

# Loyalty Shares with Tenure Voting - A Coasian Bargain? Evidence from the Loi Florange Experiment

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## Abstract

French listed companies can issue shares that confer two votes per share after a holding period of at least two years (loyalty shares with tenure voting rights). In 2014 the default rule changed from one-share-one-vote to loyalty shares. The Coase theorem predicts that ceteris paribus shareholders rewrite the corporate charter to preserve the pre-reform structure. The theorem also predicts that the proportion of loyalty shares in initial public offerings is unchanged. The paper shows that most one-share-one-vote companies reverted to the prereform contract. The exception were firms with a stake held by the French state. In initial public offerings, the new default rule had an impact; the proportion of loyalty share statutes increased from about forty to fifty percent after the passage of the law. Companies that kept the same statutes have a significantly higher market to book ratio than companies forced into a different regime. The evidence is broadly consistent with the predictions of the Coase theorem, but only in the absence of conflicted parties with veto power.

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Keywords: Loyalty shares, tenure voting, time-phased voting, dual-class shares, one-share-one-vote, Coase theorem

JEL Classifications: D23, K22, G32, G34

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# Loyalty Shares with Tenure Voting - a Coasian bargain? Evidence from the *Loi Florange* Experiment

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## Abstract

French listed companies can issue shares that confer two votes per share after a holding period of at least two years (loyalty shares with tenure voting rights). In 2014 the default rule changed from one-share-one-vote to loyalty shares. The Coase theorem predicts that *ceteris paribus* shareholders rewrite the corporate charter to preserve the pre-reform structure. The theorem also predicts that the proportion of loyalty shares in initial public offerings is unchanged. The paper shows that most one-share-one-vote companies reverted to the pre-reform contract. The exception were firms with a stake held by the French state. In initial public offerings, the new default rule had an impact; the proportion of loyalty share statutes increased from about forty to fifty percent after the passage of the law. Companies that kept the same statutes have a significantly higher market to book ratio than companies forced into a different regime. The evidence is broadly consistent with the predictions of the Coase theorem, but only in the absence of conflicted parties with veto power.

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## Introduction

One implication of the Coase theorem (Coase, 1960) is that the initial allocation of property rights has no impact on the use of resources when transaction costs are small. Parties will privately re-contract when it is mutually beneficial. In the context of corporate law many countries allow companies to put in place alternatives to “one-share-one-vote” (OSOV) capital structures, for example by issuing shares with high and low voting rights. Legislators and issuers typically rely on the Coase theorem and freedom of contracting to motivate this choice. In these cases one-share-one-vote is often a “default rule” that parties can change by mutual agreement (Ayres & Gertner, 1989). In contrast, some jurisdictions see one-share-one-vote as an “immutable” rule that parties should be unable to change. For example, “immutable” listing rules prevented Alibaba, a Chinese e-commerce company, from listing shares with differential voting rights on the Hong Kong Stock Exchange. Alibaba listed on the New York Stock Exchange instead, that allows issuers to propose a range of voting right structures to potential investors.

The freedom to list on U.S. markets with charters that protect companies from unsolicited takeovers or proxy contests is controversial. To some these arrangements are the outcome of an efficient bargain that allows managers to invest in long-term projects (Chemmanur & Jiao, 2012) or to bond with suppliers (W. C. Johnson, Karpoff, & Yi, 2015); to others they represent a market failure that shuts down the market for corporate control and fosters managerial entrenchment (L.A. Bebchuk, 2013; Easterbrook & Fischel, 1996). Institutional shareholders are generally opposed to deviations from one-share-one-vote, the use of dual-class or non-voting shares is discouraged by U.S. stock index providers and there have been suggestions that dual-class IPOs should be banned or time-limited (Lucian A. Bebchuk & Kastiel, 2017).

Loyalty shares that confer multiple voting rights as a function of the holding period could be a less controversial alternative to classic dual-class shares because they treat all shareholders equally (Berger, Davidoff Solomon, & Benjamin, 2017).<sup>5</sup> Loyalty share charters already exist in the United States, but their operation is fraught with difficulties (Berger et al., 2017).<sup>6</sup> Technological solutions are available and a group of technology entrepreneurs has applied for regulatory approval to set up the Long-Term Stock Exchange (LTSE), that would only list loyalty shares with tenure voting (Osipovich & Berman, 2017). Consequently, tenure voting structures are receiving increased attention in the United States (Edelman, Jiang, & Thomas, 2018).

In contrast, France has a long tradition of loyalty shares with tenure voting that are used by more than half of French listed companies (Belot, 2005; Chene, 2008). Traditionally one-share-one-vote was the default rule, but shareholders were allowed to *opt-out* by adopting statutes that give double voting rights to “loyal” shareholders, typically after a holding period of two years, or longer. Companies that came to the stock market for the first time with a default statute provision went public with one-share-one-vote. Companies that wanted to *opt-out* could adopt loyalty shares by adding an article to their IPO statutes.<sup>7</sup> Shareholders could always opt-in or out of a loyalty share statute later through a shareholder resolution and a 2/3 majority binding vote. Italy adopted a similar system in 2014 (Santoro, Di Palma, Guarneri, & Capogrosso, 2015).

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<sup>5</sup> Loyalty shares more generally can provide long-term holders additional cash-flow and/or control rights (Bolton & Samama, 2013). The analysis in this paper is confined to loyalty shares that confer additional voting rights.

<sup>6</sup> In the United States, loyalty shares that involve “tenure voting” or “time-phased voting” (TPV) have been issued by at least twelve companies, including household names like the J.M. Smucker Company (Dallas & Barry, 2015). TPV statutes typically grant shareholders holding shares for at least 36 or 48 months three, five or ten votes per share.

<sup>7</sup> There were two variants: (1) retroactive loyalty shares: pre-IPO shareholders with a certain holding period acquired double voting rights immediately while new shareholders had to wait for at least two years, (2) new loyalty shares: all holding periods were set to zero at the IPO and all shareholders had to wait for loyalty shares. The former is close to a dual-class IPO, the latter is a genuine loyalty share offering.

In early 2014, 57% of the largest 104 French companies by market capitalization had adopted the loyalty double vote system, while the remainder had not.<sup>8</sup> Similarly, among initial public offerings three years prior to the passage of the law, 37% opted out by adopting loyalty shares.<sup>9</sup> The “Coasian” explanation is that the companies and their shareholders chose the system that is most beneficial for them as a group (Coase, 1960); shareholders opted out of the one-share-one-vote default system when it was more efficient. This could occur, for example, because loyalty shares with tenure voting are attractive for founders or families that want to retain control while offering institutional investors high degrees of secondary market liquidity (Becht, 1999; Bolton & Von Thadden, 2002). In widely held companies with one-share-one-vote investors reveal to prefer liquidity over control (Bhide, 1993).<sup>10</sup>

On 29 March 2014, the French government introduced a new law, known as *Loi Florange*, that changed the default voting system from one-share-one-vote to loyalty shares. The *Loi Florange* stipulated that as of 3 April 2016 shares held in registered form by the same shareholder for at least two years are automatically granted double voting rights, unless the company *opts out* of this system through a statute amendment (with a 2/3 majority in a shareholder vote). Listed companies that wanted to keep one-share-one-vote had just over two years to opt out via a shareholder vote. Equally, the default rule for public offerings became 2-year loyalty shares so IPO firms now had to deliberately *opt out* by writing one-share-one-vote into their statutes. The possibility of giving pre-IPO shareholders double voting rights immediately or starting them with single voting rights by setting the tenure voting clock to zero remained unchanged.

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<sup>8</sup> In 1998, 2000 and 2002 loyalty shares were found in 68.3% of firms at the end of the year when pooling observations; pyramids were much less frequent (18.6%) and the use of voting caps (2.3%), dual class shares (1.2%) or partnerships limited by shares (1.8%) was rare (Ginglinger & Hamon, 2012).

<sup>9</sup> Only one company set the tenure voting clock to zero for all shareholders; the remainder was quasi-dual class and gave pre-IPO shareholders double voting rights immediately.

<sup>10</sup> There is empirical evidence of a tradeoff between ownership, control and liquidity in France for the period 1998-2002 involving loyalty shares (Ginglinger & Hamon, 2012)

The Coase theorem predicts that one-share-one-vote companies pre-*Florange* preserve the status quo by opting out of the loyalty share system post-*Florange*. In this paper, we use the actual behaviour of companies affected by the *Loi Florange* to test the Coasian proposition. The working hypothesis is that the listed companies affected by the law revert to their previous one-share-one-vote status, provided the transaction costs of re-contracting are sufficiently low, there are no information problems and contracts are enforceable (Bolton & Dewatripont, 2005). Among the flow of IPO firms, the proportion of one-share-one-vote companies should stay constant, *ceteris paribus*. In particular, accepting this empirical hypothesis would show that the French government's new choice of default option came at no real cost. The original endowment is irrelevant for the adoption of loyalty shares (or not) when parties can contract freely (Coase, 1960).

The empirical evidence on the stock of loyalty share firms is consistent with characterising French loyalty shares as a Coasian bargain. Our sample consists of 104 companies included in the SBF120 index comprising the most frequently traded stocks listed on the Paris Stock Exchange. Before the introduction of the *Loi Florange* in 29 March 2014, there were 59 companies with a double voting system and 45 companies adhering to the one-share-one-vote. The *Loi Florange* had a direct effect on the latter. To continue as one-share-one-vote companies after 3 April 2016 they had to pass a shareholder resolution. We find that 70% of the affected firms (31 out of 45) opted out of the new (double voting) default rule. The direct cost of opting out was negligible as the relevant decision was typically a resolution at an Extraordinary General Meeting (EGM) that took place at the time of the Annual General Meeting (AGM). On average, there were 97.4% votes *for* maintaining the one-share-one-vote system, 2.2% *against*, and 0.4 *abstain*.

The empirical evidence on the flow of charters in initial public offerings is consistent with “libertarian paternalism” (Thaler & Sunstein, 2003). The French state revised its view of



what voting right structure is beneficial for the average French listed company, but companies and shareholders remained free to adopt a different arrangement. The Coase theorem predicts that the proportion of loyalty shares in IPOs remains unchanged after switching the default rule. In practice, the fraction of firms that went public with loyalty shares increased from 37% to 54% when comparing the period before and after the introduction of the law (28 March 2011 to 28 March 2014 and 29 March 2014 to 28 March 2017). The changed view of the French state had a marginal but significant effect on the adoption of loyalty shares in IPO statutes.<sup>11</sup>

The experiment also sheds light on further predictions of the Coase theorem. The theorem assumes that property rights are well defined and the contract parties do not free ride by not taking part in costly contract negotiations, for example by not voting at the AGM or by not reading the IPO prospectus. It also assumes that contracting parties are not conflicted (Ellingsen & Paltseva, 2016). The *Loi Florange* experiment allows us to test these assumptions because it changed the power of certain blockholders. Empirically we should see reversion to the old regime when property rights were *de facto* unaltered, but not necessarily when control rights were changed.

The *de facto* control rights of shareholders that collectively commanded more than two thirds of the votes did not change. A supermajority could pass a loyalty share resolution before the *Loi Florange* and equally block its adoption after the reform. The same was true for minority shareholders commanding less than one third of the votes. They could not block the adoption of loyalty shares before the *Loi Florange* and could not force their removal after the law came into effect. As a result, the law did not affect decision making in these cases. Decision rights did change for shareholders commanding between one third and two third of the votes.

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<sup>11</sup> It is also possible that the type of company that went public changed; we control for this separately.

Before the *Loi Florange* these levels of voting support were not sufficient to introduce the double vote system, but afterwards they were sufficient to block a return to one-share-one-vote. This qualification does not apply to IPO companies that could choose their charter without shareholder approval before and after the passage of the *Loi Florange*.

The evidence is consistent with the notion that the Coase theorem fails in the presence of a conflicted trading partner. Empirically a subsample of 14 companies failed to switch back to one-share-one-vote. In half of these cases the issue was not put to a vote because the outcome was clear; there was a large shareholder with the power to block the reversal. The other cases were voted but the OSOV resolution failed to get the necessary two-thirds supermajority. In five cases the resolution did attract a simple majority. Most of the companies that did not revert had the French state as a shareholder, often with a minority position that was boosted to a permanent blocking minority by the introduction of loyalty shares.

We also investigate the impact of loyalty shares on firm values. There is evidence that firms with voting rights that are proportional to cash flow rights have higher stock valuations (L. Bebchuk, Cohen, & Ferrell, 2009; Bennedsen & Nielsen, 2010; Gompers, Ishii, & Metrick, 2010), an observation that is often attributed to anticipated takeover premia (Adams & Ferreira, 2008; Becht, Bolton, & Röell, 2003). Loyalty shares make hostile takeovers more difficult, but the effect is more moderate than for dual-class shares. Any shareholder can benefit from double voting rights and the superior voting power is not transferrable.

The Coase theorem predicts that the valuation of firms that keep the same voting structure is unchanged, whereas the valuation of firms that had one-share-one-vote but are forced to adopt loyalty shares should have lower valuation. Our empirical evidence shows a positive (but insignificant) value premium (Tobin's Q) in firms offering loyalty shares both before

and after the *Loi Florange*.<sup>12</sup> We also find the lowest valuations among firms that switched from OSOV into the loyalty (double vote) system after the *Loi Florange*. However, this holds for both before and after the law, i.e. in March 28, 2014 and April 4, 2016, respectively.<sup>13</sup> This finding suggests that the presence of the state is more important for valuation than the voting structure. The state already had a strong presence in the “switchers”, but post-*Florange* it became possible to exercise the same degree of influence with a smaller capital stake.

Behavioural economics has cast doubts on the Coase theorem and offers theoretical explanations why default rules might matter. Inconsistent with Coase, experimental evidence points to an endowment effect: individual are less willing to sell a good than they are willing to buy it (Kahneman, Knetsch, & Thaler, 1990). In the context of voting rights, the endowment effect would imply that investors require more compensation to give up loyalty shares than they would be willing to pay for receiving them, and the same if they were endowed with one-share-one-vote.

Theoretical explanations for the “status quo” bias include an aversion towards cognitive or physical effort (Tversky & Kahneman, 1975) or the belief that the default rules reflect socially desirable behaviour so there is a rationale for inaction (E. J. Johnson, Bellman, & Lohse, 2002; McKenzie, Liersch, & Finkelstein, 2006). Inaction might also reflect incidental moods or emotions (Shevchenko, Von Helversen, & Scheibehenne, 2014). In contrast, when agents have well-defined preferences they will opt out of default rules that do not maximize their utility, regardless of the nature of the default (Beshears, Choi, Laibson, & Madrian, 2009). In the case of loyalty shares the decision makers should have well defined preferences because they are usually professional asset managers.

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<sup>12</sup> 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 & Nielsen, 2010; Gompers et al., 2010).

<sup>13</sup> As of March 2014, the average Tobin’s Q of future “switchers” is 1.11, compared to 1.41 of single class firms that did not switch, and an average of 1.65 for loyalty share firms.

The *Loi Florange* experiment is also related to the “short termism” literature. French loyalty shares are mostly about control, but presumably they also have a positive effect on holding periods. One justification for the introduction of loyalty shares in Italy, the United States and soon in Belgium is that they reward long-term capital. The *Loi Florange* allows us to test this proposition and we do so by comparing holding periods between companies with and without loyalty shares before and after the reform. Although the average holding period decreases at a slower speed in loyalty share firms than in OSOV firms, there is no significant difference in the average holding periods between the two groups before and after the *Loi Florange*. This finding is consistent with scepticism about loyalty shares with tenure voting as a solution to a perceived short termism problem in widely held companies (Fried, 2014; Roe, 2013). The finding is also consistent with previous evidence on ownership and liquidity in the French markets; loyalty shares enhance liquidity by allowing controlling shareholders to hold smaller blocks than would be the case with one-share-one-vote (Ginglinger & Hamon, 2012).

The remainder of the paper is organized as follows. Section 1 provides an overview of the 2014 law reform (the *Loi Florange*) we use for identification, Section 2 describes the sample design and data, Section 3 reports the results and Section 4 concludes.

## **1. The *Loi Florange***

Law 2014-384 of 29 March 2014 is a “law aiming to take back control of the real economy”<sup>14</sup> by strengthening long-term investors at the expense of short-term speculators and is similar in spirit to the *LTSE Listing* initiative in the U.S. 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

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<sup>14</sup> LOI n° 2014-384 du 29 mars 2014 visant à reconquérir l'économie réelle  
(<https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000028811102>)

created in 2006 by the merger of Arcelor and Mittal Steel—took the decision to close a set of profitable blast furnaces in Florange. The Mittal group was built and is controlled by the entrepreneur Lakshmi Mittal through the serial acquisitions of underperforming steel assets. Once the assets were brought under Mittal Steel control they were restructured, often involving plant closures and layoffs. The operations were often debt financed. In 2005 Forbes Magazine listed London based Mr Mittal as the third wealthiest individual in the World, with an estimated net worth of 25 US\$ billion. The announced closure coincided with the re-election campaign of socialist President François Hollande, who promised reforms.

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

To achieve the latter, *inter alia*, Article 7 modified French company law (the *Code de commerce*). Article L225-123 of the Commercial Code allowed listed companies to adopt a loyalty share provision in their statutes that gave shareholders two votes per share after a certain holding period. It was modified by Article 7 (V) of the Act that set loyalty shares as the default rule. The new Article states that “in all companies admitted for trading on a regulated market, the double voting rights set out in the first paragraph [of this Article], unless there is a statutory provision to the contrary before the Act comes into force, [...] will apply by law to all shares [...] which have been held by the same shareholder for two years”.<sup>15</sup>

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<sup>15</sup> “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.”

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 willing to stay with the one-share-one-vote structure had to submit their bylaw amendments by 31 March 2016.

The substance of the law has traits of “libertarian paternalism” (Thaler & Sunstein, 2003). The state clearly expressed a preference for loyalty shares yet it preserved the freedom of IPO companies to go public with a one-share-one-vote charter. It also allows existing companies to adopt one-share-one-vote via a shareholder vote with a two-thirds majority. However, the *Loi Florange* is not a pure form of “libertarian paternalism” because it did intervene in existing property rights. The actions of the French state as a regulator benefitted the French state as a shareholder. The law allowed the state to lock in existing loyalty share arrangements by giving itself a blocking minority. It also allowed the state to sell larger amounts of equity without having to fear losing the loyalty share privilege. These advantages were shared by employee shareholders and private block holders in one-share-one-vote companies that were previously unable to muster the two thirds majority necessary to pass a loyalty share resolution. A neutral law would have grandfathered all existing loyalty share arrangements and merely changed the default rule for new public offerings.

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; Stothard, 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 6).

## **2. Methodology and Data**

The paper uses the identifying variation provided by the *Loi Florange* to test two main hypotheses. One, if the distribution of French loyalty shares before Florange resulted from a Coasian bargain, firms that used one-share-one-vote prior to the Act, should have opted out of the new (double voting) system. The exception should be cases where the bargaining power of shareholders with special interests changed, in particular in the case of the French state. In addition, the valuation of companies that could successfully retain their preferred control structure should be higher, *ceteris paribus*, than of companies that were forced into a different control regime by the *Loi Florange*. Two, if the use of loyalty shares in initial public offerings resulted from a Coasian bargain, the proportion of loyalty shares in initial public offerings should be unchanged.

Table 1 reports the list of companies used in our empirical work. We use companies included in the SBF 120 index, a French stock market index with the 120 most frequently traded stocks listed on the Paris Stock Exchange (Euronext Paris), as of January 1, 2016. We exclude ten firms incorporated outside of France, since the changes in French corporate law did not affect them. We also exclude six companies that went public after the introduction of the Act on 29 March 2014. The final sample includes 104 companies.

We group the companies into five categories: (1) loyalty share companies that offered loyalty shares prior to the Act and kept offering them after the Act came into force (58 “*Double-Double*” companies), (2) loyalty share class companies that opted out of the Act with bylaw

amendments and kept the one-share-one-vote structure (31 “*Single-Single*” company), (3) one-share-one-vote companies that did not have a shareholder vote switched to loyalty shares on 3 April 2016 by default (7 “*Single-Double (automatic)*” companies)<sup>16</sup>, (4) one-share-one-vote companies that had a shareholders resolution to revert to one-share-one-vote but failed to obtain the necessary two-third majority also switched to loyalty shares on 3 April 2016 by default (7 “*Single-Double (after failed vote)*” companies), and (5) one company that offered loyalty shares but voted to adopt one-share-one-vote (“*Double-Single*”). The names of companies in each category are listed in Table 1.

(Insert Table 1 about here)

For companies that had loyalty shares before the Act, we investigate the date of the double voting system adoption. In 12 out of 12 most recent IPOs (from June 1999 or later), the double voting system was in place already at the IPO. It suggests that loyalty shares are the result of a Coasian bargain during the initial public offering (see, for example, the case of Edenred in Appendix 1). We do not investigate earlier IPOs due to data availability constraints. Interestingly, the 59 firms with loyalty shares as of March 2014 have gone public a significantly longer time ago than the 45 firms with one-share-one-vote. The median public age of double voting firms is 27 years compared to 19 years for single voting firms, which is a significant difference at the 1% level.

### *Valuation measure*

Tobin’s Q is the main valuation measure in this paper. It is defined as market value of assets divided by the book value of assets. Market value of assets is market value of equity plus

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<sup>16</sup> This group includes one company (Sopra Steria Group) that voted in favor of adopting the double voting system in June 2014 (with 74.2% votes FOR and 25.8% votes AGAINST). The classification of this company into this “passive” group does not affect the empirical analysis because in our empirical analysis, we group all the companies that switched from one-share-one-vote into the double vote system irrespective of the “method” of switch (passive or active).



book value of assets minus book value of equity. Market value of equity is a product of the amount of shares outstanding and share price. In order to calculate Tobin's Q for March 28, 2014 (just before the Act) and April 4, 2016 (right after the enforcement of the Act), we retrieve market value of equity exactly on these dates and take the book value of assets and equity as of December 31, 2013 and December 31, 2015, respectively – the closest date for which accounting data is available. As a result, Tobin's Q for 104 companies in the sample is calculated at two time points:

$$Q_{i, 28/03/2014} = \frac{\text{MV of Equity}_{i, 28/03/2014} + \text{BV of Assets}_{i, 31/12/2013} - \text{BV of Equity}_{i, 31/12/2013}}{\text{BV Assets}_{i, 31/12/2013}}$$

$$Q_{i, 04/04/2016} = \frac{\text{MV of Equity}_{i, 04/04/2016} + \text{BV of Assets}_{i, 31/12/2015} - \text{BV of Equity}_{i, 31/12/2015}}{\text{BV Assets}_{i, 31/12/2015}}$$

for  $i=1 \dots n$ , where BV is “book value”, MV is “market value”, and Q is “Tobin's Q”.

All input variables for Tobin's Q are extracted from Bloomberg. In rare cases with missing financial variables in the database, we add data directly from the annual reports. Tobin's Q is winsorized at the 5% level on both ends.

The distribution of Tobin's Q according to the decision category is presented in Table 2. The total average Tobin's Q on both key dates is 1.51. This parallels the SBF120 index values on 28 March 2014 and 4 April 2016 being almost identical, 3454 and 3446, respectively. We observe that the highest Tobin's Q is for the companies that offered loyalty double vote shares before the Act and were not influenced by the Act. Tobin's Q is considerably higher for the companies that made a decision to keep the single-class shares as compared to the

companies that failed to opt out of the Act or those that passively accepted the new default option.

(Insert Table 2 about here)

### *Control Variables*

When measuring the effect of loyalty shares on firm value, we include the same control variables as Bennedsen and Nielsen (2010). Those are firm size, financial leverage, sales growth, return on assets, and asset tangibility. Most of the variables are extracted from Bloomberg as of December 31, 2013 and December 31, 2015; few missing values are added from the companies' annual reports. We estimate firm size as log of assets following the methodology of Claessens et al. (2002) and Lins (2003). The effect of the firm size on firm value is rather ambiguous. Large companies have better disclosure and face a lower risk of financial distress. However, smaller firms have better growth opportunities (Claessens et al., 2002). Leverage is calculated as book value of long-term debt over book value of assets. Higher leverage can have either a positive effect from reduced profit diversion by limiting free cash flow at hand or a negative effect from increased probability of financial distress. Sales growth is the year-on-year change in sales revenue (current year versus previous year). We expect a positive correlation between sales growth and firm value, as the sales growth approximates the company's growth opportunities (Claessens et al., 2002). Return on assets is net income divided by book value of assets. As high net income is a positive indicator of firm's accounting performance, we expect a positive relationship between return on assets and firm value. Asset tangibility is measured by net property, plant, and equipment divided by total assets. Asset tangibility presumably has a negative correlation with firm value, as the companies with lower asset tangibility will most likely have higher number of intangible

assets (e.g. human capital) generating cash flows. All financial variables are winsorized at the 5% level on both ends.

In all the regressions, we control for industry effects. Eleven industry dummies are created 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.

### *Ownership Variables*

Following the methodology of Bennedsen and Nielsen (2010), we include ownership variables such as dual (loyalty share) dummy, cash flow stake, and control minus ownership (wedge) in the analysis. The ownership data are taken from the annual reports. Dual dummy is set to one if the company is offering loyalty shares to its shareholders and zero otherwise. As we analyze two points in time, 28 March 2014 and 4 April 2016, the dual dummy is a time-variant variable. There are 59 dual-class companies on 28 March 2014 and 72 dual-class companies on 4 April 4 2016 (see Table 3).

(Insert Table 3 about here)

The cash flow stake is the share of the cash flow rights held by the largest controlling shareholder. The largest controlling shareholder is defined according to the amount of voting rights and is a shareholder or group of shareholders acting in concert that holds at least 10% of voting rights. Control minus ownership (wedge) is the difference between the controlling shareholder's voting rights and cash flow stake. We mark the 14 companies that switched from one-share-one-vote system into the loyalty double vote system as a result of the *Loi Florange* with a dummy variable equal to 1, called switch dummy.

We distinguish the following five controlling shareholder types: *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, and *dispersed* including companies that do not have a shareholder that holds at least 10% of voting rights. Ownership variables are recorded as of December 31, 2013 (before the Act) and December 31, 2016 (after the enforcement of the Act). Table 3 reports the frequency of firms according to the five controlling shareholder types. We also track the ownership changes from the end of 2013 to 2016 (unreported). Complete change is if the previous (in 2013) largest controlling shareholder does not hold at least 10% of the votes at the end of 2016. There are 13 complete ownership changes. A partial change is if the previous largest shareholder is not the largest shareholder any more but still holds at least 10% of the votes. There are 4 partial ownership changes. There are no ownership changes in the remaining 87 sample companies.

For one of the tests we require the aggregate cash flow stake held by institutional investors. This information is extracted from Thomson Reuters Eikon, by summing the percentage of outstanding shares owned by all the shareholders under investor type “Funds”. As we require pre-*Florange* institutional ownership, we select the filing date December 31, 2013.

### *Descriptive Statistics*

Table 4 presents descriptive statistics for variables used in this study. Panel A reports the values as of 28 March 2014 and Panel B – as of 4 April 2016. The average Tobin’s Q is 1.51 in both time points. The largest 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 4 about here)

In Table 5, we report the distribution of votes and cash-flow rights held by the largest shareholder by different ownership types. Family is the most frequent ownership type among

the largest shareholders (33.7% as of end 2013), followed by corporation (22.1%) and dispersed firms (18.3%). Family owners have the highest average voting stake (46.7%) and the highest average wedge (control minus ownership) (8.0%). The average wedge in the whole sample is 4.25% at the end of 2013 and 5.15% at the end of 2016. Interestingly, the average wedge among state owned companies has increased from 0.69% at the end of 2013 (way below average) to 5.70% at the end of 2016 (above average).

(Insert Table 5 about here)

Figure 1 plots the equity stake held by the largest owner against the resulting voting stake before the reform (31 December 2013).

(Insert Figure 1 about here)

### 3. Results

In this section we present the empirical results for the impact of the *Loi Florange* on the adoption of loyalty shares and their value effect.

Table 1 shows that 70% (31 out of 45) of one-share-one-vote firms that were affected by the introduction of the new (double voting) 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 the loyalty (double voting) system either after a failed vote to maintain the OSOV structure (7 firms) or automatically without a vote (7 firms). There were 58 firms that were not affected by the *Loi Florange* because they offered loyalty shares already before the Act was introduced. We call this group “double-double”. Finally, there is one company (Legrand) that had loyalty shares prior to the *Loi Florange*, i.e. would not be affected by the Act, but decided to abandon the double voting system and become an OSOV company through a shareholder vote. The

Legrand case illustrates that shareholders can re-contract by voting in favour of statute amendments.

(Insert Table 6 about here)

Table 6 reports the voting results for the resolutions to maintain the one-share-one-vote system.<sup>17</sup> 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 EGM) 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 (see Appendix 2).

Panel B of Table 6 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 (quorum) in these meetings was 63.0%. As a result, 49.5% of participants and only 31.1% of total votes (including the non-participating free-riders) could block the resolution to keep the OSOV structure in place.<sup>18</sup>

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<sup>17</sup> 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.”

<sup>18</sup> 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, & Zachariadis, 2017).

Panel B of Table 6 also shows that five resolutions were sponsored by management (the board) and two by shareholders. Institutional Shareholder Services (ISS), the proxy advisory firm, recommended to vote in favour of one-share-one-vote in all cases. 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 board of Veolia put forward a one-share-one-vote resolution but recommended to vote against it. 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 all cases? Figure 2 plots the equity stake held by the largest owner against the resulting voting stake before the reform (31 December 2013). 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 loyalty shares 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 seems to have been some residual doubt regarding the outcome, especially in the two companies with 100% free float (represented by a single marker at [0,0]). This evidence supports the notion that the *Loi Florange* changed the bargaining power of loyalty share proponents. In 11 out of 14 cases the largest owner was unable to introduce loyalty shares before the reform.

(Insert Figure 2 about here)

In Table 7, we report a probit analysis of the likelihood of switching from a single vote into a double vote system. The sample includes all the 45 single vote firms prior to the *Loi Florange* (March 2014). The results show a significant increase in the likelihood of a switch

if the largest blockholder is the state; compared to any other ownership type, the probability of switching increases by 0.62 in this case. The prevalence of switchers among the state-owned firms is also documented in Table 3. Before the *Loi Florange* (March 2014), there were 12 firms where the state controlled the largest block and only 3 (25%) had loyalty shares. After the Act came into force, the number of firms where the state controlled the largest block increased to 13 and now 11 (84.6%) had loyalty shares. As expected, higher institutional ownership reduces the likelihood of switching to loyalty shares—a one standard deviation increase in the cash flow stake held by the institutional investors reduces the probability of switching by 0.12. This effect, however, is statistically insignificant.

(Insert Table 7 about here)

As mentioned earlier, 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. 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 (See Appendix 3). The *Loi Florange* created a fundamental change in property rights in some cases, and the majority opinion was oppressed, as shown in Table 6.

As a result, the overall fraction of loyalty (double vote) firms increased significantly from 56.7% in March 2014 to 69.3% in April 2016 (Table 3), and the average divergence between control and cash flow rights (wedge) at the same time (insignificantly) increased from 4.25% to 5.15% (Table 5). Figures 3 and 4 plot the equity stake held by the largest owner against the resulting voting stake after the reform (31 December 2016) for the switchers from one share-one vote to loyalty shares and all the sample firms, respectively.



(Insert Figures 3 and 4 about here)

In addition to observing an increase in the stock of firms with loyalty shares, the Coase theorem also predicts that there should be no change in the flow of firms. Existing holdings of the state and other block holders should have no effect. For this reason, we study all IPOs on Euronext Paris three years prior to the Act (i.e. from March 28, 2011 to March 28, 2014) and three years after the Act (i.e. from March 29, 2014 to March 28, 2017). Table 8 reports an increase in the fraction of firms that went public with loyalty shares from 36.7% pre-*Florange* to 53.5% post-*Florange*, a difference that is significant at the 10% level. Additionally, we observe a decrease in the fraction of firms with loyalty shares that granted double voting rights retroactively, from 90.9% before to 69.6% after the *Loi Florange*. This evidence is consistent with the notion that loyalty shares became more acceptable after the reform. However, it is also possible that the IPO stream in the pre- and post-period were just different.

(Insert Table 8 about here)

In addition to giving long term shareholders disproportionate control, loyalty shares with tenure voting should also promote “loyalty” in the form of longer holding periods. Using the simplified definition from Bolton and Samama (2013), we estimate the average holding period (in years) as the ratio of the average of the total market value of the shares outstanding at the start and at the end of the year and the value of shares traded in a year, i.e. the inverse of the average annual turnover. From Figure 5 we see that there is no additional loyalty from loyalty shares and the decrease in average holding periods for French companies is unbroken by the reform.

(Insert Figure 5 about here)

Although the rise in high frequency trading contributes to decreasing holding periods globally, we are interested in the relative changes in this measure between one share-one vote firms and firms that offer loyalty shares. Table 9 reports the average holding period in each category in the years 2013 (pre-*Florange*) and 2017 (post-*Florange*). We find that the drop in average holding period is smaller among loyalty share firms (“double-double” category) than among OSOV firms (“single-single” category), this difference being significant at the 10% level. However, the average holding periods of loyalty share firms and OSOV firms are not significantly different both before and after the Act, supporting the sceptical view about the impact of short-termism on average holding periods (Roe, 2013).

(Insert Table 9 about here)

### *Value effect*

The univariate analysis of Tobin’s Q in Table 2 show that the highest valuations are in the subsample of 58 firms that had double vote system as of March 2014 and were not affected by the *Loi Florange*. In March 2014, the mean Tobin’s Q in “double-double” group is 1.65 that is higher than in other groups (significant at the 1% level). The Tobin’s Q remains higher in this group in April 2016 (significant at the 5% level). The lowest valuations, in turn, are observed in the subsample of 14 firms that switched from single into double vote system. The mean Tobin’s Q of the switchers is 1.11 before and after the Act (significantly lower at the 1% level). The probit results in Table 7 reveal a higher probability of switches among low Q firms.

Finally, we turn to the multivariate regression results in Table 10. In this table, we replicate the main cross-sectional value regressions of Bennedsen and Nielsen (BN) (2010) in two time points – March 28, 2014 (models (1) to (4)), and April 4, 2016 (models (5) to (9)). The variable of interest is the dual dummy, which takes the value of one if a firm uses loyalty

(double voting) shares. We also report a specification with the control minus ownership (wedge). The respective variables in BN (2010) are called the disproportionality dummy (DP) and the degree of disproportionality (DPP). Unlike BN, we do not find a negative valuation effect from the disproportional ownership structure (models (1) and (2)). In fact, firms with loyalty shares have higher (but insignificant) valuations when we introduce the standard controls, which supports our hypothesis that loyalty shares are *better* than the classical differential voting shares because any shareholder can gain double votes after certain time period and, moreover, the double votes are not transferrable. We find some weak support to the BN result that market dislikes the use disproportional ownership structures by families (model (3)). Model (4) adds an interaction between the dual dummy and the state ownership. We find weak evidence that market also dislikes the use of disproportional ownership structures by the state.

(Insert Table 10 about here)

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

The main results hold in the difference-in-difference regression models (1) and (2) in panel B of Table 10. We find no significant difference in Tobin’s Q before and after the treatment, i.e.

the *Loi Florange*. In model (1) we define all OSOV companies to be treated by the *Loi Florange*. The Tobin's Q in OSOV companies is (insignificantly) lower than in double voting companies, and there is no treatment effect. In model (2) the treated group includes only those 14 companies that switched from single vote to double vote. Once again, we find significantly lower Tobin's Q among the switchers, both before and after the treatment.<sup>19</sup>

There can be several reasons behind the negative valuations among firms that switched from single into double vote system. First, in many of these firms there is a state controlled block, and they are likely to have important social or political goals instead of pure shareholder value maximization (see the regression model (9)). Second, loyalty shares have been suggested as good takeover defences (Moschetto & Teulon, 2015). In this context, the *Loi Florange* with its focus on shareholder long-termism could have served as a “camouflage” for the true intention of preventing a takeover. However, this is also true for companies that had loyalty shares throughout the period. It is more likely that the lower valuation is due to the strong presence of the state as the main shareholder in the one-share-one-vote to loyalty share “switcher” group.

#### **4. Conclusions**

One-share-one-vote was the default rule in French company law before 2014. Shareholders could opt-out by adopting a regime that grants double voting rights after the shares are held for a number of years. Companies could also go public with a loyalty share provision in their statutes. In almost all cases the pre-IPO shareholders retained double voting rights. The new post-IPO shareholders started off with one-share-one-vote and only acquired double voting

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<sup>19</sup> One could alternatively study the value effect with an event study methodology. The main obstacle in implementing this methodology is the precise definition of the event date. We perceive the multivariate Tobin's Q analysis to be more appropriate for our purpose. We have also implemented an event study around the general meeting in which the resolution to maintain the one-share-one-vote system was included. The (not reported) results are insignificant, which is generally in line with no change in Tobin's Q before and after the *Loi Florange*.

rights after a holding period of at least two years. In one case the pre-IPO shareholders gave up their double voting rights and all shareholders started off with one-share-one-vote. Double voting rights accrued to those shareholders that continued to hold the shares for at least two years after the IPO. On 28 March 2014, just under half of the blue chip SBF 120 index companies had adopted loyalty shares. In the previous three years 37 percent of IPOs came to the market with loyalty share statutes.

In 2014 the French state introduced the Law 2014-384 of 29 March 2014, the *Loi Florange*, that reversed the default rule as of April 4, 2016. Loyalty shares became the “new normal” and shareholders had to opt-out if they wanted to adopt one-share-one-vote. The change of default rule had aspects of “libertarian paternalism” (Thaler & Sunstein, 2003). Companies still had a chance to adopt the rule an absolute majority of shareholders prefer, but the state expressed a clear preference for loyalty shares. Previously the French state had expressed a preference for one-share-one-vote that was consistent with the voting policies of many institutional investors and proxy advisers. The change in emphasis was justified by a concern about short-termism and, implicitly, the rise of international hedge fund activism (Becht, Franks, Grant, & Wagner, 2017).

However, the law was not neutral. It did not grandfather existing control structures but changed the allocation of property rights. France the regulator introduced a law that gave favourable treatment to France the shareholder. Pre-reform the French state had found it hard to assemble a supermajority to opt out of one-share-one-vote for most of its holdings; post-reform the state had enough votes to lock in the newly granted loyalty shares. In these cases, the reform was equivalent to an “immutable” rule that imposed loyalty shares on these companies.

Loyalty switchers, companies that transited from one-share-one-vote to loyalty shares through the introduction of the *Loi Florange*, had an average Tobin's Q that was significantly lower than companies that preserved their pre-reform control structure. The finding is consistent with the French state pursuing objectives other than shareholder value maximisation. Interestingly, the switch itself did not lower Tobin's Q. It was already lower before the reform. The result suggests that the law did not change the way these companies are managed; it merely made the French state's influence over them more permanent. It also allows the French state to reduce the size of its capital stakes to generate revenue, while keeping the same degree of control.

Absent the French state, institutional shareholders generally voted to return to one-share-one-vote. They behaved exactly as the Coase theorem predicts; *ceteris paribus* shareholders want to renegotiate and return to the original efficient contract. The idea that loyalty shares and one-share-one-vote statutes were allocated efficiently before the reform is supported by the high and unchanged Tobin's Q in both cases. There is no significant change in Tobin's Q for companies that maintained the same control structure. The evidence suggests that French loyalty shares are the result of a Coasian bargain, but only in the absence of conflicted parties with veto rights.

The *Loi Florange* itself allowed the French state to permanently tighten its grip on a number of listed companies it considers "strategic" without the approval of existing shareholders. The new default rule does seem to have an effect on the proportion of initial public offerings with loyalty statutes. It is too soon to tell if this effect is permanent and if the increased use of loyalty share statutes is efficient.

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## Variable Definitions

Main Dependent Variable	
Tobin's Q	(Market value of equity + Book value of total assets – Book value of equity) divided by (Book value of total assets)
Ownership Variables	
Dual dummy	1 if company has a disproportional ownership structure; and 0 otherwise
Control minus Ownership (Wedge)	Controlling shareholder's votes minus the cash flow stake
Amount of voting rights	Controlling shareholder's share of the voting rights
Cash flow stake	Controlling shareholder's share of the cash flow rights
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
Financial dummy	1 if the controlling shareholder is a financial institution; and 0 otherwise
Company dummy	1 if the controlling shareholder is an unlisted corporation; and 0 otherwise
Dispersed	1 if there is no controlling shareholder; and 0 otherwise
Switch dummy	1 if the company switched from one-share-one-vote into loyalty share system in the sample period
Institutional ownership	Total share of cash flow rights held by institutional investors
Control Variables	
Size	The natural logarithm of total assets (in million EUR)
Leverage	Long term debt divided by total assets
Sales growth	Revenue growth (a year-on-year change in sales revenue)
Return on assets	Net income divided by total assets (in %)
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
Definitions	
Controlling shareholder	The largest shareholder or group of shareholders acting in concert that hold at least 10 percent of the voting rights

Table 1  
Sample companies

Panel A: SBF 120 companies included in the sample

N°	Company	28 March 2014	4 April 2016	N°	Company	28 March 2014	4 April 2016	N°	Company	28 March 2014	4 April 2016
<i>Double - Double<sup>1</sup></i>				<i>Double - Double<sup>1</sup> (continued)</i>				<i>Single - Single<sup>2</sup></i>			
1	Accor SA	Loyalty 2 years	Loyalty 2 years	39	Schneider Electric SE	Loyalty 2 years	Loyalty 2 years	73	Air Liquide SA	Single	Single
2	Alten SA	Loyalty 4 years	Loyalty 4 years	40	SEB SA	Loyalty 5 years	Loyalty 5 years	74	Atos SE	Single	Single
3	Altran Technologies SA	Loyalty 4 years	Loyalty 4 years	41	SFR Group SA	Loyalty 2 years	Loyalty 2 years	75	BNP Paribas SA	Single	Single
4	Arkema SA	Loyalty 2 years	Loyalty 2 years	42	Societe BIC SA	Loyalty 2 years	Loyalty 2 years	76	Cappemini SA	Single	Single
5	AXA SA	Loyalty 2 years	Loyalty 2 years	43	Societe Generale SA	Loyalty 2 years	Loyalty 2 years	77	Credit Agricole SA	Single	Single
6	BioMerieux	Loyalty 5 years	Loyalty 5 years	44	Sodexo SA	Loyalty 4 years	Loyalty 4 years	78	DBV Technologies	Single	Single
7	Bouygues SA	Loyalty 2 years	Loyalty 2 years	45	TechnipFMC PLC	Loyalty 2 years	Loyalty 2 years	79	Euler Hermes Grov	Single	Single
8	Bureau Veritas SA	Loyalty 2 years	Loyalty 2 years	46	Teleperformance	Loyalty 4 years	Loyalty 4 years	80	Eutelsat Communie	Single	Single
9	Carrefour SA	Loyalty 2 years	Loyalty 2 years	47	Thales SA	Loyalty 2 years	Loyalty 2 years	81	Fonciere Des Regio	Single	Single
10	Casino Guichard	Loyalty 4 years	Loyalty 4 years	48	TOTAL SA	Loyalty 2 years	Loyalty 2 years	82	Gaztransport Et Te	Single	Single
11	CGG SA	Loyalty 2 years	Loyalty 2 years	49	Ubisoft Entertainment SA	Loyalty 2 years	Loyalty 2 years	83	Gecina SA	Single	Single
12	Danone SA	Loyalty 2 years	Loyalty 2 years	50	Valeo SA	Loyalty 4 years	Loyalty 4 years	84	ICADE	Single	Single
13	Dassault Systemes SE	Loyalty 2 years	Loyalty 2 years	51	Vallourec SA	Loyalty 4 years	Loyalty 4 years	85	Innate Pharma SA	Single	Single
14	Edenred	Loyalty 2 years	Loyalty 2 years	52	Vicat SA	Loyalty 4 years	Loyalty 4 years	86	JCDecaux SA	Single	Single
15	Eiffage SA	Loyalty 2 years	Loyalty 2 years	53	Wendel SA	Loyalty 2 years	Loyalty 2 years	87	Klepierre	Single	Single
16	Essilor International SA	Loyalty 2 years	Loyalty 2 years	54	Zodiac Aerospace	Loyalty 4 years	Loyalty 4 years	88	Korian SA	Single	Single
17	Eurazeo SA	Loyalty 2 years	Loyalty 2 years	55	Maurel Et Prom	Loyalty 4 years	Loyalty 4 years	89	L'Oreal SA	Single	Single
18	Eurofins Scientific SE	Loyalty 3 years	Loyalty 3 years	56	Michelin	Loyalty 4 years	Loyalty 4 years	90	Mercialys SA	Single	Single
19	Faurecia	Loyalty 2 years	Loyalty 2 years	57	Plastic Omnium	Loyalty 2 years	Loyalty 2 years	91	Metropole Televisi	Single	Single
20	Genfit	Loyalty 2 years	Loyalty 2 years	58	Saint Gobain	Loyalty 2 years	Loyalty 2 years	92	Natixis SA	Single	Single
21	Groupe Eurotunnel SE	Loyalty 2 years	Loyalty 2 years	<i>Single - Double (after a failed vote)<sup>3</sup></i>				93	Neopost SA	Single	Single
22	Hermes International	Loyalty 4 years	Loyalty 4 years	59	Air France-KLM	Single	Loyalty 2 years	94	Nexans SA	Single	Single
23	Iliad SA	Loyalty 3 years	Loyalty 3 years	60	Alstom SA	Single	Loyalty 2 years	95	Nexity SA	Single	Single
24	Imerys SA	Loyalty 2 years	Loyalty 2 years	61	Engie SA	Single	Loyalty 2 years	96	Rexel SA	Single	Single
25	Ingenico Group SA	Loyalty 2 years	Loyalty 2 years	62	Orange SA	Single	Loyalty 2 years	97	Rubis SCA	Single	Single
26	Ipsen SA	Loyalty 2 years	Loyalty 2 years	63	Renault SA	Single	Loyalty 2 years	98	SCOR SE	Single	Single
27	IPSOS	Loyalty 2 years	Loyalty 2 years	64	Veolia Environnement SA	Single	Loyalty 2 years	99	Suez	Single	Single
28	Kering	Loyalty 2 years	Loyalty 2 years	65	Vivendi SA	Single	Loyalty 2 years	100	Technicolor SA	Single	Single
29	Lagarere SCA	Loyalty 4 years	Loyalty 4 years	<i>Single - Double (automatically)<sup>4</sup></i>				101	Television Francais	Single	Single
30	LVMH Moet Hennessy	Loyalty 3 years	Loyalty 3 years	66	Aeroports de Paris	Single	Loyalty 2 years	102	Unibail-Rodamco S	Single	Single
31	Orpea	Loyalty 2 years	Loyalty 2 years	67	Bollor SA	Single	Loyalty 2 years	103	Vinci SA	Single	Single
32	Pernod Ricard SA	Loyalty 10 years	Loyalty 10 years	68	CNP Assurances	Single	Loyalty 2 years	<i>Double - Single<sup>5</sup></i>			
33	Peugeot SA	Loyalty 4 years	Loyalty 2 years	69	Dassault Aviation SA	Single	Loyalty 2 years	104	Legrand SA	Loyalty 2 years	Single
34	Publicis Groupe SA	Loyalty 2 years	Loyalty 2 years	70	Electricite de France SA	Single	Loyalty 2 years				
35	Remy Cointreau SA	Loyalty 4 years	Loyalty 4 years	71	Havas SA	Single	Loyalty 2 years				
36	Safran SA	Loyalty 2 years	Loyalty 2 years	72	Sopra Steria Group	Single	Loyalty 2 years				
37	Sanofi	Loyalty 2 years	Loyalty 2 years								
38	Sartorius Stedim Biotech	Loyalty 4 years	Loyalty 4 years								

Note. Panel A shows the list of 104 companies included in the sample:

<sup>1</sup> Companies that offered loyalty shares before the Florange Act was introduced and were not influenced by the Act

<sup>2</sup> Companies that managed to opt out of the Florange Act before 3 April 2016

<sup>3</sup> Companies that failed to opt out the Florange Act and had to offer loyalty shares as of 3 April 2016

<sup>4</sup> Companies that passively accepted the new double vote system (as stipulated by L.225-123 of the French Commercial Code)

<sup>5</sup> Companies that stopped offering loyalty shares and introduced single class shares

Table 1 (continued)

Panel B: SBF 120 companies excluded from the sample

Nº	Company	28 March 2013	4 April 2016	Nº	Company	Nº	Company
<b><i>IPO after 28 March 2014</i></b>				<b><i>Headquartered outside France</i></b>			
1	Amundi	-	OSOV	7	Aperam	12	Euronext
2	Elior Group	-	OSOV	8	Arcelor Mittal	13	Ses
3	Elis	-	Loyalty 2 years	9	Gemalto	14	Nokia
4	Europcar	-	Loyalty 2 years	10	Solvay	15	Stmicroelectronics
5	Spie	-	Loyalty 2 years	11	Airbus Group	16	Lafargeholcim Ltd
6	Worldline	-	Loyalty 2 years				

Note. Panel B shows the SBF120 companies excluded from the sample. Companies headquartered outside France are not influenced by the changes in French Law. Companies that went public after the adoption of Florange Act are also excluded from the sample.

Table 2

Tobin's Q by the decision group (before and after the *Loi Florange*)

Decision group	N	Mean (28 March 2014)	Mean (4 April 2016)
Double - Double <sup>1</sup>	58	1.65	1.62
Single - Single <sup>2</sup>	31	1.41	1.46
Single - Double (after failed vote) <sup>3</sup>	7	0.98	1.02
Single - Double (automatically) <sup>4</sup>	7	1.23	1.19
Double - Single <sup>5</sup>	1	2.14	2.06
Total	104	1.51	1.51

Note.

<sup>1</sup> Companies that offered loyalty shares before the *Loi Florange* was introduced and were not influenced by the Act

<sup>2</sup> Companies that managed to opt out of the *Loi Florange* before 3 April 2016

<sup>3</sup> Companies that failed to opt out the *Loi Florange* and had to offer loyalty shares as of 3 April 2016

<sup>4</sup> Companies that passively accepted the new double vote system (as stipulated by L.225-123 of the French Commercial Code)

<sup>5</sup> Companies that stopped offering loyalty shares and introduced single class shares

Table 3

Share of companies with disproportional ownership structure and Tobin's Q by ownership type

Ownership type	28 March 2014					4 April 2016				
	Total number of firms	Mean Tobin's Q (total firms)	Number of dual-class firms	(Proportion of dual class firms in the respective ownership category)	Mean Tobin's Q (dual-class firms)	Total number of firms	Mean Tobin's Q (total firms)	Number of dual-class firms	(Proportion of dual class firms in the respective ownership category)	Mean Tobin's Q (dual-class firms)
Family	35	1.77	28	(80.00)	1.76	35	1.74	31	(88.57)	1.69
Corporation	23	1.53	9	(39.13)	1.99	19	1.56	9	(47.37)	1.75
Financial	15	1.34	8	(53.33)	1.31	16	1.31	9	(56.25)	1.23
State	12	1.20	3	(25.00)	1.40	13	1.20	11	(84.62)	1.15
Dispersed	19	1.35	11	(57.89)	1.46	21	1.41	12	(57.14)	1.46
Total	<b>104</b>	<b>1.51</b>	<b>59</b>	<b>(56.73)</b>	<b>1.66</b>	<b>104</b>	<b>1.51</b>	<b>72</b>	<b>(69.23)</b>	<b>1.52</b>

Note. Table shows the share of companies with disproportional ownership structure and the Tobin's Q before and after the adoption of the *Loi Florange* for each shareholder 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. 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.

Table 4

## 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 5

## Panel A: Distribution of Control and Ownership Rights as of 31 December 2013

Largest shareholder by owner category							
Ownership type			Amount of Votes (%)		Cashflow stake (%)		Wedge (%)
	N	(% of total)	Mean	Median	Mean	Median	Mean
Family	35	(33.65)	46.74	50.55	38.72	40.91	8.02
Corporation	23	(22.12)	40.85	35.68	36.34	35.68	4.51
Financial	15	(14.42)	26.90	25.62	23.62	20.58	3.28
State	12	(11.54)	36.79	28.60	36.10	27.07	0.69
Dispersed	19	(18.27)	0.00	0.00	0.00	0.00	0.00
Total	104	(100.00)	32.89	28.67	28.64	23.78	4.25

## Panel B: Distribution of Control and Ownership Rights as of 31 December 2016

Largest shareholder by owner category							
Ownership type			Amount of Votes (%)		Cashflow stake (%)		Wedge (%)
	N	(% of total)	Mean	Median	Mean	Median	Mean
Family	35	(33.65)	47.09	55.58	37.68	40.42	9.40
Corporation	19	(18.27)	45.12	41.27	40.06	41.26	5.07
Financial	16	(15.38)	20.45	17.00	18.20	14.75	2.25
State	13	(12.50)	40.55	33.95	34.84	25.91	5.70
Dispersed	21	(20.19)	0.00	0.00	0.00	0.00	0.00
Total	104	(100.00)	32.31	26.40	27.16	20.25	5.15

Note. Table shows the types of controlling shareholders and means and medians of amount of voting rights, cashflow stake, and the difference between votes and cash flow stake 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. *Wedge* is the amount of votes minus the cash flow stake of the controlling shareholder.

Table 6  
Voting results for proposal to (re)introduce one-share-one-vote (opting out of the Loi Florange L.225-123)

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

Table 7

## Probability of switching into the loyalty share system

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State dummy	1.768*** (0.683)
Tobin's Q	-1.527* (0.839)
Size	-0.0506 (0.169)
Leverage	-3.042 (2.149)
Institutional ownership	-3.455 (2.564)
Constant	2.666 (2.360)
Observations	45
Pseudo R2	0.348

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Note. The results of a probit regression in which the dependent variable is a dummy variable that equals 1 if the company that had one share one vote on 28 March 2014 started granting double votes as of 4 April 2016 (the *Switch dummy*). The sample includes only single class companies. 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. State dummy is 1 if the controlling shareholder is state; and 0 otherwise. Controlling shareholder is the largest shareholder or a group of shareholders acting in concert that hold at least 10 percent of voting rights. Institutional ownership is the aggregate cash flow stake held by institutional investors (e.g. mutual funds). Standard errors are reported in parentheses: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

Table 8

IPO Flow on Euronext Paris (March 28, 2011 - March 28, 2017)

	Number of firms			Fraction of IPO firms with loyalty shares (from Total)	Fraction of firms with retroactive double vote (from Loyalty shares)
	One-share-one-vote	Loyalty shares	Total		
Before 28 March 2014	19	11	30	36.7	90.9
After 28 March 2014	20	23	43	53.5	69.6
Total	39	34	73	46.6	76.5
<i>p-value of Mean equality test (Before vs. After)</i>				0.080	0.090

Note. Table shows the number of IPOs on Euronext Paris between March 28, 2011 and March 28, 2017, i.e. three years before and after the *Loi Florange*. The last column reports the fraction of firms with loyalty shares that offered double voting rights retroactively, i.e. all the shareholders that had held shares for at least X number of years prior to the IPO immediately received double voting rights; the remaining firms granted double voting rights *after* X number of years from the IPO date.

Table 9

Average holding period by the decision group (before and after the *Loi Florange*)

Decision group	N	Mean (2013)	Mean (2017)	Change (2017) - (2013)
Double - Double <sup>1</sup>	57	2.35	2.27	-0.07
Single - Single <sup>2</sup>	30	3.18	2.31	-0.87
Single - Double (after failed vote) <sup>3</sup>	7	1.02	1.20	0.18
Single - Double (automatically) <sup>4</sup>	7	7.87	4.53	-3.33
Double - Single <sup>5</sup>	1	1.63	1.90	0.28
Total	102	2.88	2.36	-0.51
<i>p-value of the difference between (1) and (2)</i>				0.0627

Note. Average holding period is the ratio of the average of the total market value of the shares outstanding at the start and at the end of the year and the value of shares traded in a year, as in (Bolton & Samama, 2013). The sample includes 102 French SBF index companies (all except GTT and SFR Group, for which complete trading data for years 2013 and 2014 are not available).

<sup>1</sup> Companies that offered loyalty shares before the *Loi Florange* was introduced and were not influenced by the Act

<sup>2</sup> Companies that managed to opt out of the *Loi Florange* before 3 April 2016

<sup>3</sup> Companies that failed to opt out the *Loi Florange* and had to offer loyalty shares as of 3 April 2016

<sup>4</sup> Companies that passively accepted the new double vote system (as stipulated by L.225-123 of the French Commercial Code)

<sup>5</sup> Companies that stopped offering loyalty shares and introduced single class shares

Table 10

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

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

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

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

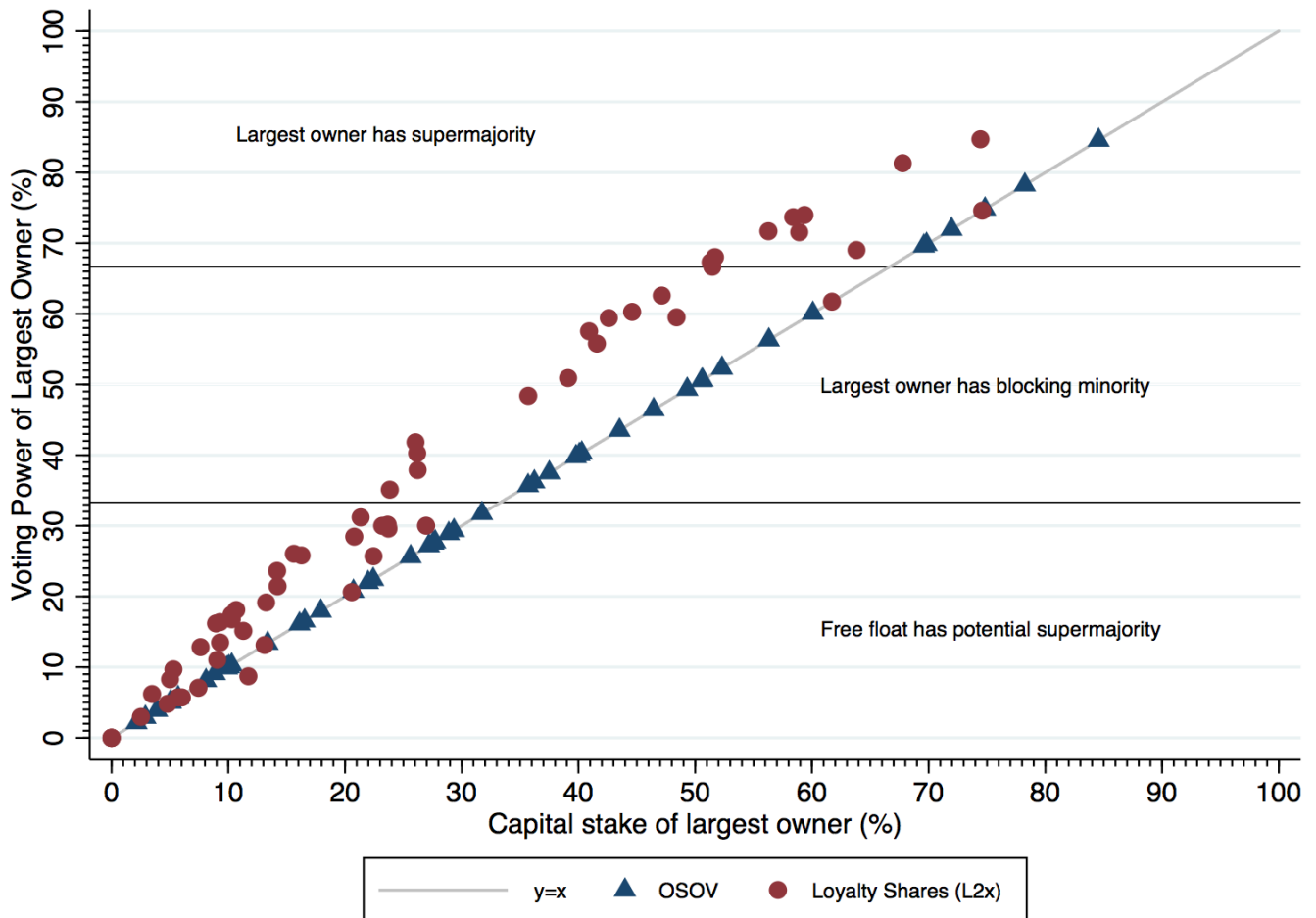
Note. Table reports the regressions of Tobin's Q on financial, ownership and governance variables. In Panel A columns (1) to (4) report cross-sectional regression on 28 March 2014. Columns (5) to (9) report cross-sectional regressions on 4 April 2016. In panel B columns (1) and (2) report the difference-in-difference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

Figure 1

Pre-Reform Equity and Voting Stakes of Largest Owners

(31 December 2013)

Default Rule: One-Share-One-Vote



Note: The markers for 3 companies with 100% free float are plotted as a single observation.

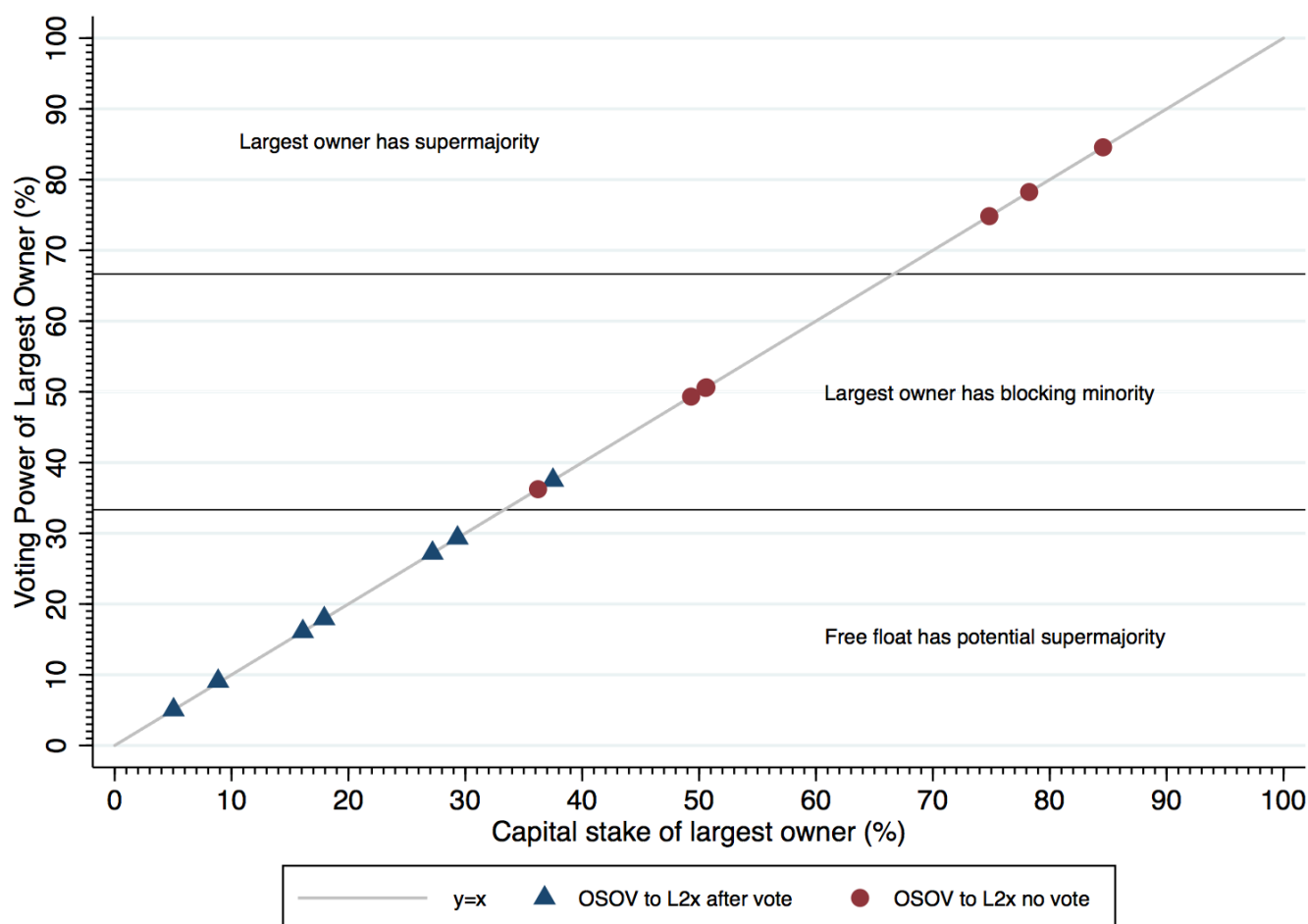


Figure 2

# One-Share-One-Vote to Loyalty Share “Switchers”

(31 December 2013)

Equity and Voting Stake of Largest Owner



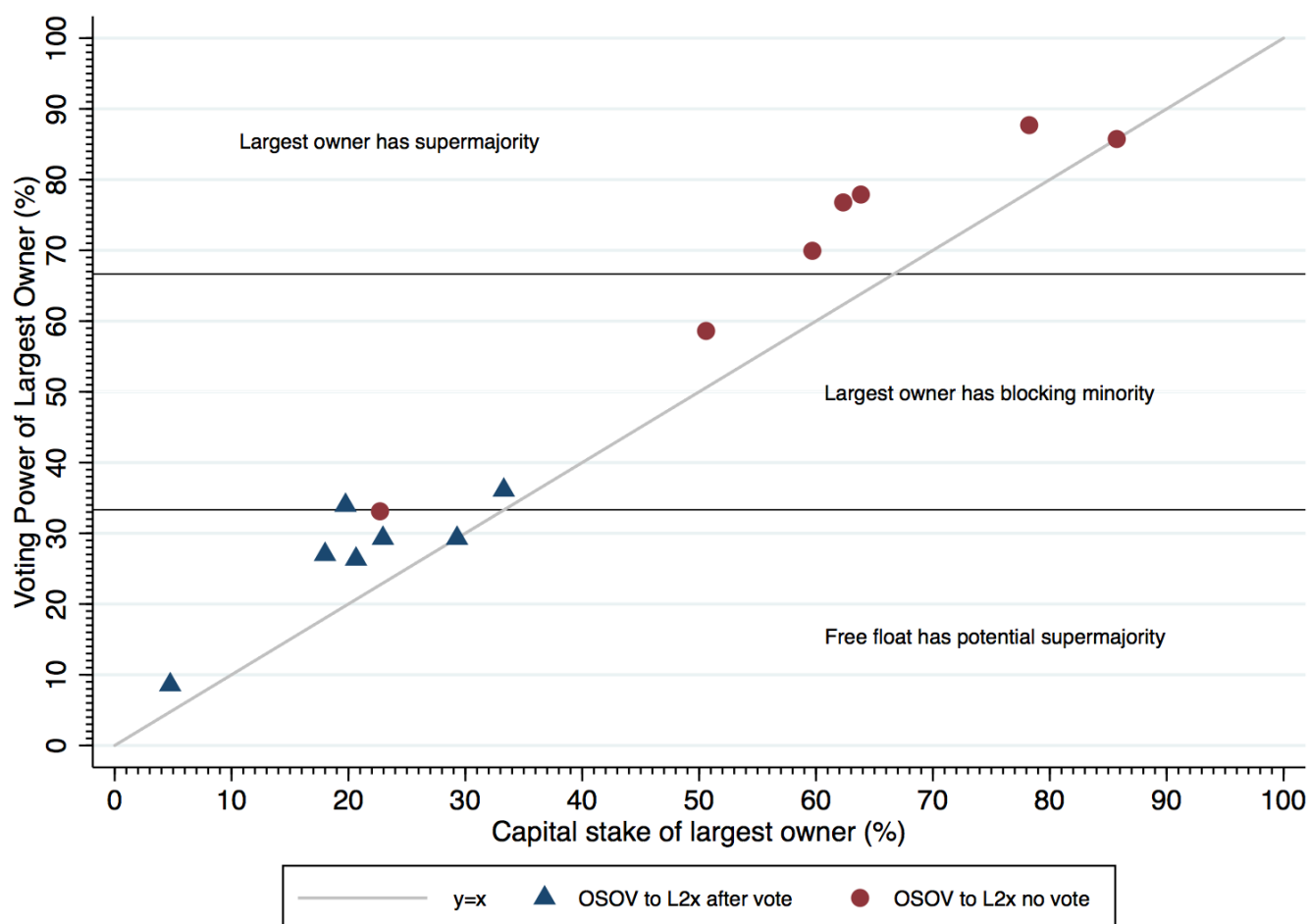
Note: The Figure shows 14 companies that switched from one-share-one-vote before the introduction of the *Loi Florange* to loyalty shares after the law came into effect. The observations marked with a triangle transited after a failed shareholder vote; for the observations marked by a circle there was no shareholder vote and loyalty shares applied by default.

Figure 3

### One-Share-One-Vote to Loyalty Share “Switchers”

(31 December 2016)

Equity and Voting Stake of Largest Owner



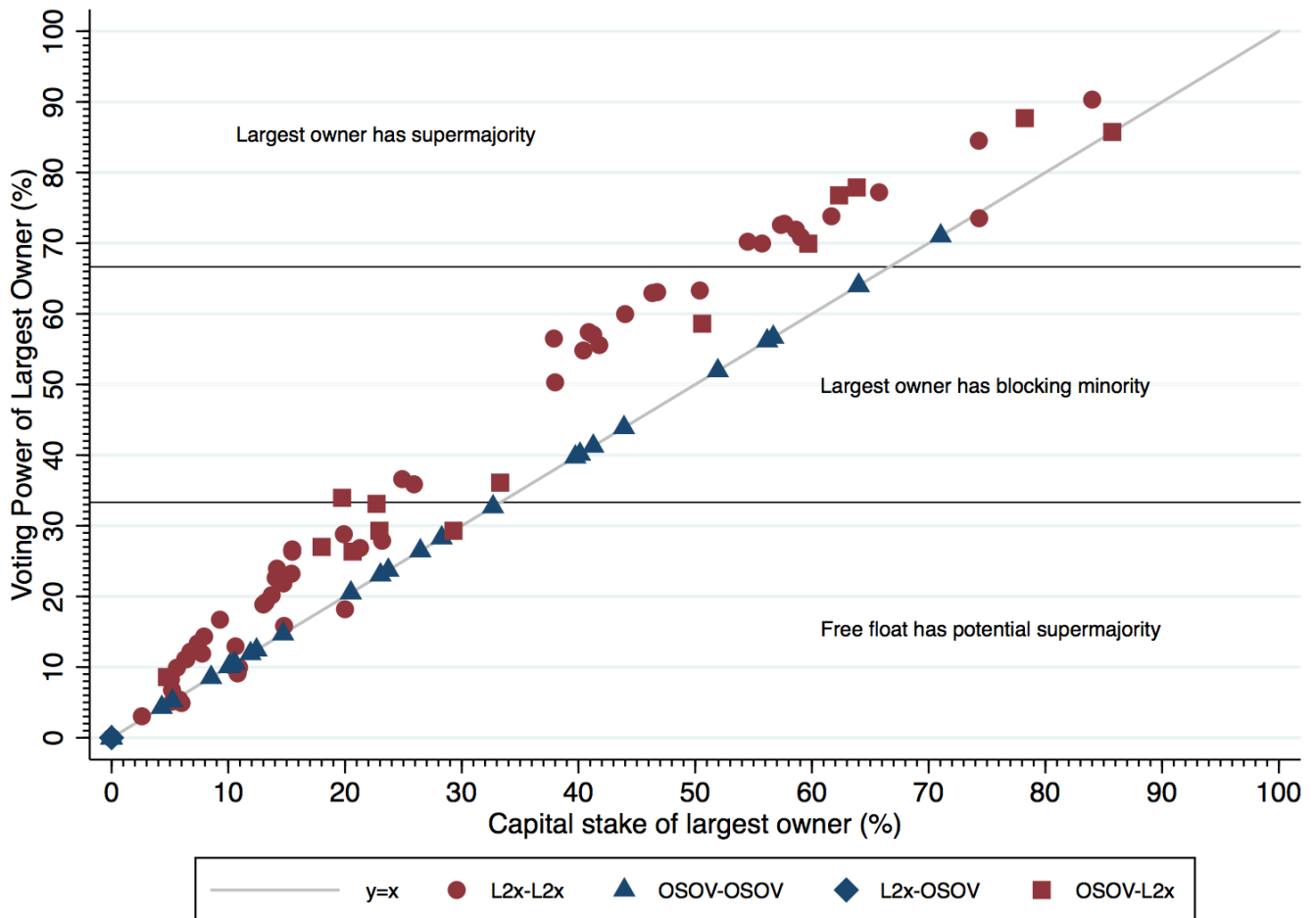
Note: The Figure shows 14 companies that switched from one-share-one-vote before the introduction of the *Loi Florange* to loyalty shares after the law came into effect. The observations marked with a triangle transited after a failed shareholder vote; for the observations marked by a circle there was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

Figure 4

# Post-Reform Equity and Voting Stake of Largest Owner

(31 December 2016)

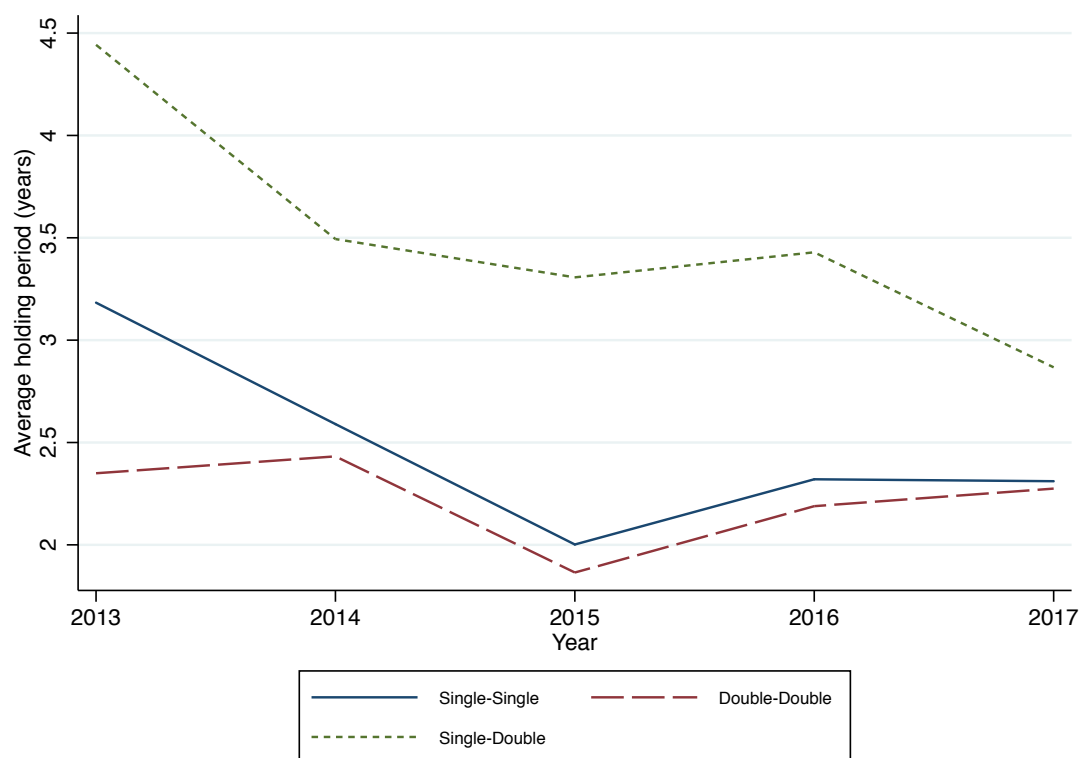
Default Rule: Loyalty Shares



Note: The markers for 9 companies with 100% free float are plotted as a single observation at (0,0).

Figure 5

Average holding period for French companies (years) before and after the *Loi Florange*



Note: Average holding period is the ratio of the average of the total market value of the shares outstanding at the start and at the end of the year and the value of shares traded in a year, as in (Bolton & Samama, 2013). The sample includes 102 French SBF index companies (all except GTT and SFR Group, for which complete trading data for years 2013 and 2014 are not available). “Single-Single” group includes companies that managed to opt out of the *Loi Florange* before 3 April 2016 and stayed OSOV (30 firms). “Double-Double” group includes companies that offered loyalty shares before the *Loi Florange* was introduced and were not influenced by the Act (57 firms). “Single-Double” group includes companies that failed to opt out the *Loi Florange* or passively accepted the new double vote system, and thus had to offer loyalty shares as of 3 April 2016 (14 firms).

## Appendix 1 - Edenred — Going Public with Loyalty Shares

During the Shareholders' Meeting on June 29, 2010 Accor Group, a European leader in hotels and a global leader in corporate services approved the demerger of its two main businesses: Hospitality and Services. This decision was made with the purpose to expand the business abroad and boost its growth (Prospectus for the initial public offering of Edenred, 2010). The Services unit was named Edenred and was listed on July 2, 2010 on Euronext Paris right after the demerger (Vidalon, 2010). The spun-off company adopted loyalty shares according to which “a double voting right is attached to all fully paid-up shares that have been held in a registered share account in the name of a single shareholder for at least two years”. The shares sold to another holder would lose their double voting rights, whereas transfers through inheritance or to spouse/relative do not disrupt the 2-year holding period.<sup>20</sup> Immediately after the IPO all shareholders had single voting rights (one-share-one-vote) for two years. On December 31, the largest shareholders were a concert party composed of the private equity fund Eurazeo and Colony Capital (27.38% ownership and votes), Morgan Stanley Investment (8.83%) and Southeastern Asset Management (6.55%). These shareholders could have voted switch from loyalty shares to one-share-one-vote with a two third majority. Equally, the concert party alone was able to block the switch.

### *Shareholder structure as of 31 December 2010:*

	Number of shares and votes	% capital	% votes
Colony Capital/ Eurazeo (acting in concert)	61 844 245	27.38%	27.38%
Morgan Stanley Investment Management	19 944 400	8.83%	8.83%
Southeastern Asset Management	14 799 800	6.55%	6.55%
Other institutional investors	118 204 697	52.33%	52.33%
Other retail investors	11 104 254	4.91%	4.91%
TOTAL	225 897 396	100.00%	100.00%

<sup>20</sup> Prospectus for the initial public offering of Edenred (2010) Retrieved from:

<https://www.edenred.com/sites/default/files/pdf/documentations/information-reglementee-et-communiques/prospectus-introductionbourseedenred-juin2010-en.pdf>

## Appendix 2 : BNP Paribas — the importance of attendance rates (free riding)

The Combined General Meeting of BNP Paribas took place on May 13, 2015 during which the Article 18 of the Articles of Association was amended by adding the following phrase: “by exemption from the last paragraph of article L.225-13 of the French Commercial Code, each share carries one voting right, and no share has a double voting right” ([www.bnpparibas.com](http://www.bnpparibas.com)). This amendment helped the company to opt out of the automatic granting of double voting rights. To adopt the bylaw amendment, two thirds of the present shareholders had to vote in favour of the amendment. In case of BNP Paribas the decision to keep one-share-one-vote structure was not made unanimously: 21.71% of the attending shareholders (or 14.1% of all the shareholders) voted against the opting out of the *Loi Florange* (see Table 6). If 33.33% of the attending shareholders would have voted against the amendment, the double voting rights would be granted to all shares registered in the name of the same shareholder for at least two years. The ownership structure of BNP Paribas is shown below. It is likely that SFPI, the investment company of the Belgian state, and many of the employees voted in favour of double voting rights. These two groups jointly held around 15% of the voting rights. This case illustrates the importance of the attendance rate, which was 64.9% in the case of BNP Paribas. An active minority block (~15%) together with a high free-riding rate could boost the vote AGAINST one-share-one-vote.

### *Shareholder structure as of 31 December 2014:*

	Number of shares (in millions)	% capital	% votes
SFPI	127.75	10.3%	10.3%
Grand Duchy of Luxembourg	12.87	1.0%	1.0%
Employees	64.36	5.2%	5.2%
Corporate officers	0.33	ns	ns
Treasury shares	3.4	0.3%	-
Retail shareholders	56.35	4.5%	4.5%
Institutional investors	944.94	75.8%	76.1%
Other and unidentified	35.95	2.9%	2.9%
TOTAL	1245.96	100%	100%

Source: <https://invest.bnpparibas.com/en/general-shareholders-meeting/agm-13-may-2015/documents>

### Appendix 3. Renault — state action to block reversion to one-share-one-vote

Despite an appeal from Renault’s Board of Directors to oppose the adoption of double voting rights, on April 30, 2015, Renault felt short of two-third votes needed to opt out of the *Loi Florange*. Almost 61% of the attending shareholders voted for opting out of the automatic granting of double voting rights (see Table 6), whereas 66% were needed in order to keep one-share-one-vote structure. Shortly before the Shareholders’ General Meeting, Emanuel Macron, the former French Economy Minister, increased the government’s stake in Renault from 15% to almost 20% making the state the largest shareholder in Renault. This helped to ensure the adoption of the *Loi Florange*. After the automatic granting of double voting rights, the government held 33.95% of total voting rights, which destabilized the long-lasting alliance between Nissan and Renault. The capital and technological partnership between two automotive companies had been in place for almost 20 years. Nissan holds 15% of Renault’s shares, but according to French cross-shareholding rules does not have any voting rights (Chow, 2015). The ownership structure of Renault is shown below.

	As of 31/12/2016			As of 31/12/2015			As of 31/12/2014		
	Number of shares (in millions)	% capital	% votes	Number of shares (in millions)	% capital	% votes	Number of shares (in millions)	% capital	% votes
French State	58,387,915	19.7%	34.0%	58,387,915	19.7%	23.6%	44,387,915	15.0%	17.8%
Nissan Finance Co.	44,358,343	15.0%	-	44,358,343	15.0%	-	44,358,343	15.0%	-
Daimler Pension Trust	9,167,391	3.1%	3.1%	9,167,391	3.1%	3.7%	9,167,391	3.1%	3.7%
Employees	6,168,600	2.1%	4.07%	6,157,300	2.1%	2.48%	7,384,900	2.5%	2.97%
Treasury shares	4,649,545	1.6%	-	3,573,737	1.2%	-	2,555,983	0.9%	-
Public	172,990,490	58.5%	59.0%	174,077,598	58.9%	70.3%	187,867,752	63.5%	75.5%
TOTAL	295,722,284	100%	100%	295,722,284	100%	100%	295,722,284	100%	100%

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