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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

The contractual theory of the firm predicts that companies adopt charters that maximise firm value, regardless of the default rule. We test this proposition around an exogenous switch of the default from one share-one vote to tenure voting following a law reform in France. In initial public offerings (IPOs) tenure voting is primarily adopted by families and after the reform its use increases slightly but not significantly. The change in default rule has no significant impact on company characteristics or valuations. For companies that were already listed with one share-one vote and would have been forced to switch to tenure voting by default we observe a revealed preference for the choice they had made at the IPO; one share-one vote companies preserve their pre-reform status, unless the French state has a blocking minority. Overall, the results suggest that once firms have optimized, changing the default rule imposes transaction costs without changing outcomes.

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

JEL Classifications: D23, K22, G32, G34

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1. Introduction

In this paper we test predictions of contractarian theory for IPO charters in the context of a legal reform in France that changed the default rule from one share-one vote to tenure voting.[4] The reform also forced listed companies that had adopted one share-one vote to reconfirm their choice post-IPO. If firms 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 ex-post should revert after the reform.[5] We empirically test these propositions for two groups, the population of IPO firms (*flow analysis*) and a sample of midstream firms (*stock analysis*).

In general the contractual theory of the firm stipulates that public corporations are a nexus of contracts that maximise value when economic agents can bargain, transaction costs are low and there are few externalities (Easterbrook and Fischel 1991; Klausner 2005).[6] 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).[7]

Empirically contractarian theory predicts that heterogenous 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 extensively 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 customers in capital markets want" (Easterbrook

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[4] Tenure voting (loyalty shares with tenure voting) provides shareholders with multiple voting rights as a function of the holding period, it is 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). Consequently, tenure voting structures are receiving increased attention in the United States (Edelman, Jiang, and Thomas 2018). They have also been introduced recently in Italy and Belgium (Bajo et al. 2019; Mosca 2019; Santoro et al. 2015) and they are under discussion in Spain (Gurrea Martínez 2019).

[5] The new default rule for the stock of companies already listed at the time of the reform is likely to be "sticky" because the reversal requires a supermajority vote.

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

[7] 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).

and Fischel 1991, p. 4). In contrast with the predictions of the theory, in the United States default choices that favour management are considerably less likely to be changed by companies than default choices favouring investors (Listokin 2009). The evidence is not conclusive because it might be optimal to change default rules favouring investors more often than default rules favouring management.[8]

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. On 29 March 2014 a new law, the *Loi Florange*, changed the default voting system from one share-one vote to tenure voting for IPO companies. Listed companies that wanted to keep one share-one vote had just over two years to opt-out of tenure voting via a supermajority vote.[9]

The empirical evidence for IPO companies does not contradict the contractarian view, but is not fully conclusive. The fraction of firms going public with tenure voting shares before and after the reform is not significantly different and there is no significant difference in the IPO value before and after the reform. However, the population of IPO companies is relatively small, the confidence intervals relatively wide and tenure voting adoption increased from 50% to 61% for all IPOs and from 64% to 74% among family-controlled companies. We cannot exclude that the new default rule made tenure voting more palatable for some family firms. This is consistent with behavioural theories like framing and not consistent with pure contractarian theory, but the change is relatively small so contracting is still relevant.

The results for the stock of listed companies are unambiguous. Most midstream firms (70% of the total) that had adopted one share-one vote explicitly rejected tenure voting after the reform. One share-one vote companies revealed a clear preference for the voting system they had adopted during the IPO process. The general exception were companies where the French state held a blocking minority.[10] There was no grandfathering of previous choices and 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

[8] In addition, U.S. IPO charters are remarkably homogenous (Daines and Klausner 2001; Klausner 2013); which is an unlikely contracting outcome but not impossible.

[9] The reform is described in detail in Appendix A.

[10] The finding is consistent with the view that "protectionist objectives, rather than agency cost considerations that dominate the literature, are the proximate cause of corporate reforms with surprising frequency" (Pargendler 2019). In one case the reform helped a controversial French media mogul to acquire and lock in minority control.

most of its holdings in listed companies because the state lacked the necessary supermajority; post-reform, the state had enough votes to lock in tenure voting. Post-reform the voting power of the blocks increased by obtaining tenure voting privileges. The operation enhanced the influence of the French state as a shareholder by increasing the voting power of its share blocks, for same size ownership interest.

Our main contribution to the literature is empirical evidence on the "contractarian view" (Easterbrook and Fischel 1991) and the analysis of default rules (Ayres and Gertner 1989). The legal experiment in France generates exogenous variation that makes our tests more robust than previous evidence on IPO charters and default rules (Daines and Klausner 2001; Listokin 2009). We find that once firms have optimized, changing the default rule imposes transaction costs without changing outcomes.

In addition, 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). 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*.[11] Low valuations are associated with the presence of the French state, not with tenure voting *per se*.[12]

There is one parallel study on Italy that has similar findings on the adoption of tenure voting and its impact (Bajo et al. 2019). Loyalty shares are new in Italy and the default rule never changed. The Italian results confirm that loyalty shares are primarily used by families. In addition, there are two recent studies on France (Belot, Ginglinger, and Starks 2019; Bourveau, Brochet, and Garel 2019). These papers look at the stock of listed companies and do not consider the IPO flow separately. Bourveau et al. (2019) analyse the stock and investigate the potential impact of the law on non-French institutional ownership. Belot et al. (2019) confirm our Tobin's Q results using a measure of operational performance (return on assets) for a larger sample. They also conduct an event study around the publication of meeting agendas. This is problematic since most votes did not come as a surprise and the publication of the meeting agenda contained no new information with respect to

[11] 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).

[12] Originally the French State, and many other member states of the European Union, had sought to secure continued influence over privatized companies using "golden shares". However, these were largely struck out in a series of European Court of Justice rulings (Werner 2017), leaving loyalty shares as feasible alternative in France.

tenure voting adoption. In addition, for companies that automatically switched from one share-one vote to tenure voting, there never was a vote and hence no singular event. Finally, meeting agendas do contain other agenda items that are material.

The remainder of the paper is organized as follows. Section 2 describes our methodology, the 2014 law reform (the *Loi Florange*) we use for identification and describes the data, Section 3 reports the impact of the reform on the IPO flow and the stock of listed companies and Section 4 concludes. Appendix A sets out the law reform in more detail, Appendix B lists the sample of midstream firms, and Appendix C provides variable definitions.

2. Methodology and Data

The empirical analysis relies on exogenous variation introduced by Law 2014-384 of 29 March 2014, better known as *Loi Florange* (henceforth referred to as "the Act"). The Act modified Article L225-123 and set tenure voting as the default rule.[13] For IPO companies the new default 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.

[13] Appendix A provides details of the law and its origins.

(Insert Table 2 about here)

The Act also affected the stock of listed companies. Companies wishing to keep one share-one vote 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. The list of companies included in the stock analysis is provided in Appendix B. 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 that are included in the IPO analysis. 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 (43%) 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.

The leverage the largest shareholder obtains from tenure voting in each company 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 blockholder depends on the presence of other long term shareholders.[14] 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.

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

(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 percent level.

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

3.1. Did the Act alter IPOs?

Table 3 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. Although the difference seems nontrivial, it is statistically insignificant and the 95% confidence intervals of before and after reform samples largely overlap. The precision of the estimates is limited by the relatively small sample size of 122 firms which is the universe of all French IPOs during the 2010-2018 period.

(Insert Table 3 about here)

Table 4 shows the pre-IPO ownership structure. We define the controlling owner as the *largest* shareholder holding at least 10% of the pre-IPO share capital. Out of 122 IPO firms during the 2010-2018 period, 60 are controlled by families, 47 – by venture capital or private equity firms (VC), and the remaining five are either dispersed or controlled by other entities. Families are more frequent users of the tenure voting system: 70% of family-controlled firms vs. 42.6% of VC-controlled firms use tenure voting shares, the difference being significant at the 1 percent level. However, there is no significant difference in the use of tenure voting shares before and after the reform. The fraction of firms with tenure voting increases from 64% to 74% in family-controlled firms and from 38% to 46%

in VC-controlled firms, both increases are statistically insignificant and with largely overlapping confidence intervals.

(Insert Table 4 about here)

The summary statistics for the IPO firm characteristics are shown in Table 5. With the exception of IPO proceeds and underwriter certification, univariate analysis shows no difference between pre- and post-reform IPO firm characteristics. Over time, the size of IPO proceeds 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, a third party underwriter is 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 5, in Table 6 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*.

(Insert Table 5 about here)

Table 6 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, family-control is significantly higher, and venture-capital control is significantly lower 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. The results in Table 6 are indicative and may lack precision. We study the population, but the number of IPOs is relatively small. In future research, it will be interesting to study the longer term effect of the reform.

(Insert Table 6 about here)

Finally, in Table 7 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 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 Table 5.[15] The results are similar if we use the post-IPO market capitalization as a firm size proxy.

(Insert Table 7 about here)

Tenure voting adoption increases for some types of firm after passage of the *Loi Florange*, especially for family firms, but not significantly. The most likely explanation is that families in particular choose the IPO contract deliberately and that this choice is largely unaffected by the default rule, as suggested by contractarian theory. However, post-reform a non-negligible fraction of families chose a loyalty share with tenure voting charter, which could be due to the new framing through the inverted default rule or from inaction; pre-reform doing nothing resulted in one share-one vote, post reform it resulted in tenure voting.

3.2. 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 a larger impact of the reform than for 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 charters is considered to be considerably different from midstream (Bebchuk 1989).

To obtain a direct measure of potential reversal we computed a pre- to post-reform transition matrix (Table 8). 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 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).[16] 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

[15] We cannot include both due to multicollinearity issues.

[16] Although we only consider the most liquid and largest firms (SBF120 Index), the transition rates are almost identical in a larger sample of French companies. Belot et al. (2019) extended our transition analysis to a broader sample of over 400 firms, and find that 68.6% (105 out of 153) of one share-one vote firms preserved this share structure, while the rest switched to a tenure voting system. Out of 48 "switchers", 9 switched after a failed vote to maintain OSOV, 3 voted for introducing tenure voting system, and the rest switched automatically (without a vote).

Legrand case illustrates that shareholders can re-contract either way through supermajority amendments.

(Insert Table 8 about here)

Table 9 reports the voting results for the resolutions that proposed to maintain one share-one vote.[17] 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 9 about here)

Panel B of Table 9 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 average participation rate in these meetings was 63.0%. As a result, 49.4% of votes cast and only 31.1% of total votes could block the resolution to revert to OSOV.[18]

Panel B of Table 9 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 in 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

[17] 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.".

[18] 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 2017).

of Veolia put forward a one share-one vote resolution but recommended to vote against it.[19] 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 in 14 companies that switched from one share – one vote 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 tenure voting 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 because of switching to the tenure voting system. 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 with tenure voting before the reform but could block opting out after the Act switched the default rule.

(Insert Figure 2 about here)

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*

[19] 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.

Florange created a fundamental change in property rights in some cases, and the majority opinion was oppressed, as shown in Table 9.

Did the change from one share–one vote as the default bolster the long-term shareholding structure of companies with tenure voting, as the French state and some company boards claimed? It is possible that the switch to tenure voting increased the willingness of the controlling shareholders to hold their blocks. We find no evidence to support this proposition. 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.[20]

Who blocked the complete reversal? Table 10 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 10 about here)

3.3. Valuation of Listed Firms

Finally, we turn to the analysis of potential value effects for listed companies associated with the reform. Table 11 presents descriptive statistics for the 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 at both points in time. The largest 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 11 about here)

[20] These unreported results are available from the authors upon request.

Table 12 replicates the main cross-sectional value regressions of Bennedsen and Nielsen (BN 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 tenure voting dummy, which takes the value of one if a firm uses tenure voting. 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, we 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 classic differential voting. We find some weak support to the BN result that the market discounts the use of disproportional ownership structures by families (model (3)). Model (4) adds an interaction between the dual dummy and state ownership. We find weak evidence that market also discounts the use of disproportional ownership structures by the state.

(Insert Table 12 about here)

In further models of Table 12, we estimate the cross-sectional value regressions on April 4, 2016, when the default tenure voting system became effective. We observe a decrease in the tenure voting 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 tenure voting 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 one share-one vote. As observed in the univariate analysis, the switchers are the firms with the lowest Tobin's Q 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 also hold in the difference-in-differences regression models in Table 13. We find no significant difference in Tobin's Q before and after the treatment, i.e. passage of the Act. In model (1) we define all OSOV companies to be treated by the *Loi Florange*. 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 the 14 companies that switched from single vote to tenure voting. Once again, we find significantly lower Tobin's Q among the switchers, both before and after the treatment.[21]

[21] 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.

(Insert Table 13 about here)

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 Table 12). The state might also use tenure voting to protect its interests against foreign influence (Pargendler 2019).[22] 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 10).

4. Conclusion

The paper has provided evidence on the use of loyalty shares with tenure voting in France and a reform of the default rule governing their adoption. The empirical findings support the freedom of contracting view and have implications for the debate surrounding control enhancing mechanisms in IPO charters. Companies with a one share-one vote charters reveal a strong preference for this contracting outcome. The reform was asymmetric, so we only observe reversal for this type of company. We have no evidence how many companies would have reverted to tenure voting if they had been forced to adopt one share-one vote. However, we do observe a clear preference for tenure voting by family firms. The findings suggest that countries that offer no choice might unduly restrict the freedom of contracting between pre-IPO shareholders and public markets.

Tenure voting in France is the dominant control enhancing mechanism blockholders use to leverage control. Effectively it has the same role as dual class share capitalizations with differential voting rights in other countries, for example Denmark, Sweden or the United States. The French practice has been replicated in Italy and Belgium and is under discussion in Spain.

In 2014 the *Loi Florange* established tenure voting as the new default rule in IPOs and one share-one vote companies had to take action to preserve their pre-reform status. The reform had no significant

[22] There is a wider literature on the connection between the corporate sector, politics and the state. In France the evidence suggests that politically connected CEOs favor certain employees at the expense of financial investors (Bertrand et al. 2018); in Korea politicians allocate state resources to private shareholders in their network (Schoenherr 2019).

impact on IPO charter choice, but the use of tenure voting increased slightly after the reform, especially among family firms. The choice of families appears deliberate and is largely unaffected by the default rule, as suggested by contractarian theory. This conclusion is consistent with parallel evidence on the adoption of tenure voting by family firms in Italy, where tenure voting only became available in 2014 (Bajo et al. 2019).

The impact of the reform on the stock of listed companies is unambiguous and surprising. The new default rule was relatively "sticky" because a supermajority was required to revert to one share–one vote. Despite this obstacle, most companies reverted. 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 contract. The idea that tenure voting and one share–one vote statutes were allocated efficiently before the reform is supported by high and unchanged Tobin's Q in both cases.

One share-one vote companies that had the French state as a large shareholder did not revert. The state was unable to pass a supermajority amendment to adopt tenure voting before the reform but had a blocking minority post-reform that prevented reversal. The reform brought no advantages during the IPO process. The state always had the ability to adopt tenure voting during an initial public offering.

The default rule appears largely irrelevant. Once firms have optimized, changing the default rule imposes transaction costs without changing outcomes. In case of the *Loi Florange* the change in the default rule was made for arguably opportunistic reasons; pre-reform the state did not have sufficient voting power to adopt tenure voting with a minority interest. The *Loi Florange* was a singular operation that allowed the French state to enhance its influence over a number of listed companies it considers "strategic", without the approval of existing public shareholders.

Appendix A

The *Loi Florange*

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"). Article L225-123 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.

Law 2014-384 of 29 March 2014 is a "law aiming to take back control of the real economy"[23] 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.

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[23] LOI n° 2014-384 du 29 mars 2014 visant à reconquérir l'économie réelle (https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000028811102).

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 statues 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".[24] Additionally, Article L225-123 was modified by removing the option that tenure voting could be restricted to shareholders who are French citizens, citizens of an EU Member State, or citizens of a State in the European Economic Area (EEA). The removal of nationality exclusion option potentially reduced the voting power leverage from tenure voting for EU or EEA blockholders.[25]

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 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 9).

[24] "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."

[25] We are grateful to Geneviève Helleringer for clarifying this detail.

Appendix B

The list of 104 midstream companies included in the sample and their share structures as of 28 March 2014 (before the reform)

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)
Capgemini 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	***(tenure period 2 years, unless marked by *)***	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	

Appendix C

Variable Definitions

Ownership Variables	*Source: Annual Reports (Document de reference)*
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
IPO Flow Analysis	*Source: Thomson Reuters Eikon*
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 overallotment), 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.
Stock of Firms Analysis	*Source: Bloomberg*
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).

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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) [26] "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)

[26] 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

Population 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			
Balyo SA	9-Jun-17	& En Marketing 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	Viadeo 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	Pharnext 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	Poulaillon 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
Median Technologies SA	20-May-11	Douaisienne de Basse Tension SA	23-Dec-15	Ucar SA* (4 years)	6-Jul-11
Mediawan SA	22-Apr-16	Elis SA	11-Feb-15	Valbiotis SA	7-Jun-17
Medtech SA	28-Nov-13	Enertime SA	7-Jul-16	Vexim SA	3-May-12
Methanor SCA	12-Jul-12	Erytech Pharma SA	7-May-13	Visiativ SA	28-May-14
Moviken SA	4-Jul-11	Europcar Groupe SA	26-Jun-15	Visiomed Group SA	5-Jul-11
Nanobiotix SA	29-Oct-12	Fermentalg SA	16-Apr-14	Wallix Group SA	16-Jun-15
Novacyt SA	12-Oct-12	Focus Home Interactive SA	16-Feb-15	Witbe SA	18-Apr-16
Novagali Pharma SA	20-Jul-10	Groupe Parot SA	24-Oct-16	Worldline SA	27-Jun-14
				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

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

	Number of firms				
	One share-one vote	Tenure voting	Total	Fraction of IPO firms with tenure voting (from Total)	95% CI
Before 28 March 2014	26	26	52	50.0%	35.9%-64.1%
After 28 March 2014	27	43	70	61.4%	49.7%-73.1%
Total	53	69	122	56.6%	47.6%-65.5%
Mean equality test (Before vs. After), p-value				*0.211*	

Note. Table shows the number of IPOs on Euronext Paris, Euronext Growth and Alternext between March 28, 2010 and March 28, 2018, that is four years before and after the *Loi Florange*. The last column reports the 95% confidence interval.

Table 4

Family and Venture Capital (VC) Controlled IPO firms

	Number of Family-controlled firms	Number of VC-controlled firms	Fraction of IPO firms with tenure voting (from Total Family-controlled)	95% CI	Fraction of IPO firms with tenure voting (from Total VC-controlled)	95% CI
Before 28 March 2014	25	21	64.0%	43.8%-84.2%	38.1%	15.4%-60.7%
After 28 March 2014	35	26	74.3%	59.1%-89.5%	46.2%	25.6%-66.7%
Total	60	47	70.0%	58.1%-81.9%	42.6%	27.9%-57.2%
Mean equality test (Before vs. After), p-value			*0.400*		*0.588*	

Note. Table shows the number of IPOs on Euronext Paris, Euronext Growth and Alternext between March 28, 2010 and March 28, 2018, that is four years before and after the *Loi Florange*. A firm is defined as family (VC) controlled if the largest shareholder is a family (a VC fund) or group of families (VC funds) acting in concert and controls at least 10 percent of votes. CI is confidence interval.

Table 5

Descriptive Statistics of IPO Firms

		Before 28 March 2014			After 28 March 2014		
Variable	N	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. Table reports the descriptive statistics of IPOs on Euronext Paris, Euronext Growth and Alternext between March 28, 2010 and March 28, 2018, that is four years before and after the *Loi Florange*. Variable descriptions are in Appendix C. Statistical significance of the difference between the respective variables Before and After the reform is reported in the last three columns.

$^{+}p < .10$.

$^{*}p < .05$.

Table 6

The Difference-in-Differences Effect of Tenure Voting Shares Before and After the Reform (IPO Flow)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variable	Market-adjusted Return (1 day)	Market-adjusted Return (5 days)	Ln IPO proceeds	Ln Market Cap	Book-to-market ratio	High-tech dummy	UW dummy	Family-control dummy	VC-control dummy
Tenure voting dummy	-0.027	-0.013	-0.833*	-0.698^{+}	0.057	-0.056	-0.026	0.384*	-0.360*
	(-0.361)	(-0.152)	(-2.072)	(-1.793)	(1.157)	(-0.423)	(-0.274)	(2.486)	(-2.425)
After reform dummy	-0.064^{+}	-0.012	0.368	0.210	0.014	0.026	0.073	0.054	-0.040
	(-1.880)	(-0.194)	(0.968)	(0.585)	(0.293)	(0.211)	(1.272)	(0.369)	(-0.274)
Tenure voting # After reform (DiD)	0.062	0.014	0.540	0.378	-0.027	0.122	0.069	-0.172	0.127
	(0.798)	(0.146)	(1.007)	(0.755)	(-0.401)	(0.797)	(0.738)	(-0.831)	(0.647)
Constant	0.046^{+}	0.041	3.261**	4.565**	0.328**	0.394**	0.885**	0.309**	0.573**
	(1.788)	(1.155)	(10.752)	(15.645)	(9.832)	(4.209)	(16.705)	(2.947)	(5.402)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	116	116	116	116	116	116	116	116	116
Adjusted R-squared	-0.0663	-0.0612	0.257	0.241	0.279	0.494	0.156	0.0819	0.127
CI 95% for DiD coefficient	[-0.09; 0.22]	[-0.18; 0.20]	[-0.52; 1.60]	[-0.62; 1.37]	[-0.16; 0.11]	[-0.18; 0.42]	[-0.12; 0.26]	[-0.58; 0.24]	[-0.26; 0.52]

Note. Table 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 C. All regressions control for industry fixed effects. Eleven industries are specified according to the Global Industry Classification Standard. Robust t-statistics in parentheses.

$^{+}p< .10$.

*$p< .05$.

**$p< .01$.

Table 7

IPO underpricing analysis before and after the reform

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

Note. Table 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 C. All regressions control for industry fixed effects. Eleven industries are specified according to the Global Industry Classification Standard. Robust t-statistics in parentheses.

$^{+}p < .10$.

$^{*}p < .05$.

$^{**}p < .01$.

Table 8

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 9

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

	Sponsor *	Votes Present (%)	For (%)	Against (%)	Abstain (%)	Margin (%)	Threshold (%)	Outcome	Mgmt	ISS
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 10

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

	Loyalty shares				One share – one vote		
Ownership type	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)

	Loyalty shares				One share – one vote		
Ownership type	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 11

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 12

The Effect of Tenure Voting Shares on Firm Value

	Results as of 28 March 2014				Results as of 4 April 2016				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Size	-0.124**	-0.125**	-0.124**	-0.129**	-0.150**	-0.126**	-0.138**	-0.138**	-0.149**
	(-3.331)	(-3.227)	(-3.271)	(-3.297)	(-3.592)	(-2.912)	(-3.167)	(-3.150)	(-3.450)
Leverage	-0.326	-0.386	-0.280	-0.348	-1.162*	-1.260*	-1.191*	-1.206*	-1.185*
	(-0.588)	(-0.692)	(-0.497)	(-0.616)	(-2.072)	(-2.292)	(-2.141)	(-2.124)	(-2.090)
Asset tangibility	0.0244	0.0492	0.0434	-0.0175	0.109	0.0828	0.0102	0.00511	0.0773
	(0.0764)	(0.154)	(0.125)	(-0.0503)	(0.343)	(0.261)	(0.0321)	(0.0158)	(0.247)
Sales growth	0.00798	-0.0491	-0.0529	0.0109	-0.0642	-0.0892	-0.0766	-0.0673	-0.0401
	(0.0201)	(-0.117)	(-0.140)	(0.0271)	(-0.179)	(-0.250)	(-0.213)	(-0.187)	(-0.108)
Return on assets	0.0518*	0.0536*	0.0529*	0.0544*	0.0605^{+}	0.0547	0.0578^{+}	0.0570	0.0611^{+}
	(2.018)	(2.101)	(2.071)	(2.073)	(1.805)	(1.601)	(1.675)	(1.624)	(1.755)
Cash flow stake	0.165	0.0631	0.119	0.135	0.121	0.248	0.238	0.237	0.125
	(0.704)	(0.278)	(0.412)	(0.540)	(0.557)	(1.082)	(1.034)	(1.027)	(0.561)
Tenure (voting) dummy	0.149		0.211	0.174	-0.0507	0.00317	0.00166	0.00255	-0.0197
	(1.334)		(1.611)	(1.471)	(-0.375)	(0.0218)	(0.0114)	(0.0173)	(-0.141)
Family dummy			0.227						
			(0.873)						
Tenure dummy * Family dummy			-0.258						
			(-0.908)						
Wedge		0.921							
		(0.910)							
State dummy				0.105			0.206	0.170	0.596^{+}
				(0.622)			(1.348)	(0.691)	(1.962)
Tenure dummy * State dummy				-0.303					-0.683*
				(-1.336)					(-2.084)
Switch dummy						-0.345*	-0.426**	-0.457**	
						(-2.407)	(-2.910)	(-2.657)	
Switch dummy * State dummy								0.0853	
								(0.285)	
Constant	2.513**	2.604**	2.470**	2.563**	3.051**	2.838**	2.933**	2.940**	3.029**
	(6.052)	(5.952)	(5.961)	(5.865)	(6.585)	(5.864)	(6.024)	(5.961)	(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
CI 95% for Tenure (voting) dummy	[-0.07; 0.37]		[-0.05; 0.47]	[-0.06; 0.41]	[-0.32; 0.22]	[-0.29; 0.29]	[-0.29; 0.29]	[-0.29; 0.30]	[-0.30; 0.26]

Note. Table reports the regressions of Tobin's Q on financial, ownership and governance variables. Columns (1) to (4) report cross-sectional regressions on 28 March 2014. Columns (5) to (9) report cross-sectional regressions on 4 April 2016. 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. Tenure (voting) dummy is one for companies with a disproportional ownership structure, and zero otherwise. Switch dummy is one if the company switched from one share-one vote system into tenure voting system between 28 April 2014 and 4 April 2016. All the other variables are defined in Appendix C. All regressions control for industry fixed effects. Eleven industries are specified according to the Global Industry Classification Standard. Robust t-statistics in parentheses.

$^{+}p < .10$.

$^{*}p < .05$.

$^{**}p < .01$.

Table 13

The Difference-in-Differences Effect of Tenure Voting Shares on Firm Value

	(1)	(2)
Size	-0.139**	-0.118**
	(-4.905)	(-4.105)
Leverage	-0.764*	-0.808*
	(-2.057)	(-2.144)
Asset tangibility	0.0781	0.0742
	(0.365)	(0.347)
Sales growth	-0.123	-0.188
	(-0.495)	(-0.755)
Return on assets	0.0564**	0.0549**
	(2.714)	(2.694)
Cash flow stake	0.149	0.237
	(0.946)	(1.478)
Time dummy (1 after treatment)	0.0374	0.0483
	(0.391)	(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**	2.637**
	(8.924)	(8.265)
Industry effects	YES	YES
Observations	208	208
Adjusted R-squared	0.420	0.434

Note. Table reports the difference-in-differences regressions of Tobin's Q (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; measured at two time points: 28 March 2014 (Before) and 4 April 2016 (After). Treatment is the *Loi Florange* reform. *After treatment* means after 28 March 2014. OSOV is one share-one vote companies affected by the treatment. *Treated switch* is one for the companies that switched from OSOV into tenure voting system between 28 April 2014 and 4 April 2016. All the financial variables are defined in Appendix C. All regressions control for industry fixed effects. Eleven industries are specified according to the Global Industry Classification Standard. Robust t-statistics in parentheses.

$^{+}p < .10$.

$^{*}p < .05$.

$^{**}p < .01$.

Figure 1

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

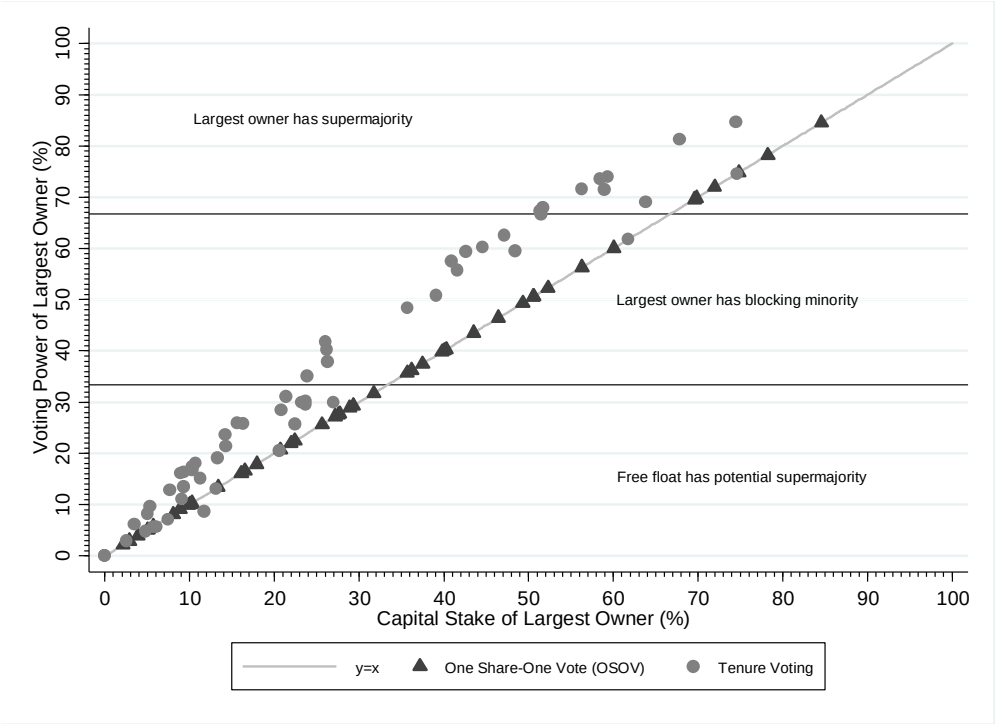
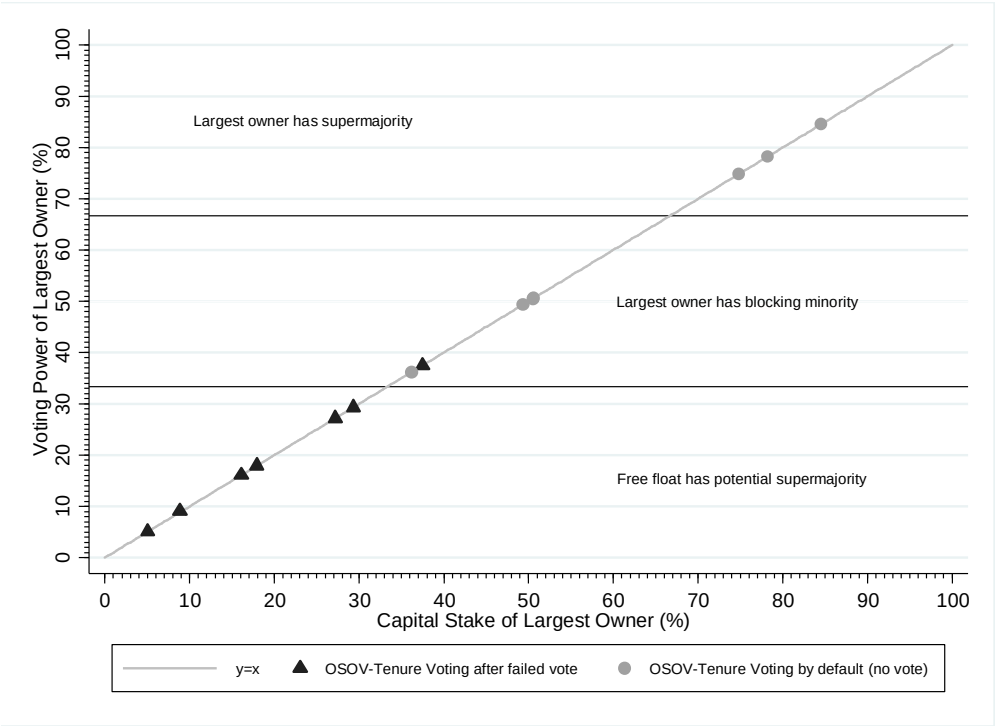
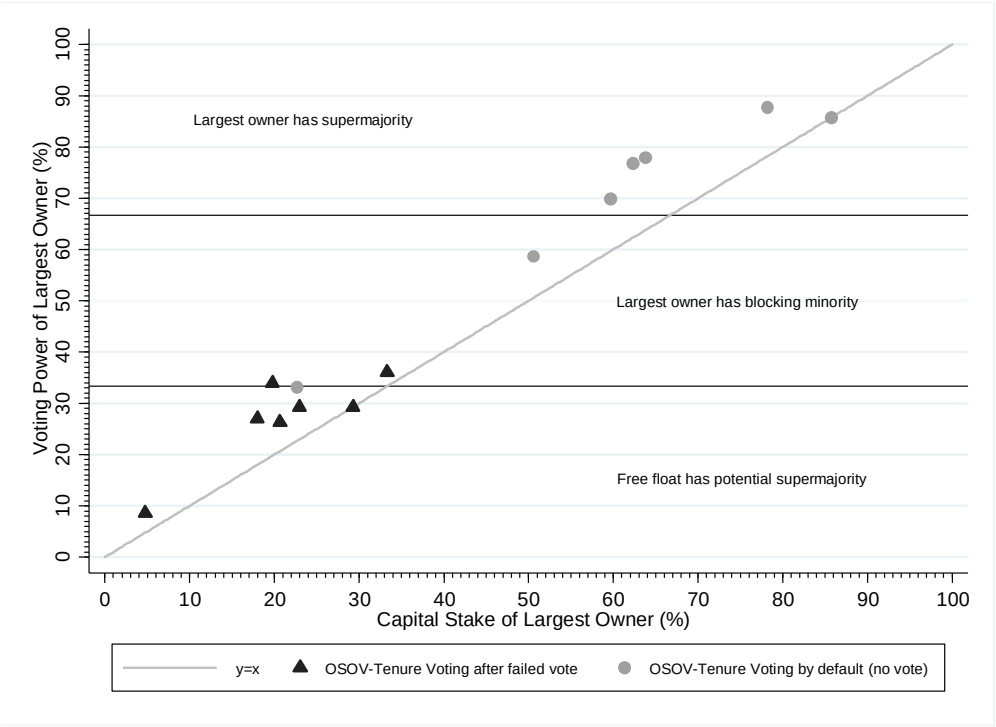


Figure 2

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"



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