

**THE DETERMINANTS OF THE VOTING PREMIUM IN ITALY: THE
EVIDENCE FROM 1974 TO 2003**

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Abstract

We examine the voting premium in Italy from the introduction of non-voting shares (1974) to 2003. In the period analyzed, the voting premium varies from 1% to 100%, peaking during the late 1980s. We find that the probability of a control contest cannot entirely explain the voting premium. The identity of the largest shareholder is a key determinant of the price difference between voting and non-voting stocks. The voting premium is higher when the firm is family-owned or widely-held. The high euro turnover of voting stocks reduces the voting premium, while the ratio between non-voting and voting shares increases substantially the price difference. M&A and stock unifications reduce the voting premium and are concentrated in the period following the 1998 legal regime change.

1. Introduction

Starting from the early 1980s, researchers have tried to identify the value of the voting right and to provide an explanation for the determinants of the voting premium, initially with single-country studies (Lease *et al.*, 1983, Horner, 1988, Megginson, 1990, Zingales, 1994, 1995, Hoffmann-Burchardi, 1999, Goetzmann *et al.* 2002, Linciano, 2002, Neumann, 2003) and then with cross-countries analyses (Nenova, 2003).

In this paper, we primarily investigate the relationship between the voting premium and the type of controlling shareholder. We distinguish four types of firms: family-owned firms, state-owned firms, foreign-owned firms, and widely-held firms. Although previous papers (Demsetz and Lehn, 1985 and Holderness and Sheehan, 1988) point out that different types of controlling shareholders behave differently because they do not enjoy the same amount of private benefits of control, the voting premium literature has not systematically examined the effect of the controlling shareholder identity yet. We also examine in detail the effect of M&A transactions in order to directly assess the impact of the probability of a control contest on the voting premium and on private benefits, since voting premium is considered a proxy for private benefits. Finally, differently from previous works, we study the whole life of the non-voting securities from its introduction to 2003. This allows examining our sample not only in cross-section, but also in the time-series dimension. Studying the voting premium over a long period permits to examine whether and how changes in financial markets, corporate law, and corporate governance affect the voting premium.

We investigate the voting premium in Italy, a country that previous papers have identified as characterized by poor investor protection (La Porta *et al.*, 1997, 1998), high voting premium (Zingales, 1994), and concentrated ownership structures (Faccio and Lang, 2002). In Italy, listed companies can issue a type of equity security with no-voting rights. This security can be either convertible in common stock or nonconvertible. Furthermore, non-voting stocks are not confined to a few small companies and, therefore, they cannot be considered irrelevant.

In fact, many listed companies issued non-voting stocks, including large companies like Banca Intesa, Fiat, Montedison, Telecom Italia, and Unicredito, just to name a few. Finally, since non-voting stocks were introduced by Law 216 in 1974, it is possible to study the full life of this kind of security. Differently from Zingales (1994) who studied the 1987-1990 period and Linciano (2002) who examine the voting premium between 1990 and 2001, this paper is the first study to provide evidence for the entire period following the introduction of non-voting stocks, i.e. 1974-2003.¹

As common in the literature, we define the voting premium as the price differential between voting and non-voting stocks divided by the price of non-voting stocks. The evidence shown in the paper documents that the voting premium fluctuated widely over the almost three decades studied. In fact, before the mid-1980s, voting premium was relatively low (less than 30% in 1985). Only from 1986, the voting premium increased to the levels documented in Zingales (1994), i.e. around 80% for the period 1987-1990. In the 1990s, the voting premium slightly decreased to around 60%, but in the last few years of the sample period the average voting premium dropped to 20%. Thus, the paper attempts to provide some explanations for this rollercoaster behavior of the voting premium.

The voting premium has been often used as a measure of private benefits. The argument behind this association is very simple. The price of the voting share reflects the possibility that the marginal shareholder becomes pivotal in a control contest. In such a case, the minority shareholder can extract part of the private benefits enjoyed by the controlling shareholder. As argued by Zingales (1994), the observed voting premium should be related to private benefits and to the market for corporate control.

However, it is difficult to interpret the evidence on the voting premium in Italy over the sample period only in the light of private benefits and control contests. First, the voting premium was low in early 1980s, certainly not a period in which investor protection was a top

¹ The empirical analysis covers the period 1977-2003 because no firm in the sample had non-voting stocks listed on the Milan Stock Exchange in the period 1975-1976.

priority in Italy. Before the introduction of the mandatory bid law in 1992, control transfers usually took place outside the market (Caprio et al., 1994). Minority voting shareholders do not extract any gain from this kind of transaction, except the potential improvement in the company performance under the new owner. Thus, if there is no public offer, the probability to become a pivotal shareholder in a control contest cannot be the main determinant of the voting premium. The number of public offers increased in the 1990s, especially after the introduction of the mandatory bid rule. Although non-voting stocks are not covered by the mandatory bid rule, the voting premium decreased in the 1990s, especially in the last sample years when the number of acquisition peaked. Second, the controlling shareholder was the bidder in the majority of M&A deals that took place in our sample. Far from being control contests, these transactions were aimed at delisting the target firm, leaving very few possibilities to the minority shareholders.

The large increase in the voting premium between 1985 and 1986 took place shortly after the introduction of mutual funds in Italy in 1984.² With the introduction of mutual funds, a significant fraction of household's saving was directed towards the equity market. This new demand for equity capital may have had a role in explaining the widening of the price differential between voting and non-voting stocks.

While private benefits and corporate control stories are certainly part of any explanation, these simple considerations suggest that we need something more to fully explain the voting premium. This paper sheds lights on other key determinants of the voting premium, like the identity of the largest shareholder. The voting premium increases when the largest shareholder is a family. This is consistent with the expectation that families are more likely to react to any potential control threat, because they are the most reluctant to relinquish control. Of course, this reaction does not necessarily imply the expectation of a public offer. In fact, even additional purchases by the family or by some of its allies in the voting trusts may be enough to widen the price differential between voting and no-voting stocks. Consistent with the fact that

² Before 1984, mutual funds of Luxembourg law were the only ones offered to Italian investors.

voting rights are more valuable when the probability of a control contest is high, state-owned firms have smaller voting premium.

Two determinants of the voting premium are the voting ratio, the ratio between the number of non-voting shares and the number of voting shares outstanding, and liquidity. A high voting ratio increases the voting premium. This result is consistent with the Nicodano (1998) argument that the value of voting rights increases with the returns from control. In fact, the higher the percentage of non-voting equity issued, the lower the ownership stake necessary to control the company. On the other hand, a high voting ratio is also a signal that the controlling shareholder values control and does not want any dilution in voting rights. Thus, the price of voting shares increases because of the expectation of the controlling shareholder's reaction to a control threat. Liquidity reduces the voting premium, where liquidity is measured as the log of the ratio between the euro turnover of voting stocks and non-voting stocks.

The introduction of the mandatory bid-rule in 1992 is positively related to the voting premium but insignificant. This finding is due to the fact that, even if not forced by the law, bidders often extended their offers to non-voting shareholders. Conversely, the new and more investor friendly 1998 law is negatively and significantly related to the voting premium.

The remaining of the paper proceeds as follows. In Section 2 we introduce the hypotheses and predictions derived from previous literature. Section 3 describes the data. Section 4 shows the behavior of the voting premium throughout the sample period. Section 5 contains the results of the regression analysis. Section 6 examines the impact of acquisitions and stock unifications on the voting premium. Section 7 presents some robustness checks. Section 8 concludes.

2. Hypotheses and Predictions Derived from the Prior Literature

Previous empirical research has emphasized the role of the private benefits of control in explaining the voting premium (Zingales, 1994, Nenova, 2003). The size of stake held by the largest shareholder (*FIRST_SH*) is often used as a proxy for the allocation of control among shareholders.³ If the largest shareholder owns more than 50% of the voting rights, the voting premium is expected to decrease since the value of the remaining votes is negligible and the probability of a control contest is null. Even if the largest shareholder does not own 50% of the voting rights, a negative relationship between the voting premium and the size of the largest shareholder is expected. In fact, the larger the stake, the higher the probability that the largest shareholder exerts control over the company and the lower the probability that a bidder shows up.

A second blockholder who owns a significant stake in the company increases the likelihood that a control contest will take place. In fact, according to the toehold argument of Shleifer and Vishny (1986), owning a stake in the target company helps reducing the cost of a takeover for the blockholder and, thus, it increases the probability of a bid. To control for this hypothesis, the size of the stake held by the second largest shareholder (*SECOND_SH*) is included in the analysis. A positive relationship between the size of the stake and the voting premium is expected. However, voting trusts (*Patti di Sindacato*) are common in Italy. Since we report the holdings of the members of a voting trusts separately as in Zingales (1994), it cannot be ruled out that the first and second largest shareholder are members of the same voting trust. These agreements reduce the probability of a control contest and bias the results toward not finding the expected positive relationship.

We include dummies in the model to capture the identity of the largest shareholder. It is a well known fact that different types of shareholders value control differently. Demsetz and Lehn (1985) point out that individuals value the opportunities to consume perquisite more than corporate majority shareholders. Holderness and Sheehan (1988) explain the lower frequency of

³ Another proxy usually used in the literature is the Shapley value or modified version of it, see Zingales (1994).

corporate control transactions among firms with a majority individual shareholder with the fact that some benefits of control cannot be transferred. For example, an individual may value being in control of the company he, or a family member, founded. Therefore, we expect that families value control more than corporate shareholders. Following La Porta, Lopez-de-Silanes, and Shleifer (1999), Claessens, Djankov and Lang (2000), and Faccio and Lang (2002), we define *FAMILY* firms whose largest controlling shareholder is a family (including an individual) or a firm that is unlisted on any stock exchange. Following earlier studies, the largest shareholder must control at least 10 percent of votes. Thus, based on the hypothesis that families reduce the probability of a control contest, we expect a negative relationship between the voting premium and the dummy for family-owned firms.

As many other European countries, Italy was and, to a lesser extent, is characterized by a strong government intervention in the economy. As a result, many listed firms were state-owned. During the privatization wave started in the early 1990s, the state sold its controlling stake in many of these companies. Nevertheless, a few listed companies in industries of so-called “national interest” are still state-owned. As Zingales (1994) argued, state-owned enterprises are the less likely to change hands. While this is certainly true for the period 1977-1992, even after the start of the privatization program, talks of sudden privatizations were virtually not existent in some industries, for example energy. We define *STATE* firms whose largest controlling shareholder is the state.

Differently from family- and state-owned firms, the probability of a control contest, or at least of a block acquisition, is relatively high for widely-held firms. As in the literature (La Porta, Lopez-de-Silanes, and Shleifer, 1999, Claessens, Djankov and Lang, 2000, and Faccio and Lang, 2002), we define *WH* firms without a shareholder with at least 10 percent of the voting rights.⁴ We expect a positive coefficient for WH because voting rights are more valuable when control contest is high and ownership concentration is low. Notice that Italy is a country

⁴ Using a 20% threshold does not change the results.

with very few widely-held firms, as a number of previous researches document. In our sample, we have only 21 firm-years in which firms are classified as widely-held. Some of the observations consist of formerly state-owned companies that were privatized and no shareholders were allowed to own more than 3% of the voting rights.⁵

Finally, Italy has a bad reputation for investor protection (Zingales, 1994, and La Porta, Lopez-de-Silanes, and Shleifer, 1999). Italian investors may think that foreign owners are less prone than Italian ones to extract corporate resources to their advantage. This hypothesis does not necessarily imply the assumption that foreign owners are intrinsically benevolent towards minority shareholders or that they play a role in improving the degree of investor protection, as argued in Rossi and Volpin (2004). In fact, they might expropriate less than Italian controlling shareholders simply because they do not know the system well or they lack political connections to hide such transactions in Italy. We define *FOREIGN* firms whose largest shareholder is a foreign firm. We expect a positive relationship between *FOREIGN* and the voting premium.

In Italy, non-voting shares are entitled to a minimum dividend (5 percent of the par value) and to an additional dividends (2-3 percent of the par value) with respect to voting shares when a dividend is paid to these shares. Michaely and Murgia (1995) find that in their 1981-1990 sample period almost 85 percent of the firms pay dividends in any given year. Thus, the dividend privilege may be of some significance in reducing the voting premium. The variable *DIFF_DIV* measures the additional dividend paid to non-voting shares with respect to voting shares as a percentage of non-voting shares market price. A higher additional dividend is expected to lower the voting premium. However, there is anecdotal evidence that in the 1990s, investors and fund managers were highly disappointed because non-voting shares failed to

⁵ Banca Commerciale Italiana (Comit), Credito Italiano (now Unicredito), and Telecom Italia were among these firms.

deliver these additional dividends.⁶ Since we measure *DIFF_DIV* as the *actual* difference in the dividend paid to non-voting and voting shareholder in a given year (standardized by the price of the non-voting share), we do not expect this variable to be significant. Notice also that, differently from Germany (Dittmann and Ulbricht, 2004), non-voting shares do not receive any temporary voting rights if minimum dividends are not paid.⁷ Thus, companies are in no hurry to pay dividends and can postpone the dividend payment as long as they like.

The fiscal treatment of dividend income of non-voting shares changed during the period studied (Michaely and Murgia, 1995). The fixed tax rate was reduced to 12.5% (from 15%) at the end of 1994. The dummy *FISC_TREAT* is equal to 1 from 1977 to 1994, and 0 from 1995 to 2003. Since the lower tax rate is an advantage for non-voting shares, it is expected to reduce the voting premium. Thus, the coefficient of *FISC_TREAT* is expected to be positive.

Linciano (2002) examines the impact of changes in Italian corporate law on the voting premium. She finds that the voting premium increased after the mandatory bid-rule became law in 1992, but declined after the introduction of new corporate governance rules in 1998. To take into account the impact of regulation on the voting premium, we use the dummies *L92* for the mandatory bid-rule law and *L98* for the 1998 law, the so-called Consolidated law of Financial Intermediation (*Testo unico dell'intermediazione finanziaria*). *L92* takes the value 1 in the period 1992-1997, and zero otherwise. *L98* takes the value 1 in the period 1998-2003, and zero otherwise. These two dummies capture the effect of the two corporate laws introduced in the sample period. *L92* is expected to increase the voting premium because it makes the voting right more valuable. In fact, under the mandatory bid rule, minority voting shareholder should be able to participate to the transaction at the same terms as the controlling shareholder. The mandatory

⁶ In 1996, a group of fund managers wrote an open letter to protest against the lack of dividends for non-voting shares. The letter was published on *Il Sole 24-Ore*, 26 January 1996. See also the article "Il gestore sconsiglia: Sono uno strumento finanziario desueto" (The fund manager advises against [non-voting stocks]: "They are an outdated financial instrument"), *Il Sole 24-Ore*, 3 April 2000.

⁷ In Germany, if the company fails to pay the minimum dividend for two consecutive years, non-voting shares receive temporary voting rights until the past dividends are fully paid (Dittmann and Ulbricht, 2004).

bid-rule was not extended to non-voting shares. While not modifying the regulation on saving stock, the 1998 law enhanced the protection of minority shareholders, reducing the expected value of private benefits. Thus, L98 is expected to impact negatively on the voting premium.

As Zingales (1995) points out, a possible reason for a price differential between voting and non-voting shares is liquidity. Neumann (2003) provides evidence for Denmark that, in absence of takeover contests, the price differential in stock classes reflects investors' liquidity risks. In Denmark, the premium is negative for several firms over long period, suggesting that non-voting stocks are sometimes more liquid than voting stocks. Pagano and Roell (1990) compute the Roll (1984) bid-ask spread from weekly returns in Italy and find that voting shares have larger bid-ask spread than non-voting shares. Zingales (1994) infers from this evidence that liquidity cannot cause the large discount of non-voting shares. Unfortunately, we do not have data on bid-ask spreads. We control for liquidity using the log of the of the relative euro turnover, defined as the euro turnover of voting shares in year t divided the euro turnover of non-voting shares in the same year (LN_VO). Dittman (2003) proposes this measure in his study of private benefits in Germany. Even if a larger fraction of voting shares is held by controlling shareholder or blockholders and these blocks of shares do not trade often, voting shares are generally more liquid than non-voting shares. Thus, based on this interpretation, we expect that the coefficient of LN_VO is positive. However, a high LN_VO can also indicate that minority voting shareholders are selling their shares because they do not expect to share any part of the private benefits any time soon. In this case, the coefficient on LN_VO is expected to be negative.

Italian companies cannot issue non-voting shares in excess of 50 percent of the equity capital, as stated by Law 216, 1974. Thus, the different liquidity may be also due to the fact that there are far less non-voting shares than voting-shares outstanding. To control for this factor, we include in the analysis the ratio of non-voting to voting share ($RATIO_N$). But $RATIO_N$ also controls for another key factor. Non-voting shares are also one way to deviate from the one-

share-one-vote principle. Thus, as argued by Nicodano (1998), a large voting ratio means that the large shareholder may control the company with a smaller ownership stake. Since private benefits of control are proportional to the amount of assets under control, the controlling shareholder realizes a higher rate of return from control. Given that the return is higher, the voting rights are also more valuable, leading to a larger voting premium. Thus, the coefficient of *RATIO_N* is expected to be positive.

We include the variable *MARKET* to control if the behavior of the voting premium reflects differences in the returns of non-voting and voting shares. *MARKET* is computed as the yearly variation of the general market index (COMIT General⁸). A positive coefficient would indicate a pro-cyclical behavior of the voting premium that is the voting premium increases when the market is booming.

Finally, we also include two accounting variables. *LOG(ASSETS)* is the log of the firm's total assets (Worldscope Item 02999). It controls for the firm size. *LEVERAGE* is computed as total debt (Worldscope Item 03255) over total assets. A higher leverage signals a higher probability that the firm may be in financial distress. While non-voting shares enjoy seniority over voting shares in case of liquidation, liquidation procedures, especially bankruptcies, are lengthy and usually neither voting nor non-voting shareholders receive anything.⁹ However, since both types of shares lose much of their value in case of distress, we expect a negative relationship between the voting premium and *LEVERAGE*.

The variable definitions are summarized in Table 1.

[Please insert Table 1 about here]

3. Data

⁸ We choose Comit General as the general market index because it is the only index that covers the whole sample period.

⁹ See, for example, the article "Scottati dalle cattive azioni" (Burnt by bad stocks), *Il Sole 24-Ore*, 8 September 1996.

The starting sample consists of all companies issuing non-voting stock reported in the annual publication “*Indici e Dati*” (Indexes and Data), edited by R&S Mediobanca. We check every issue from 1975 to 2004. Non-voting shares were introduced in 1974, but the first non-voting stock started to trade in 1976¹⁰. From “*Indici e Dati*”, we obtain 153 non-voting stocks. Several companies are excluded because of missing stock price data. In a few cases, the non-voting shares were issued but never traded on the stock exchange. After these exclusions, we are left with 134 non-voting stocks. Finally, non-voting shares convertible into voting shares are excluded until expiration of their conversion right, as in Zingales (1994). Thus, the final sample consists of 116 firms having both voting and non voting stocks listed on the Milan Stock Exchange (MSE). The sample period ends on 31 December 2003. As Zingales (1994) noticed, non-voting stocks became popular among issuers only in the mid-1980s.

We obtained stock price data and euro volume from the Milan Stock Exchange for the period August 1986 to December 2003. Stock prices were collected manually from “*Il Sole 24-Ore*”, the leading Italian financial newspaper, for the pre-1986 period. The pre-1986 euro turnovers are from “*The performance of listed shares*”, a yearly publication of the MSE. Dividends and dividends dates until 1998 were obtained from Maurizio Murgia and dividends from 1999 to 2003 are from *Datastream*.

Data on the ownership structure are taken from the stock exchange handbook, “*Il Taccuino dell’Azionista*”, an annual publication. We check every issue from 1975 to 2004 for this publication as well. Information regarding acquisitions, stock unifications, is from “*Indici e Dati*”. We search for additional data on *Il Sole-24 Ore*. Information on bankruptcies is from *Il Sole-24 Ore*. Finally, accounting data are from *Worldscope* database.

4. The Voting premium throughout the years

¹⁰ The company whose non-voting stock started to trade in 1976 is not included in the sample because of missing data.

Figure 1 presents the plot of the mean and median monthly voting premium through the period February 1977 – December 2003.¹¹ The voting premium is the price difference between voting and non voting shares divided the price of non-voting share, as standard in the literature (Zingales, 1994, 1995).

[Please insert Figure 1 about here]

Table 1 presents the annual average and median voting premium for the sample years for VP and VP_M . VP is the voting premium at the end of the calendar year. For each firm i in the sample, VP_M_i is computed as the annual average of the monthly voting premium. The table also reports the number of non convertible non-voting stocks trading on the MSE at the end of the year, and the number of observations on which VP_M is computed.¹² While VP is usually larger than VP_M , the two measures are quite similar. VP will be used as the main measure throughout the remaining sections of the paper. Results for the analysis using VP_M are reported in as robustness check in Section 6.

Table 2 and Figure 1 clearly document that in the early years after the introduction of non-voting shares (1977-1980), the price differential is negligible, with the exception of 1978. However, just a handful of companies introduced a non-voting class of common stock in those years. Starting from 1981, the price differential becomes significant. However, the voting premium reaches value similar to those reported by Zingales (1994) only in 1986. In the sample period studied by Zingales, which is 1987-1990, the average voting premium in our sample is 77.43% (77.60% using VP_M), remarkably similar to the 81.5% reported in his paper. It is interesting to notice that the strong increase in the voting premium took place shortly after the

¹¹ February 1977 is the first month in which a non-voting stock in my sample is listed on the MSE.

¹² Notice that the number of observations for VP_M may be larger than that of VP because VP_M also includes firms delisted (or whose non-voting stock was delisted) during the year. In these cases, the average is computed up to the last month in which a stock price was recorded.

introduction of the mutual funds in Italy in 1984. Thus, it is possible that mutual funds generated an excess demand for voting stock that led to an increase in the voting premium.¹³

[Please insert Table 2 about here]

After peaking in 1988 (100.28%), the average voting premium decreases slightly and oscillates around 50-70% until 1998, with the exception of 1992 (83.05%). The introduction of the mandatory bid rule in 1992 increased momentarily the voting premium, but the effect was promptly reversed. The significant decrease of the price differential between 1997 and 1998 is at least partially due to the introduction of the new corporate law in February 1998. However in 1999, the voting premium went up again, reaching the pre-1998 values. Linciano (2002) documented a similar behavior of the voting premium for the period 1989-2000. After year 2000, the voting premium decreases substantially without any reversal. By the end of the sample period, December 2003, the average voting premium is 19.76% and the median a paltry 9.82%.

The number of non-voting stocks traded in the sample years reflects closely the behavior of the voting premium. When the voting premium was increasing, the number of firms issuing non-voting stocks was also increasing (late 1980s). From the beginning of 1990s, few firms issued new non-voting shares and the number of those outstanding decreased due to acquisitions, bankruptcies, and stock unifications. The increase of the number of dual class shares during the mid-1980s is not specific to Italy. In fact, Hoffmann-Burchardi (1999) document that a similar increase took place in Germany, too. Listed companies on German Stock Exchanges with preference shares without voting rights increased from 20 in 1980 to 90 in 1989. The increase in the number of stock unifications in late 1990s-early 2000s is also common to other European countries like Germany (Ulbricht and Dittman, 2004).

¹³ Unfortunately, we do not have data about mutual funds' purchases to examine in detail this explanation.

The rollercoaster behavior of the voting premium in Italy leaves open many questions about what are the determinants of the voting premium over such a long period. Zingales (1994) examines the voting premium during the period in which it peaked. Thus, it is difficult to generalize his results to other periods. The remaining sections will try to provide answers why the voting premium reached those high levels in 1980s and why it decreased sharply after year 1999. In particular, it seems difficult to imagine that private benefits of control increased all of a sudden in the mid-1980s.

5. Empirical Results

Table 3 presents the results for the baseline model. The dependent variable is the voting premium at the end of the calendar year. To estimate the model, we use two different specifications: a fixed effects panel data model and a random effects panel data model. Panel data models are preferred to simple pooled regressions, whose results are not reported, because our dataset has both a time-series dimension and a cross-section dimension. Results of the Breusch and Pagan Lagrange Multiplier test and of the Hausman test favor the random effect model, even if we are not drawing firms from a large population (Baltagi, 1995). However, results for the fixed-effect and random-effect models are very similar. Thus, the choice between the fixed effects model and the random effects model is not particularly important to interpret the results. The R-squared of the fixed effects and of the random effects models is similar, slightly above 0.50.

[Please insert Table 3 about here]

The regression results highlight the importance of the identity of the largest shareholder, ignored in previous papers examining voting premium. While the size of the first shareholder is negative and significant at 1% level when the identity dummies are not included in the

regression (results not reported), when we control for the type of the largest shareholder the size of the largest shareholder is no longer significant in the fixed effect model. In the random effect model, the size of the first shareholder is only marginally significant. Thus, more than the percentage of equity controlled by the largest shareholder, it is who controls the company that matters. Given the specific characteristics of the Italian markets where the most important families had close relationships among each other and with Mediobanca, the dominant merchant bank in Italy for the largest part of the sample period, this is not completely surprising. In fact, well-connected families could control firms even with relatively small stakes thanks to voting trusts. This finding strengthens the case for the model based on the identity of the controlling shareholders presented in the paper because it shows that these identity dummies capture different effects previously incorporated in a unique variable.

Surprisingly, the coefficient for the variable *FAMILY* is positive and significant in the fixed-effect and random-effect models. This does not seem consistent with the fact that family firms have lower frequency of control transactions as document by Holderness and Sheehan (1988), because they enjoy larger non-pecuniary private benefits (Demsetz and Lehn, 1985). However, an alternative interpretation of the private benefits story can explain the positive coefficient. Families are the most likely controlling shareholders to react to any control threat, real or potential, because they are those who have more to lose (reputation, social prestige, and even political connections). In this case, more than the control threat itself, it is the expectation of the controlling shareholder's reaction that leads to a larger price differential. Thus, price for voting shares are higher.

As expected, the dummy *WH* is positively related to the voting premium. If there is no controlling shareholder, a control contest is more likely to take place. However, the variable is significant at 10% level only in Column III and IV, when accounting variables are introduced. The coefficient for the dummy *STATE* is negative and significant. This finding is consistent with the Zingales (1994) result that state-owned companies are the less likely to change owner.

Finally, the last dummy for the controlling shareholder's identity, FOREIGN, is not significant. Having a foreign owner is not beneficial to non-voting shareholders compared to having an Italian financial or corporate controlling shareholder. An explanation is that foreign owners are from countries with relatively poor investor protection like France, Germany, and Switzerland. Thus, it is not possible to observe a convergence towards better corporate governance regimes as argued in Rossi and Volpin (2004).

Although the coefficient has the expected sign, the size of the second shareholder is not significant. The size of the second shareholder is probably insignificant because of the voting trusts. In fact, if some of second largest shareholders are allies of controlling shareholders, a larger stake decreases the likelihood of a control contest. This effect partially counterbalances the toehold argument, leading to an insignificant coefficient.

The differential dividend does not impact the voting premium, confirming that the dividend privilege is often meaningless. The fact that the privilege is stated in term of the par-value of the shares, usually a fraction of the market price, and the missed dividend payments in the 1990s explain this result.

The voting ratio, i.e. the number of outstanding non-voting shares divided the number of outstanding voting shares, is positive and highly significant. Since voting and non-voting shares have always the same par value, the higher the fraction of common equity represented by non-voting shares, the higher the premium. This finding supports the Nicodano (1998) argument that the value of voting rights increases with the returns from control. In fact, a higher percentage of non-voting stock issued reduces the ownership stake that the largest shareholder needs to control the company. Since private benefits are proportional to the amount of controlled assets, the rate of return from control is larger. An alternative explanation relies on the fact that when voting shares are relatively scarce, they are more valuable both to the incumbent controlling shareholder and potential bidders. Thus, the price is higher. A high ratio also indicates that there are many non-voting shares on the market. The excess supply drives

down the price, widening the price gap with the voting shares. This result is also consistent with the view that non voting shares are issued when the controlling shareholder does not want to dilute his control. This behavior is more likely when the largest shareholder fears to lose control of the company.

The log of the ratio between the euro value of the turnover of voting and non-voting shares (LN_VO) is negative and significant. The negative relationship between LN_VO and the voting premium is also found by Dittman (2003) for US and German companies. The negative relationship is consistent with Zingales (1994) claim that non-voting shares have a larger turnover than voting shares because many voting shares are held in block and never traded. A similar explanation is proposed by Dittmann (2003). But a closer inspection of the euro turnover in Table 3 does not support this argument. Voting stocks are much more liquid than non-voting stocks. In fact, euro value for voting stock is higher than that for non-voting stock in every single year from 1977 to 2003. The median of the ratio between voting stock euro value and non-voting stock euro value is always greater than 1. While the median ratio oscillates between 2 and 5 in the 1980s and in the 1990s, the ratio increases dramatically after 2000. Thus, the negative coefficient is consistent with the story that minority shareholders are more willing to sell when they do not expect to share any private benefits through control contests.

[Please insert Table 4 about here]

The less favorable fiscal treatment of the dividend income of non-voting shares before 1995 increases the voting premium, as expected. Conversely, the voting premium shows a counter-cyclical behavior. In fact the variable MARKET is negative and significant.

We also analyze the impact of the changes in the legal regime that took place during the sample period. The dummy for the 1992 change, $L92$, is positive and significant, but only when the accounting variables are included in the last two columns of the table. The 1998 law ($L98$)

has the expected impact. The coefficient is negative and significant, confirming that the new and more investor-friendly law reduces the voting premium. However, the variable L98 may also capture events that took place in the Italian market mainly in the last few years, as pointed out by Linciano (2002).

Accounting variables are included in the regression in Column III and IV of Table 3. LOG(ASSETS) is not significant in the fixed-effect model and significant at the 10% level in the random effect model. LEVERAGE is negative and significant, as expected. The more leveraged is the firm, the smaller the voting premium. This finding is consistent with the fact that a higher likelihood of going bankrupt causes a decrease in the voting premium. This is also consistent with the view that when a large part of the cash-flow is committed to pay interest expenses, the expected value of pecuniary private benefits decreases leading to a reduction of the voting premium. Including the two accounting variables reduces the number of observations marginally. However, this reduction may be important because the lost observations are concentrated in the early years of the sample.¹⁴ To address this problem, we collect manually these data for the missing firm-year from the *Taccuino dell’Azionista*.¹⁵ Results are similar to the ones presented in Table 3 and so not reported.¹⁶

The next section examines two factors that have become particularly relevant in the recent years: acquisitions, and stock unifications.

6. M&A and Stock Unifications

Voting premium has often been associated to the probability for the marginal shareholder to become pivotal in a control contest. This section examines whether control contests took place in the period studied, a sort of necessary condition to claim that voting premium and the

¹⁴ In fact, in the last two columns, the sample period is 1980-2003.

¹⁵ We thank Roberto Barontini for providing us part of the missing accounting data.

¹⁶ The results of these regressions are available from the authors.

probability of a control contest are related, and how actual M&A deals impact on the voting premium.

During the period analyzed the legal regime changed twice: in 1992 (Law 149) and in 1998 (Legislative Decree 58). As mentioned before, Law 149 introduced the mandatory bid rule. Before 1992, public offers were not required by the law and control changes took place in private negotiations between the incumbent controlling shareholder and the would-be one. It is important to notice here that the Law 149 had some peculiar features, which distinguish this law from a simple mandatory bid rule. In a simple mandatory bid rule, the bidder has to make a public offer to buy all the target's outstanding shares after exceeding a given threshold. While a detailed analysis of this law is beyond the goals of this paper, it is important to point out that the law introduced four types of public offers:

- a voluntary public offer, where the bidder voluntarily offers to buy x% of the target firm's shares;
- a mandatory public offer, where the bidder is required to offer to buy the target firm's shares after exceeding an arbitrary threshold chosen by CONSOB, the SEC Italian equivalent. This threshold changes from company to company.
- a "subsequent" public offer, where after buying a controlling stake from a previous blockholder, the new controlling shareholder has to make a public offer to buy at least the same percentage of ordinary shares.
- a mandatory freeze-out bid if the free-float is reduced below 10% (or a threshold decided by CONSOB).

The 1998 Law simplified the rules requiring that any person who exceeds the threshold of 30% has to make a public offer to buy all the ordinary shares.

During the sample period, there were 73 mergers or acquisitions regarding firms with non-voting stocks, of which only 13 took place before 1992, the year in which the mandatory

bid rule was introduced. In addition, there were also 13 freeze-out bids, which are not included in the analysis since they are merely follow-ups required by the law.

The effect M&A deals on the voting premium is uncertain. On one hand, M&A deals are expected to increase the voting premium because bidders usually pay a premium to gain control of the company and they are under no legal obligation to extend their offer to non-voting shares. On the other hand, M&A may reduce the voting premium if bidders volunteer to extend the offer to non-voting shares. Since it is not required by law and so relatively unexpected, the increase in the price of non-voting stocks may be even larger than that of voting stocks. This leads to a reduction of the voting premium. A simple explanation for extending the offer to non-voting shares is that the bidder wants to delist the target company, which is often one of its subsidiaries. Finally, after taking place, acquisitions might have a negative impact on voting premium because the voting rights of shares not acquired during the offer lose value.

We use three variables to capture the effect of mergers and acquisitions on the voting premium. The first variable *M&A* takes value one in the year in which an acquisition or a merger is announced. The second variable is *OFFER*, which takes value one in the year in which a public offer is announced. Finally, *CONTROL_CHANGE* takes value one in the year a control change takes place.

In most countries these variables would be redundant, but they are not in Italy. In fact, while a public offer is usually associated to a control change, this is not the case in Italy. Only 23 of the 50 public offers made during the period result in a new ownership taking over the company. The remaining twenty-seven public offers are made by the controlling shareholders. In some cases the aim of the bidder is simply strengthen its control over the listed company, while in others the bidder wants to delist its subsidiary from the MSE. Mergers are between subsidiaries and parent companies in the great majority of cases, too.

[Please insert Table 5 about here]

Table 5 presents the estimation results of the fixed effects and random effects models. The results indicate that the voting premium decreases at the end of the year in which an acquisition takes place. The coefficients for *M&A* and *OFFER* are negative and significant, even if only at the 10 percent level in the random effects model, suggesting that non voting shareholders gain from merger and acquisition announcements relatively to voting shareholders.

Despite non-voting shares are not covered by the mandatory bid rule, bidders usually extend the offer for these securities as well. In fact in 55 out of 73 mergers or acquisitions announcement, the offer has been extended to non-voting shareholders (75.34%). The percentage is 68% if only acquisition announcements are considered (34 out of 50). The fact that offers are generally extended to non-voting shares even if not required by the law would be surprising in case of takeovers aimed at gaining control of the corporation. But, as pointed out above, many of M&A deals are simply internal reorganization of groups. Since the objective of these transactions is to get rid of one (or more) layer in the group's pyramidal structure, the inclusion of non-voting shares in the offer may be part of the value maximizing strategy of the controlling shareholder.

Differently from the other two variables, *CONTROL_CH* is negative but not significant. This is due with the fact that eight of the 21 offers in which there was a control change, the offer was not extended to non-voting shareholders.¹⁷

Concerning the remaining variables, no relevant difference emerges from the comparison of Table 5 with Table 3, Column I and II. In an unreported analysis, we include in the regression model of Table 5 the variables *LOG(ASSETS)* and *LEVERAGE*. When these variables are included, *M&A* is only significant in the fixed effect model (10% level) and *OFFER* is no longer significant. *CONTROL_CH* remains insignificant. The results for other variables in the regression are similar to those in the last two columns of Table 3.

¹⁷ We do not have information whether the offer was extended to non-voting shareholders for four observations.

Another corporate event that can impact on the voting premium is the decision to convert non-voting stocks into voting stock. Stock unifications have been studied in many papers. Among the recent papers on the subject, Bigelli (2004) examines stock unifications in Italy, while Dittmann and Ulbricht (2004) studied dual class stock unifications in Germany. Conversion of non-voting stock into voting stock is a relatively recent phenomenon in Italy. While there were only four stock unifications before 1993 and none of them was mandatory, 25 out of the 36 stock unifications took place in the period 1998-2003 (17 mandatory). Again, the timing is similar to Germany. In fact, Dittmann and Ulbricht (2004) find few stock unifications before 1996. Stock unifications were more common in the period 1996-2001. The variable *UNIFICATION* is a dummy that takes value one in the year in which the company decides to convert its non-voting shares. The coefficient is expected to be negative, since once converted non-voting shares gain voting rights. We also include in the model a variable (*UNIF_YEAR*) for the number of conversions announced in the calendar year. If companies follow a trend in converting non-voting stocks (as well as issuing them), a high number of conversions in one year should be negatively related to the voting premium.

[Please insert Table 6 about here]

Table 6 reports the regression results where the dependent variable is the voting premium at the end of the calendar year. Both the announcement of a conversion of non-voting stocks in voting stocks and the number of conversions announced during the calendar year have the expected negative impact on the voting premium. Once the announcement is made, the price of non-voting shares increases to the unification price. Both variables are still negative and significant, although *UNIFICATION* only at 10 percent level, in Column V and VI. Results for others variables are remarkably similar to those presented in Table 3. The only difference that is worth noting is the coefficient for the size of the largest shareholder, which is significant at 10

percent level in Columns IV and VI. Again, including *LOG(ASSETS)* and *LEVERAGE* in the regression does not change the results. Thus, the table reporting the results is omitted in the sake of brevity.

[Please insert Table 7 about here]

Table 7 reports the estimation results when both the acquisition and unification variables are included in the regressions. The results confirm those of Tables 4 and 5. An acquisition announcement produces a decrease in the voting premium. The dummy for conversion announcements still have a negative and significant coefficient. *CONTROL_CH* is still insignificant in Column V and VI.

Finally, we consider the impact of bankruptcies on the voting premium. Legally, non-voting shares are privileged with respect to voting shares in case of liquidation. In theory, when a firm is near a bankruptcy, the price of non-voting shares should decrease less than voting share prices because of their seniority. However, the reality is quite different. In case of a typical bankruptcy in Italy, neither non-voting nor voting shareholders are likely to get anything back.¹⁸ Thus, at the time of a bankruptcy, both types of securities are usually worthless. Since in the majority of cases voting shares trade at a premium with respect to non-voting shares, bankruptcies should decrease the voting premium. In an untabulated regression, we include a dummy for the nine firms that went bankrupt in our sample. Of these nine bankruptcies, seven took place in the period 1990-1996. The dummy is significant and negative as expected.¹⁹

¹⁸ See for example, the articles: “Il rischio” (The risk), *Il Sole 24-Ore*, 5 February 1995, and “Scottati dalle cattive azioni” (Hurt by bad stocks), *Il Sole 24-Ore*, 8 September 1996.

¹⁹ The model is estimated with a pooled least square model and not with fixed effects because of the firm-dummy for bankruptcies.

6. Robustness Check

Table 9 presents the estimation results when the dependent variable is the average monthly voting premium in each sample year. While results are rather similar to those of Table 2, there are few differences. *FISCAL_TREAT* is not significant in Columns I and II. There is also some evidence that the size of the second shareholder matters. The sign is positive, meaning that a large second blockholder increases the probability of a control contest. While voting premium measured at the end of the year exhibit a counter-cyclical behavior, this is not true when voting premium is computed as the average of monthly voting premium. While still negative, the coefficient is no longer statistically significant. Finally, *LEVERAGE* is no longer significant.

[Please insert Table 8 about here]

Despite these differences, there are important results that do not vary with the measure of the voting premium used. The size of the first shareholder is not significant once the identity of the first shareholder is controlled, confirming that it is relevant who controls the company, not the ownership stake. The results for dummies for identity (or the lack) of the controlling shareholder are similar to those in Table 3. While the privilege in dividends for non-voting stocks is not significant no matter which measure of voting premium is used, the voting ratio and the liquidity proxy are always significant. Finally, the new corporate law in 1998 really helps lowering the price differential between the two types of stocks.

7. Conclusions

Italy has been known since long time for its high level of private benefits, measured by the relative price differential between voting and non-voting shares. While the paper largely confirms the presence of a staggering voting premium in the second half of the 1980s and in the

1990s, it also shows that voting premium strongly decreased after 1998. Moreover, before 1986 the voting premium was relatively low. Thus, far from being constant, the behavior of the voting premium in Italy looks like a rollercoaster.

Using a panel-data approach, we examine which variables determine this behavior. We use firm-specific variables, like the ownership structure, the identity of the larger shareholders, the liquidity, and the voting ratio, as well as country-wide variables like the stock market return, the number of M&A and stock unifications announced in a given year, and dummies for different legal and fiscal regimes.

The overall picture emerging from the analysis is that the the probability of a control contest is a determinant of the voting premium. This effects is captured by many of the variables used in the analysis. However, this is not the entire story. In fact, it is hard to explain how the probability of a control contest can justify the voting premium in the late 1980, a period characterized by very few acquisitions and by the absence of the mandatory bid rule. Then, why was a voting right in the hands of a minority shareholder so precious?

We believe that at least part of the answer can be found in the identity of the controlling shareholder. We find that family firms affect positively the voting premium. Thus, it may be that the expectation that family firms would do anything to maintain the control over the firm that makes the voting premium so valuable, especially in the 1980s.

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Figure 1

Mean and median voting premium in the period February 1977 – December 2003
(monthly data).

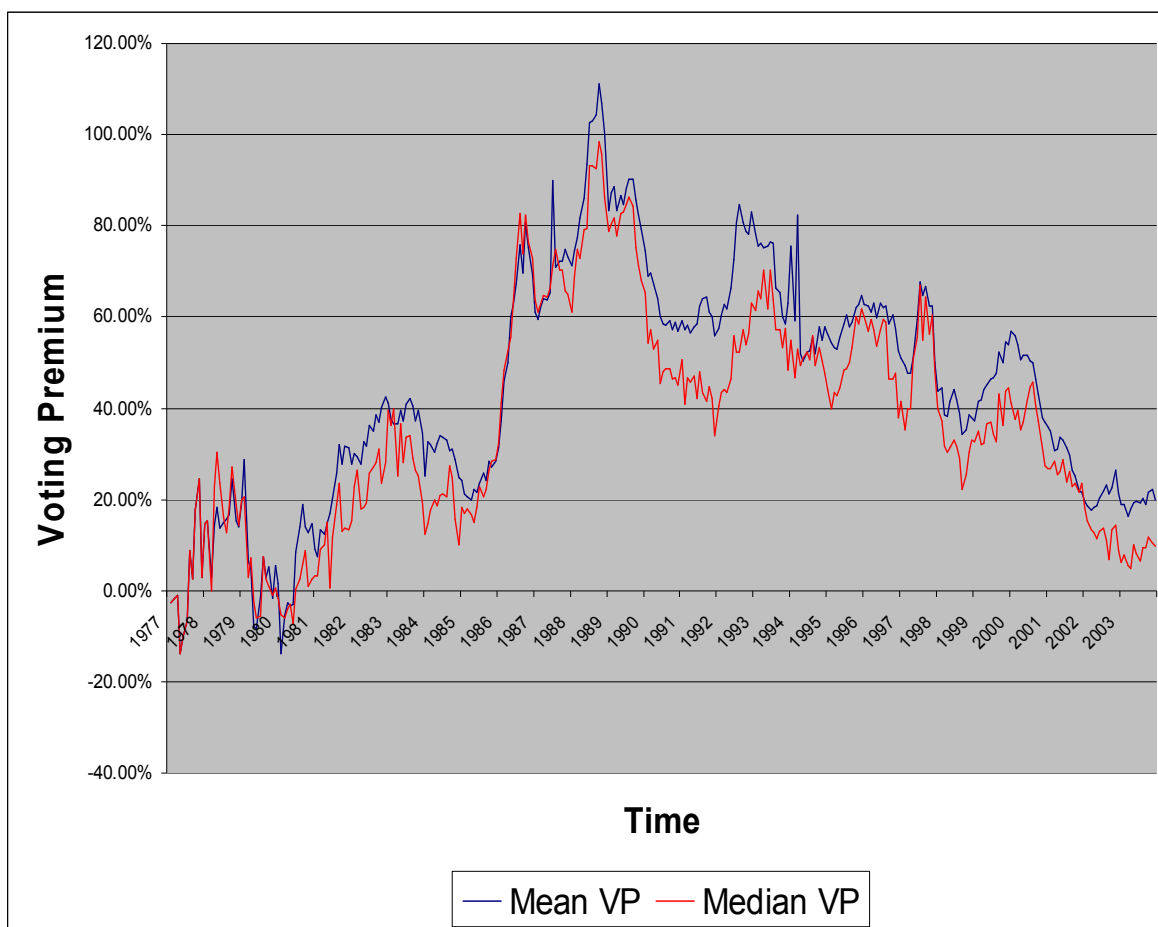


Table 1

These are the definitions of the variables used in the analysis:

VARIABLE	DEFINITIONS
VP	Voting premium at the end of the calendar year.
VP_M	Mean of the monthly voting premium in each sample year.
FIRST_SH	Size of the ownership stake owned by the largest shareholder.
SECOND_SH	Size of the ownership stake owned by the second largest shareholder.
DIFF_DIV	Actual difference in the dividend paid to non-voting and voting shareholder in a given year (standardized by the price of the non-voting share)
RATIO_N	Number of non-voting shares outstanding divided number of voting shares outstanding.
LN_V	Log of the ratio between the euro turnover of the voting stock and the euro turnover of non-voting stock.
STATE	Dummy that takes value 1 if in a given year the company is state-owned.
WH	Dummy that takes value 1 if in a given year the company is widely-held.
FAMILY	Dummy that takes value 1 if in a given year the company is family-owned.
FOREIGN	Dummy that takes value 1 if in a given year the company is owned by a foreign firm.
MARKET	Annual market returns (COMIT Index).
FISC_TREAT	Dummy that takes value 1 in the period in which the tax rate for non-voting stock was higher (1977-1994), and zero otherwise.
L92	Dummy that takes value 1 in the period after the introduction of the mandatory bid rule and before the 1998 Law (1992-1997).
L98	Dummy that takes value 1 in the period after the introduction of the Consolidated law of Financial Intermediation (1998-2003)
LOG(ASSETS)	Log of the firm's total assets value (Worldscope Item 02999), expressed in 2003 year-end euros.
LEVERAGE	The ratio between the company's Total Debt (Worldscope Item 02999) and the total assets value (Worldscope Item 03255).
M&A	Dummy that takes value 1 for company <i>i</i> if a merger or an acquisition is announced in a given year.
OFFER	Dummy that takes value 1 for company <i>i</i> if a public offer is announced in a given year.
CONTROL_CH	Dummy that takes value 1 for company <i>i</i> if a control change is announced in a given year.
UNIFICATION	Dummy that takes value 1 for company <i>i</i> if a stock unification is announced in a given year.
UNIF_YEAR	Number of stock unifications announced in a given year.

Table 2

Mean and median voting premium in the year from 1977 to 2003. VP is defined as the price differential between voting and non voting stocks divided by the price of the non voting stock at the end of the calendar year. The number of non-voting stock included in the sample is taken at the end of the year. VP_M is the average voting premium over the year. All non-voting stocks for which there is at least one monthly observation is included in the sample.

<i>Year</i>	<i>VP</i>			<i>VP_M</i>		
	<i>Mean</i>	<i>Median</i>	<i>No. Obs</i>	<i>Mean</i>	<i>Median</i>	<i>No. Obs</i>
1977	2.76%	2.76%	2	0.39%	0.39%	2
1978	13.89%	14.26%	4	13.03%	14.65%	4
1979	5.59%	0.58%	5	4.01%	-1.49%	5
1980	14.56%	2.60%	6	8.27%	-0.75%	7
1981	31.29%	13.42%	11	24.35%	14.07%	11
1982	42.37%	28.04%	15	35.33%	26.98%	15
1983	34.59%	19.19%	19	36.93%	26.51%	19
1984	24.90%	10.05%	23	27.95%	21.23%	23
1985	28.52%	28.62%	30	24.93%	25.14%	30
1986	69.27%	72.93%	63	68.99%	75.45%	65
1987	73.19%	65.09%	76	67.88%	66.93%	76
1988	100.28%	86.40%	76	92.64%	85.83%	82
1989	79.26%	67.86%	84	83.60%	81.46%	84
1990	56.99%	45.15%	81	61.73%	50.89%	85
1991	55.84%	34.09%	85	60.02%	43.92%	86
1992	83.05%	63.10%	84	72.14%	48.71%	86
1993	63.18%	48.34%	81	70.77%	59.40%	84
1994	57.77%	47.65%	76	58.10%	50.40%	80
1995	64.84%	61.82%	74	57.86%	51.54%	78
1996	52.51%	38.02%	68	58.72%	59.74%	71
1997	49.97%	48.15%	67	56.44%	51.85%	68
1998	37.73%	33.07%	62	39.08%	32.38%	68
1999	53.79%	44.56%	60	47.59%	37.45%	64
2000	36.85%	27.37%	51	46.32%	32.95%	60
2001	21.60%	23.39%	47	28.57%	24.71%	50
2002	21.23%	8.64%	44	18.64%	10.78%	48
2003	19.76%	9.82%	35	18.81%	8.18%	44
1977-2003	56.51%	45.18%	1329	56.38%	47.67%	1395

Table 3

The table presents the results of the regression of the voting premium at the end of the year on a series of variables. White Heteroskedasticity consistent standard errors are reported in parenthesis. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

<i>Variable</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>
INTERCEPT		33.1936*** (12.1023)		-11.1833 (29.9890)
FIRST_SH	-0.1927 (0.1218)	-0.2128* (0.1209)	-0.2012 (0.1326)	-0.2172* (0.1276)
SECOND_SH	0.2761 (0.2329)	0.2887 (0.2560)	0.1846 (0.2374)	0.2472 (0.2689)
DIFF_DIV	-15.4962 (53.9479)	-26.6574 (48.1032)	-5.7286 (56.0180)	-13.6803 (49.7402)
RATIO_N	97.5804*** (15.5034)	91.7370*** (10.764)	99.7608*** (16.6005)	93.7783*** (11.2564)
LN_VO	-3.2240* (1.7257)	-3.7142** (1.5238)	-3.3896* (1.7828)	-4.1255*** (1.5919)
STATE	-21.3221*** (8.5701)	-20.2887** (8.6056)	-19.6189** (8.9717)	-20.0221** (8.7892)
WH	18.3310 (12.6288)	17.36706 (11.2685)	22.3195* (13.1532)	21.2194* (11.7240)
FAMILY	26.8302*** (7.6612)	21.5610*** (5.5257)	28.2200*** (8.0534)	22.7484*** (5.7159)
FOREIGN	-7.8589 (9.0840)	-6.63153 (9.6305)	-4.7303 (9.7175)	-3.8748 (10.1070)
MARKET	-13.0431*** (4.2751)	-13.2184*** (4.4091)	-13.4414*** (4.5772)	-13.5002*** (4.7346)
FISC_TREAT	8.9322** (4.3791)	8.7162** (4.2277)	12.0099*** (4.6282)	12.0307*** (4.3741)
L92	5.1766 (3.6976)	5.3322 (3.5453)	7.8405** (3.8114)	7.4131** (3.7701)
L98	-21.7541*** (5.1421)	-21.3730*** (5.3371)	-18.8303*** (5.3389)	-19.4255*** (5.6456)
LOG(ASSETS)			2.0541 (2.7220)	3.3942* (1.8795)
LEVERAGE			-22.6841* (12.8625)	-25.8026** (11.6625)
Adj. R ²	0.5240	0.5467	0.5398	0.5832
No. Obs	1241	1241	1151	1151

Table 4

The table presents the average (median) euro value of voting and non voting shares in € mil. during the sample period. The ratio between voting and non-voting is also presented.

<i>Year</i>	<i>Voting Shares</i>		<i>Non Voting Shares</i>		<i>Ratio</i>	
	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>
1977	1.972	1.972	0.226	0.226	8.653	8.653
1978	0.557	0.245	0.046	0.018	17.174	10.108
1979	2.592	1.208	0.121	0.053	47.104	7.764
1980	20.106	6.109	1.419	0.978	25.862	6.545
1981	23.933	7.324	2.703	1.164	17.929	8.741
1982	11.977	3.587	2.068	0.527	10.795	5.704
1983	21.416	7.077	4.538	1.182	8.889	3.460
1984	26.999	8.113	11.109	1.823	6.593	3.112
1985	60.649	35.425	21.289	8.658	4.460	3.508
1986	134.236	26.891	22.638	8.358	6.787	3.228
1987	80.592	24.322	20.498	8.896	4.471	3.385
1988	95.338	18.023	13.979	5.854	8.296	4.598
1989	117.348	38.991	30.094	14.541	8.517	3.232
1990	91.083	32.320	32.582	17.489	10.748	2.014
1991	72.183	20.344	24.716	8.469	12.950	2.230
1992	94.603	17.341	26.639	6.296	12.672	2.408
1993	297.269	31.007	88.101	8.975	10.641	2.812
1994	752.562	60.141	141.887	13.451	21.723	2.712
1995	599.789	56.729	96.177	7.006	29.843	4.552
1996	544.638	62.473	111.960	7.348	30.410	3.993
1997	1180.334	157.472	190.184	21.623	79.558	3.202
1998	3204.820	523.576	462.941	82.825	59.324	4.224
1999	3933.944	331.383	539.330	34.279	38.790	5.450
2000	5929.955	464.849	1268.856	62.181	40.714	7.676
2001	5356.071	260.919	632.141	19.419	42.986	8.090
2002	5259.112	232.720	472.254	12.187	62.499	12.069
2003	5226.757	223.624	206.580	17.990	125.850	14.123
Total	1385.394	45.400	196.203	11.110	28.648	3.593

Table 5

The table presents the results of the regression of the voting premium at the end of the year on a series of variables. White Heteroskedasticity consistent standard errors are reported in parenthesis. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

<i>Variable</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>
	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
INTERCEPT		31.4373*** (12.1456)		31.5888*** (12.1418)		33.0708*** (12.1175)
FIRST_SH	-0.1470 (0.1230)	-0.1760 (0.1226)	-0.1501 (0.1232)	-0.1773 (0.1226)	-0.1851 (0.1235)	-0.2078* (0.1216)
SECOND_SH	0.3038 (0.2333)	0.3100 (0.2562)	0.3062 (0.2333)	0.3135 (0.2563)	0.2873 (0.2348)	0.2959 (0.2569)
DIFF_DIV	-20.3877 (53.3164)	-30.8237 (48.1185)	-19.6437 (53.4510)	-30.2390 (48.1085)	-15.8250 (53.9041)	-26.8316 (48.1184)
RATIO_N	99.5565*** (15.7394)	93.2152*** (10.7924)	99.6212*** (15.7697)	93.3006*** (10.7992)	97.9098*** (15.5791)	91.9643*** (10.7836)
LN_VO	-3.2676* (1.7209)	-3.7369** (1.5228)	-3.2481* (1.7188)	-3.7240** (1.5229)	-3.2499* (1.7236)	-3.7254** (1.5250)
STATE	-24.2542*** (8.7617)	-22.4817*** (8.6957)	-23.9123*** (8.7046)	-22.3213** (8.6881)	-22.1414*** (8.5543)	-20.7826** (8.7120)
WH	18.2051 (12.6253)	17.3355 (11.2589)	18.2427 (12.6117)	17.3416 (11.2597)	18.0919 (12.6206)	17.2294 (11.2790)
FAMILY	26.4567*** (7.7083)	21.2042*** (5.5275)	26.1094*** (7.7558)	20.9240*** (5.5381)	26.6167*** (7.7274)	21.4316*** (5.5466)
FOREIGN	-8.0125 (9.0524)	-6.7274 (9.6288)	-8.0367 (9.0487)	-6.7934 (9.6298)	-8.1664 (9.1324)	-6.8385 (9.6532)
MARKET	-12.5986*** (4.2626)	-12.8205*** (4.4104)	-12.7872*** (4.2639)	-12.9799*** (4.4070)	-12.9862*** (4.2768)	-13.1753*** (4.4113)
FISC_TREAT	8.6906** (4.3498)	8.5249** (4.2248)	8.7216** (4.3507)	8.5435** (4.2249)	8.8368** (4.3682)	8.6533** (4.2322)
L92	5.7266 (3.7159)	5.8158 (3.5527)	5.7496 (3.7214)	5.8474 (3.5552)	5.2166 (3.7023)	5.3600 (3.5468)
L98	-20.6513*** (5.1712)	-20.3865*** (5.3623)	-20.9023*** (5.1690)	-20.5942*** (5.3523)	-21.6239*** (5.1625)	-21.2758*** (5.3448)
M&A	-14.4293** (6.9962)	-12.6333* (7.3147)				
OFFER			-14.5306* (7.6454)	-13.0778* (7.8012)		
CONTROL_CH					-5.3582 (11.0684)	-3.8049 (10.2294)
Adj. R ²	0.5251	0.5477	0.5250	0.5476	0.5237	0.5466
No. Obs	1241	1241	1241	1241	1241	1241

Table 6

The table presents the results of the regression of the voting premium at the end of the year on a series of variables. White Heteroskedasticity consistent standard errors are reported in parenthesis. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

<i>Variable</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>
	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
INTERCEPT		35.1929*** (12.1430)		30.9192** (12.1010)		32.7996*** (12.1511)
FIRST_SH	-0.2028* (0.1209)	-0.2214* (0.1208)	-0.2083* (0.1213)	-0.2275* (0.1206)	-0.2162* (0.1207)	-0.2342* (0.1206)
SECOND_SH	0.2432 (0.2336)	0.2554 (0.2563)	0.2397 (0.2312)	0.2539 (0.2556)	0.2130 (0.2320)	0.2267 (0.2558)
DIFF_DIV	-19.8189 (53.3385)	-30.9494 (48.0818)	-21.7903 (53.2132)	-32.8439 (48.0021)	-25.2068 (52.7441)	-36.2425 (47.9924)
RATIO_N	94.5086*** (15.7202)	88.9798*** (10.8447)	97.3757*** (15.5256)	91.5762*** (10.7366)	94.7072*** (15.7560)	89.1719*** (10.8202)
LN_VO	-3.5920** (1.7424)	-4.0566*** (1.5317)	-3.2795* (1.7192)	-3.7671** (1.5195)	-3.5975** (1.7364)	-4.0637*** (1.5278)
STATE	-21.5927** (8.5720)	-20.5043** (8.5993)	-21.1677** (8.5113)	-20.1955** (8.5832)	-21.4126** (8.5223)	-20.3897** (8.5797)
WH	18.8539 (12.5183)	18.0043 (11.2579)	18.4811 (12.3588)	17.5213 (11.2347)	18.9288 (12.2849)	18.0700 (11.2286)
FAMILY	26.7850*** (7.6123)	21.5733*** (5.5197)	26.6861*** (7.6844)	21.4980*** (5.5101)	26.6548*** (7.6406)	21.5137*** (5.5062)
FOREIGN	-8.3765 (9.0965)	-7.0480 (9.6260)	-7.5439 (9.2277)	-6.4040 (9.6065)	-8.0132 (9.2281)	-6.7819 (9.6052)
MARKET	-13.3105*** (4.2881)	-13.4883*** (4.4045)	-12.9712*** (4.2464)	-13.1556*** (4.3952)	-13.2086*** (4.2569)	-13.3954*** (4.3926)
FISC_TREAT	9.0674** (4.3595)	8.8659** (4.2220)	13.8618*** (5.0711)	13.6648*** (4.5495)	13.7018*** (5.0609)	13.5117*** (4.5455)
L92	5.5128 (3.7015)	5.6724 (3.5440)	9.6539** (4.3529)	9.8323** (3.8630)	9.6946** (4.3535)	9.8717** (3.8589)
L98	-20.6403*** (5.1574)	-20.2388*** (5.3585)	-5.9347 (8.4819)	-5.4762 (7.6586)	-5.8552 (8.4772)	-5.3968 (7.6506)
UNIFICATION	-19.2538** (9.1887)	-19.6503** (9.6811)			-16.7984* (9.2249)	-17.2011* (9.6969)
UNIF_YEAR			-3.0461*** (1.0801)	-3.0606*** (1.0605)	-2.8743*** (1.0819)	-2.8849*** (1.0640)
Adj. R ²	0.5252	0.5481	0.5269	0.5496	0.5277	0.5506
No. Obs	1241	1241	1241	1241	1241	1241

Table 7

The table presents the results of the regression of the voting premium at the end of the year on a series of variables. White Heteroskedasticity consistent standard errors are reported in parenthesis. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

<i>Variable</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>	<i>Fixed</i>	<i>Random</i>
	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
INTERCEPT		33.43106*** (12.1853)		33.5878*** (12.1832)		35.0721*** (12.1576)
FIRST_SH	-0.1568 (0.1220)	-0.1843 (0.1226)	-0.1605 (0.1223)	-0.1862 (0.1226)	-0.1945 (0.1225)	-0.2158 (0.1216)
SECOND_SH	0.2708 (0.2340)	0.2767 (0.2564)	0.2733 (0.2341)	0.2803 (0.2565)	0.2553 (0.2355)	0.2635 (0.2571)
DIFF_DIV	-24.7927 (52.7127)	-35.2051 (48.0962)	-23.8882 (52.8664)	-34.4737 (48.0869)	-20.2136 (53.2833)	-31.1862 (48.0969)
RATIO_N	96.4754*** (15.9626)	90.4535*** (10.8713)	96.5556*** (15.9979)	90.5489*** (10.8804)	94.8478*** (15.7933)	89.2175*** (10.8622)
LN_VO	-3.6393** (1.7377)	-4.0828*** (1.5306)	-3.6128** (1.7358)	-4.0644*** (1.5307)	-3.6234** (1.7402)	-4.0722*** (1.5330)
STATE	-24.5537*** (8.7641)	-22.7315*** (8.6893)	-24.1550*** (8.7020)	-22.5226*** (8.6818)	-22.4965*** (8.5696)	-21.0731** (8.7061)
WH	18.7314 (12.5164)	17.9757 (11.2479)	18.7619 (12.5033)	17.9737 (11.2493)	18.5947 (12.5107)	17.8474 (11.2679)
FAMILY	26.4077*** (7.6554)	21.2123*** (5.5213)	26.0717*** (7.7027)	20.9423*** (5.5322)	26.5496*** (7.6750)	21.4189*** (5.5405)
FOREIGN	-8.5360 (9.0641)	-7.1502 (9.6240)	-8.5480 (9.0591)	-7.2073 (9.6254)	-8.7188 (9.1406)	-7.2881 (9.6488)
MARKET	-12.8644*** (4.2755)	-13.0877*** (4.4056)	-13.0549*** (4.2773)	-13.2501*** (4.4025)	-13.2500*** (4.2894)	-13.4405*** (4.4066)
FISC_TREAT	8.8248** (4.3295)	8.6730** (4.2189)	8.8577** (4.3311)	8.6933** (4.2193)	8.9634** (4.3478)	8.7940** (4.2263)
L92	6.0706 (3.7179)	6.1649* (3.5513)	6.0771 (3.7225)	6.1813* (3.5538)	5.5593 (3.7063)	5.7064 (3.5455)
L98	-19.5178*** (5.1828)	-19.2315*** (5.3839)	-19.8067*** (5.1798)	-19.4745*** (5.3733)	-20.4886*** (5.1770)	-20.1216*** (5.3669)
M&A	-14.5595** (6.9041)	-12.7946* (7.3042)				
OFFER			-14.3870* (7.5550)	-12.9718* (7.7902)		
CONTROL_CH					-5.8971 (10.9640)	-4.3657 (10.2179)
UNIFICATION	-19.4236** (9.1760)	-19.8082** (9.6712)	-19.0879** (9.2187)	-19.5228** (9.6722)	-19.4000** (9.1946)	-19.7560** (9.6862)
Adj. R ²	0.5263	0.5491	0.5261	0.5490	0.5249	0.5480
No. Obs.	1241	1241	1241	1241	1241	1241

Table 8

The table presents the results of the regression of the mean monthly voting premium in each sample year on a series of variables. White Heteroskedasticity consistent standard errors are reported in parenthesis. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

<i>Variable</i>	<i>Fixed</i>		<i>Random</i>	
	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
INTERCEPT		46.6986*** (10.9901)		-13.9029 (27.6308)
FIRST_SH	-0.1430 (0.1022)	-0.1593 (0.1092)	-0.1510 (0.1103)	-0.1600 (0.1157)
SECOND_SH	0.4140** (0.2071)	0.42065* (0.2275)	0.41018* (0.2103)	0.4554* (0.2389)
DIFF_DIV	-46.2442 (49.0741)	-54.7105 (43.6550)	-41.4131 (48.9310)	-47.9946 (45.0474)
RATIO_N	85.5189*** (13.0903)	81.3225*** (9.3258)	89.4918*** (14.2296)	84.5359*** (9.9570)
LN_VO	-6.2537*** (1.3960)	-6.4901*** (1.3463)	-6.3177*** (1.4471)	-6.7819*** (1.4150)
STATE	-30.9428*** (7.3971)	-29.5199*** (7.7689)	-28.9866*** (7.6393)	-29.3266*** (7.9424)
WH	12.2619 (10.0805)	11.9230 (10.2439)	16.3623 (10.4548)	15.1881 (10.6412)
FAMILY	15.0066** (7.2327)	11.7119** (4.9523)	15.5204** (7.4850)	12.4089** (5.1235)
FOREIGN	-8.6840 (8.1735)	-7.8855 (8.7423)	-8.2558 (8.6488)	-6.9706 (9.1963)
MARKET	-4.5723 (3.9789)	-4.7110 (3.9833)	-3.7926 (4.2953)	-3.9804 (4.2764)
FISC_TREAT	5.9618 (3.9176)	5.7816 (3.8288)	8.7280** (4.0457)	8.6362** (3.9704)
L92	6.7227** (3.4155)	6.8115** (3.2123)	6.8795* (3.6282)	6.7726** (3.4214)
L98	-20.9730*** (4.7028)	-20.7174*** (4.8091)	-20.5164*** (4.9316)	-20.6045*** (5.1037)
LOG(ASSETS)			4.2132* (2.3535)	4.4218** (1.7434)
LEVERAGE			-14.3390 (10.3935)	-16.9124 (10.5251)
Adj. R ²	0.559818	0.582304	0.574782	0.592209
No. Obs.	1267	1267	1167	1167