private benefits are reluctant to unify. This is because for them the loss of private benefits upon unification overwhelms the unification-induced upward

[4] We have also tried the yearly proportion of non-unifying firms with negative sentiment articles as the anti-dual-class indicator in the regressions (not shown in the Table), and obtained significant positive

revaluation of the firm. We employ the price premium of high-vote to low-vote shares as a proxy of the firm-specific level of private benefits (see Zingales, 1994) and add this price premium as an explanatory variable in the Probit regressions.

Unfortunately, for less than half of the sample firms (121 out of our 286 unification+control firms) we can compute the price premiums (because many firms do not have both share classes traded on the exchange). This restricts sample size to 604 firm-years observations. Nevertheless, when the price premium is added to the regression (for example, to regression 2 in Table 4A and to regression 2 in Table 4B), its coefficient is negative and statistically significant at the 1% level. Evidently and as expected, when controlling shareholders possess relatively large private benefits they are disinclined to unify.

Another variable that may influence the tendency to unify is the availability of compensation to the high-vote shares upon unification. Such compensation was paid, for example, in most of the unifications in Israel (see Hauser et al., 2004). The compensation might sweeten the deal for controlling shareholders (who hold primarily high-vote shares) and induce them to unify. In our sample of 72 unifying firms we found only 6 firms that compensated their high-vote shareholders. When we exclude these six firms from the empirical analysis, the results are similar to those reported in Table 4. Most importantly, the coefficients of the anti-dual-class sentiment variables remain positive and statistically significant. In fact, in all above extensions, the coefficients of the negative sentiment proxies remain positive and significant, suggesting that the documented media effects are quite robust.

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coefficients and identical inference.

6 Summary and conclusions

In recent years the media power and economic impact have caught the attention of financial economists. In the field of corporate governance it has been documented that the media may help trim down private benefits (Dyck and Zingales, 2004) and can reverse or mend some weak corporate governance wrong-doings or scandals (Farrel et al., 2002, Dyck et al., 2008, Joe et al., 2009, and Liu et al., 2013).

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

We propose that the voluntary unifications in our sample are partly due to the media and public opinion pressures. Consistent with this proposition we find that when the press' anti-dual-class-sentiment intensifies, the rate of voluntary unification increases. Apparently, the dual class structure imposes a reputational cost and a reputational discount on the firm, and when this reputational toll increases (i.e., when the anti-dual-class-sentiment intensifies) some controlling shareholders rationally succumb and unify the firm's shares. These controlling shareholders give up the extra private benefits afforded by the dual class structure in return for the extra good reputation value of single class firms.

The main general message of this study is that the media is indeed the "seventh power", and that in the current information age its impact cannot be overlooked. Future studies should further explore the media and public perception impact on firm decisions, on firm's ethics and on firm valuation.

Appendix A
Coding of the "institutional pressure" variable

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

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

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Table 1
Sample descriptive statistics.

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

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

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

Panel B: Share unifications by year and country

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

Table 2

Controlling shareholder's voting power before and after share unifications.

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

Panel A: Mean voting rights of the controlling shareholder relative to the unification year

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

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

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

[a] For 10 firms we use year -1 data because year -2 data is unavailable.

Table 3

Yearly statistics on relevant Wall Street Journal Europe and Financial Times articles.

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

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

Table 4

The determinants of firm's choice to unify its dual class shares.

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

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

VARIABLES	(1)	(2)	(3)	(4)
Number of OSOV articles		0.0299**	0.0392***	
		(0.0221)	(0.0006)	
Number of OSOV articles, lag				0.0504**
				(0.0131)
Institutional pressure	0.666**	0.459		
	(0.0175)	(0.1309)		
Firm size (lagged log assets)	-0.0329	-0.0385	-0.0397	-0.0389
	(0.3678)	(0.3007)	(0.2864)	(0.2914)
Control minus ownership, percent	-0.0131***	-0.0135***	-0.0138***	-0.0141***
	(0.0080)	(0.0084)	(0.0076)	(0.0062)
Financial investor	0.611***	0.626***	0.625***	0.610***
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Cross-listing	0.428**	0.453**	0.441**	0.424**
	(0.0322)	(0.0279)	(0.0304)	(0.0348)
Constant	-1.341***	-1.463***	-1.494***	-1.512***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Country dummies	Yes	Yes	Yes	Yes
Observations	1,359	1,359	1,359	1,359
Pseudo R-squared	0.105	0.112	0.108	0.103

Table 4 (continued)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Institutional pressure	0.666**						
	(0.0175)						
Firm size (lagged log assets)	-0.033	-0.037	-0.038	-0.039	-0.041	-0.038	-0.036
	(0.3678)	(0.3081)	(0.2981)	(0.2878)	(0.2728)	(0.3017)	(0.3241)
Control minus ownership, percent	-0.013***	-0.014***	-0.014***	-0.014***	-0.014***	-0.014***	-0.013***
	(0.0080)	(0.0066)	(0.0073)	(0.0063)	(0.0064)	(0.0070)	(0.0071)
Financial investor	0.611***	0.609***	0.625***	0.611***	0.622***	0.614***	0.615***
	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Cross-listing	0.428**	0.417**	0.438**	0.427**	0.449**	0.424**	0.416**
	(0.0322)	(0.0380)	(0.0304)	(0.0359)	(0.0279)	(0.0347)	(0.0353)
Negative articles		0.021**					
		(0.0295)					
Negative articles, lag			0.024***				
			(0.0021)				
Negative articles, dummy				0.348***			
				(0.0087)			
Negative articles, dummy, lag					0.394***		
					(0.0016)		
Negative articles, percent of total articles						1.002**	
						(0.0216)	
Negative articles, percent of total articles, lag							0.859**
							(0.0418)
Media attention, last 5 years							
Constant	-1.341***	-1.563***	-1.487***	-1.478***	-1.434***	-1.487***	-1.399***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,359	1,359	1,359	1,359	1,359	1,359	1,359
Pseudo R-squared	0.105	0.100	0.105	0.106	0.110	0.101	0.0970

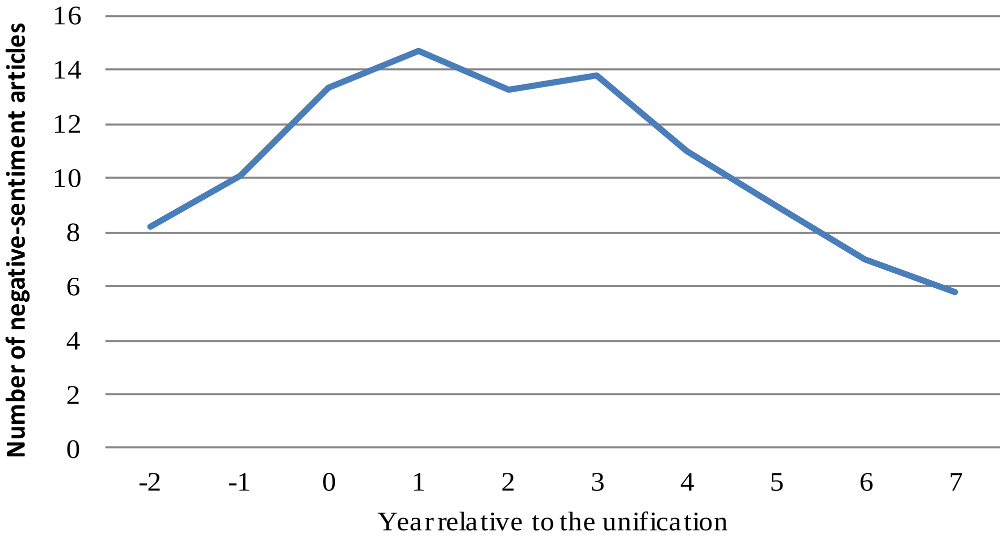

Fig.1. Anti-dual-class sentiment indicator around the unification year (year 0). The figure shows the number of negative-sentiment articles about the non-unifying (control) firms. We attach to each of 72 unification events a corresponding vector of the anti-dual-class sentiment level in year -2 through +7. Then, we compute the (across unifications) average level of the negative sentiment in years -2 through +7. The methodology is analogous to that used for the voting power statistics, described in Table 2.