Institut sur la gouvernance
d'organisations privées et publiques

The Institute for Governance
of Private and Public Organizations

HEC MONTRÉAL

John Molson
School of Business
Concordia University

Dual-class share structures in Canada: Review and recommendations

The Institute for Governance of Public and Private Organizations

Policy paper # 1

October 2006

Acknowledgement

This policy paper is the first issued by the Institute. It was written by Professor Yvan Allaire, chairman of the board of the Institute. The board has formally approved this policy statement*. Members of the board participated at length to the discussion of this paper and made several significant contributions. In particular, board member Mr. Stephen Jarislowsky made insightful recommendations and suggestions that greatly enhanced the final product.

Useful comments and suggestions were also received from other experienced board members as well as from academic researchers.

*Mr. Pierre Bernier, executive vice-president of the Autorité des marchés financiers du Québec abstained because of the regulatory role of the Autorité.

Introduction

In Canada and, indeed, wherever there are functional stock markets, differences between classes of shareholders in publicly listed corporations raise important and controversial issues. Thus, the European Commission has undertaken a vast consultation on a proposed directive to enshrine the "one share, one vote" principle. Everywhere, the topic has proved divisive, particularly when the positions of the parties are couched in the simple vernacular of public pronouncements. Unfortunately, the arguments for or against dual classes of shares are still heavily weighted by ideology and misconceptions.

The aim of this paper is a) to outline the scope of the issue in Canada, b) review the terms of the debate, c) introduce relevant research findings and d) propose a framework of safeguards that could enhance the benefits of dual share structures and minimize their potential downside.

Scope of the issue in Canada

Dual-class share structures are a common feature among Canadian publicly traded corporations. As of April 2005, **96** companies (or 6.57 %) of the 1,459 listed on the TSX had a dual-class share structure (NUPGE report, 2005). Of these 96 companies, one third were domiciled in Quebec, two-thirds in the rest of Canada, mainly in Ontario. (See Appendix B).

Appendix C shows that the voting power dilution resulting from dual-class shares varies enormously across this set of companies. Overall, the *median* voting power dilution is 4,38 (meaning that the *median* controlling shareholder has 4.38 times more votes than the equity owned). For Quebec companies, the *median* voting power dilution is **2.68**; for companies outside Quebec, the *median* voting power dilution is **5.06.**

The frequency of dual-class structures has declined steadily since 1988 when there were 177 companies with dual-class structure; there were 164 in 1993 and 148 in 1998. (Amoako-Adu and Smith, 2001)

Dual-class share structures do not always translate into absolute control (>50% of votes). There is some ambiguity about the notion of control in reported statistics. Sometimes, the term “control” refers to any shareholder holding more than, say, 10% of the votes (Canada), 20% (Continental Europe), or 5% (United States).

Indeed, by adopting a broad definition of “control” and a large base of companies, the prevalence of “control” and “family firms” increases dramatically. For instance, with a criterion of 10% shareholding as defining control and a sample of 500 (non financial sector) companies with market capitalization greater than 10 millions $, Bozec and Laurin find that 51% were “family controlled” and 24% were “controlled” by non family entities (Parizeau, 2005), in many cases without recourse to a superior-voting class of shares.

It would be more appropriate to label these shareholders “significant” or “block-holders”, whether they achieved that status through multiple-vote shares or otherwise. Some of the proposals made in this policy statement would be relevant to the general issue of block-holders.

Allaire and Firsirotu (2003) have focused on Canadian firms with market capitalization over $300 million in February 2003. There were 177 firms selected by that criterion. In **51** cases (or 29%), a family, an individual (or a few unrelated individuals) or another company were exercising absolute control (i.e. holding more than 50% of votes).

Of these 51 companies, there were 36 where absolute control was achieved through multiple-vote shares (or superior voting shares, as there are a number of cases with non-voting shares).

The following table (Table 1) shows the distribution of these 51 companies according to the type and source of absolute control:

TABLE 1

Source and Type of Absolute Control of Companies with Market Capitalization > $300M; (Feb 2003; S&P/TSX Index)

	Type of control			
Source:	Family	Individuals	Corporation	Total
Superior voting shares	18	9	9	36
Ordinary shares	4	1	10	15
Total	22	10	19	51

Of course, among the 126 companies with no one holding absolute control, there were numerous instances of block-holding shareholders (i.e. >10%) by families, individual or funds.

Companies with dual share structure are the focus of this paper, with a particular emphasis on those companies where absolute control has been achieved and maintained through superior-voting shares. However, any public corporation with a controlling shareholder brings forth some of the same issues addressed in this paper.

The terms of the argument

Many entrepreneurs looking for sources of capital to finance their growth will tap into the equity market *only if they are granted some safeguards against losing control of their company.* (See Sercu and Vinaimont (2006), among many others, for a formal demonstration of this point)

There is a broad agreement that control through multiple-vote shares is a reasonable solution. Indeed, absent such safeguards, most entrepreneurs will shun the stock market, curtail the growth of their companies or find different sub-optimal means of financing. All would suffer: innovation, investors, economic growth and employment. Even the staunchest opponents of dual-class share structures concede the point but would limit the “privilege of multiple-vote shares” to small companies, of the type listed on the TSX-Ventures.

Other critics do not mind this entrepreneurial prerogative but would have it subjected to some termination date, some sunset clause, calling for the elimination of the dual-class structures at a certain date or on the occurrence of an event, say, the passing on of the founding entrepreneur. There is a sense that if the whims of funding entrepreneurs must be indulged to have the benefit of their talent, so be it; but the indulgence should not persist as there are little real benefits, only potential downsides, to continued family control of enterprises.

As we shall see further on, the empirical evidence does support overwhelmingly the benefits of founder-controlled corporations (with very few exceptions, notably, Morck, Stangeland and Yeung, 1998). On the benefits of control by descendants of the founder, empirical research, though overall positive, is more nuanced. In all cases though, the quality of governance makes a significant difference.

However, when no qualified family member of the controlling shareholder is actively engaged in the management or on the board of the company, the board of directors should establish with the controlling shareholder an orderly process of transition from a dual-class capital structure to a single-class one. The notion of a sunset clause taking affect at a certain point in time might be one such process in these circumstances.

Opponents of dual-class share structure claim that unfettered control of a corporation through super-voting shares may be abused to the detriment of minority shareholders. Controlling shareholders may appropriate substantial "private benefits" of control, including nepotism in executive appointment and succession.

Controlling shareholders may, it is claimed, select subservient board members and generally act as though the company was their private fiefdom. A number of flagrant cases give credence to that position, Adelphi and Hollinger International most notably.[1]

Enjoying the *private benefits* of control and secure in their immunity to hostile takeovers, these controlling shareholders may well turn down offers to buy their company although that would be in the interest of other shareholders.

[1] Of course, this discourse echoes the lamentations about dominant, « charismatic », CEOs of companies with a widely dispersed shareholding (i.e. with no controlling or "substantial" shareholder). It has been insistently pointed out that the worst financial fiascos of the 2001-2003 vintage occurred in companies with "impeccable" shareholder structures.

In essence, this arrangement brings about a price discount on the shares because the "control is not in the market"; i.e. prospective investors will not factor into the valuation of the company's shares the premium from a potential takeover.

Institutional investors opposed to dual-class share structures make another point. Although they dislike these structures, they cannot "vote with their feet"; they are forced to buy the shares of these companies as part of their indexed funds; i.e. as these companies are included in stock indexes, say the S&P/TSX, any investment strategy mimicking the performance of the index will require buying shares of all companies in the index, whether single-class or dual-class.

Defenders of multiple-vote shares reject this whole line of argument. They cite the eloquent examples of Warren Buffet of Berkshire-Hathaway (a dual-class company) and of the two young founders of Google who refused to give in to the reigning orthodoxy on that subject.

They point out that if "substantial private benefits" were available to holders of superior-voting shares, these shares would trade at a substantial premium over ordinary shares. With the "coattail provision" in Canada, they generally don't! [As discussed further on, absent the coattail, these shares do trade at a premium].

If family controlled firms were rife with nepotism, their performance would suffer in a significant manner. It may happen in some cases but generally it does not. Family firms tend to do better!

They further argue that investors in their shares did so with full knowledge of the shareholder structure of the company. If discount there is, it was there in the price they paid and will be there in the price they sell. There is no loss to them.

Unless of course the game plan is to buy the shares at a discount, force the removal of the dual voting structure and then hope for (or provoke) a takeover to enjoy the appropriate gain from this operation.

The notion of a sunset clause is viewed as relevant only to very specific circumstances. Sunset clauses, whether based on an event (e.g. the death of the founder) or on a specific date (e.g. on December 31st, 2009), cannot be imposed as a general rule; that would be too inflexible, given the myriad of different circumstances. Sunset clauses would also trigger various pre-emptive moves as the date or the event loomed closer.

Indeed, since 1995, fourteen (14) companies listed on the TSX have taken steps to eliminate their superior-voting shares. In six cases, a premium was paid to these shareholders. In other cases, this change in capital structure came about for various reasons that precluded the payment of a premium (e.g. at a time of financial duress, of raising additional capital, etc.) (Lortie, 2006). There are however some cases where dual-class share structures were abandoned without compensation for the holders of the superior-voting shares.

That investors, whether they like it or not, must buy these dual-class shares for indexation purposes, is an argument that receives little sympathy among defenders of these arrangements. If investors really believe companies with dual-class share structures are bound to post inferior performances, they should **sell short** these stocks and reap the rich rewards from this strategy, a sure way of beating the indexes. (See Gompers, Ishii and Metrick, 2003). As funds do not, as a general rule, manage only indexed funds, this investment strategy would provide a superior performance overall.

Defenders of dual-class shares concede that superior-voting shares are a form of anti-takeover defense. They point out that it may be the most benign form of defense, compared to entrenchment measures typically taken by the management of U.S. companies to fend off takeovers (poison pills, staggered boards, golden parachutes, green mail, etc.). Management–driven anti-takeover moves are successful in defeating most hostile takeover attempts but often provoke rancorous, prolonged litigations inflicting great damage on companies.

Furthermore, although a free market for corporate takeovers may be a desirable outcome for investors and financial markets, from a “political market” and public policy perspective, that outcome may well become untenable and unacceptable. A relentless quest for a free trade in corporate takeovers may bring about political and bureaucratic interference, an inferior outcome to the present situation. The harbingers of political resistance to a free market for corporate control are evident in Europe at this time. Even in the U.S. ***at the state level*** (Gompers, Ishii and Metrick, 2003) and whenever national security is invoked, there are serious impediments to corporate takeover. Several Canadian industries are already protected from foreign takeovers (broadcasting, banking, etc.)

Finally and, ultimately, there is the compelling, rallying argument with a nice ring to it: the "one share-one-vote principle". It is claimed that, fundamentally, dual-class share structures are an affront to the democratic principle of equality of suffrage.

Of course, it does happen that, in "the greatest democracy in the world", citizens of Vermont for instance have the equivalent of 100 votes compared to citizens of California in the business of electing U.S. senators; but these are mere quibbles. The parallel between citizenship (**one person**-one vote) and shareholding should be fully worked out: no newcomer to a country acquires the right to vote upon arrival; he/she must wait for a three-to-five year period, then swear an oath of allegiance, and, in many cases, renounce his/her citizenship in any other country.

So the democratic argument might contribute to fairly radical questioning of present-day arrangements:

- Require a pre-determined ownership period before a new shareholder may exercise his/her right to vote, in itself an attractive proposition;

- Set a cap on the number of votes that a single shareholder may exercise, so that all shareholders carry more or less equal weight in decision-making, irrespective of the number of shares they own.

- Open the "democratic" door to representation on the board of parties, other than shareholders, with large stakes in the company's success and performance; e.g. the employees. (Porter, 1992) [See Faleye, Mehrotra and Morck (2005) for an interesting study of labor's voice in corporate governance].

These notions are foreign to present-day practices in North America but quite common in other parts of the world.

Research Findings

One would hope that "science" would cut the Gordian knot, settle the issue. However, the empirical research on this topic gives a false impression of abundance. Many studies cover a period distant enough in time to lose much of their relevance for today's context. Other studies pertain to countries with such a different, and weaker, legal framework as to be of little pertinence for our purpose. All in all, as is often the case with controversial subjects, **Academia is enlightening but not decisive**!

But Academia is enlightening!

- **On the "private benefits" of controlling shareholders**.

It is a tenet of efficient markets that the ability of holders of superior voting share to extract private benefits would translate in a premium for multiple-vote shares when both classes of shares are actively traded on a stock exchange.

An important "private benefit" would come from appropriating, at the expense of other shareholders, the control premium a would-be acquirer would pay for the controlling shares.

In an early, path-breaking move, the Toronto stock exchange decreed in 1987 that, from that point on, any company issuing a class of shares with superior voting rights would have to include a provision that no offer to acquire the class of controlling shares would be valid without the would-be acquirer making a concurrent offer at the same terms and conditions to the other class of shareholders.

In one fell swoop, this measure has eliminated a key source of potential abuse or, to use the polite terminology of academia, the private benefits of control: the possibility for a controlling shareholder (via superior-vote shares) to sell the control of the company and pocket the large premium that usually comes with control, while all other shareholders receive no benefit from the transaction. [2]

As a result, when a coattail provision is in place, takeovers of dual-class Canadian companies produce virtually no control benefits for holders of the supra-voting shares as compared to holders of other classes of common shares. (Smith and Amoako-Adu, 1995; Clark, 2005; Nenova, 2003; Morck, Wolfenzon and Yeung, 2005)

This **Canadian feature** limits the relevance of conclusions drawn from studies of dual-class shares in other countries as well as Canadian studies that predate the full effect of that 1987 provision. Table 2 presents a table included in Morck (2005) on the “private benefit of control” in several countries. It shows that “private benefits” for Canadian firms are among the smallest, close to those of the United States and ahead of the United Kingdom in terms of “private benefit extraction”.

[2] There appears however to be some loophole that needs to be addressed; more on this later.

TABLE 2

Estimated Private Benefits of Control in Different Countries Measured as Block and Voting Premiums and Expressed as Percentage Premium over Market Value

Country	Block Premium[a]	Voting Premium[b]	Country	Block Premium[a]	Voting Premium[b]
Argentina	27		Neherlands	2	
Australia	2	23	New Zealand	3	
Austria	38		Norway	1	6
Brazil	65	23	Peru	14	
Canada	1	3	Philippines	13	
Chile	15	23	Polamd	11	
Colombia	27		Portugal	20	
Czech Republic	58		Singapore	3	
Denmark	8	1	South Africa	2	7
Egypt	4		South Corea	16	29
Finland	2	-5	Spain	4	
France	2	28	Sweden	6	1
Germany	10	10	Switzerland	6	5
Hong Kong	1	-3	Taiwan (China)	0	
Indonesia	7		Thailand	12	
Israel	27		Turkey	30	
Italy	37	29	United Kingdom	2	10
Japan	-4		United States	2	2
Malaysia	7		Venuzuela	27	
Mexico	37	36			

a. Block premium is average across control transactions of the difference between the price per share paid for the control block and the exchange price two days after the announcement of the control transaction, dividing it by the exchange price two days after the announcement and multiplying the ratio by the proportion of cash flow rights represented in the controlling block and expressed as a percentage premium. See Dyck and Zingales (2003). Table2, for details.

b. Voting premium is average of estimated total vote value as a percent of firm value. See Nenova (2003),Table 5, for details.

Source: Morck et al (2005)

In various studies, Canadian superior voting shares do trade at a *small* premium over other publicly traded shares of the same companies, reflecting the Canadian legal environment as well as the coattail provision.

Smith and Amoaka-Adu (1995) estimated the median premium at 6.37 % for the period 1988-1992; Doidge (2004) calculates a median premium of 11.9 % for the period 1994-2001. Nenova (2000, 2003), a Harvard researcher now with the World Bank, has carried out the most extensive cross-national research on the topic based on 1997 data. Her estimate of the control premium for superior voting shares in Canada ranges between 2% and 4%. Figures 1 and 2, drawn from her paper, show international comparisons of premium for superior voting shares (defined as "total vote to firm value") as function of "quality of law enforcement" and "investor protection".

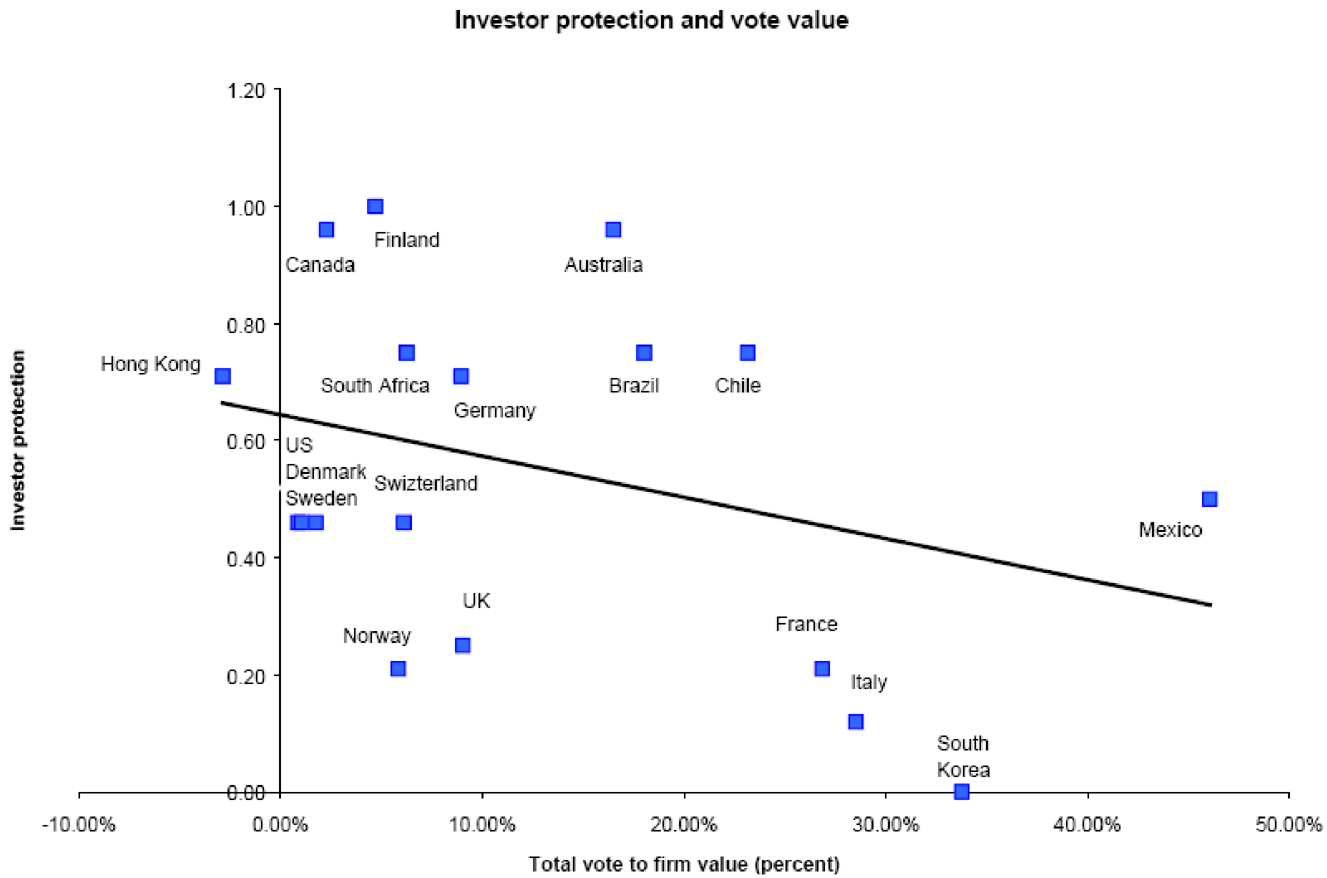

Figure 2

Source Nenova (2000, 2003)

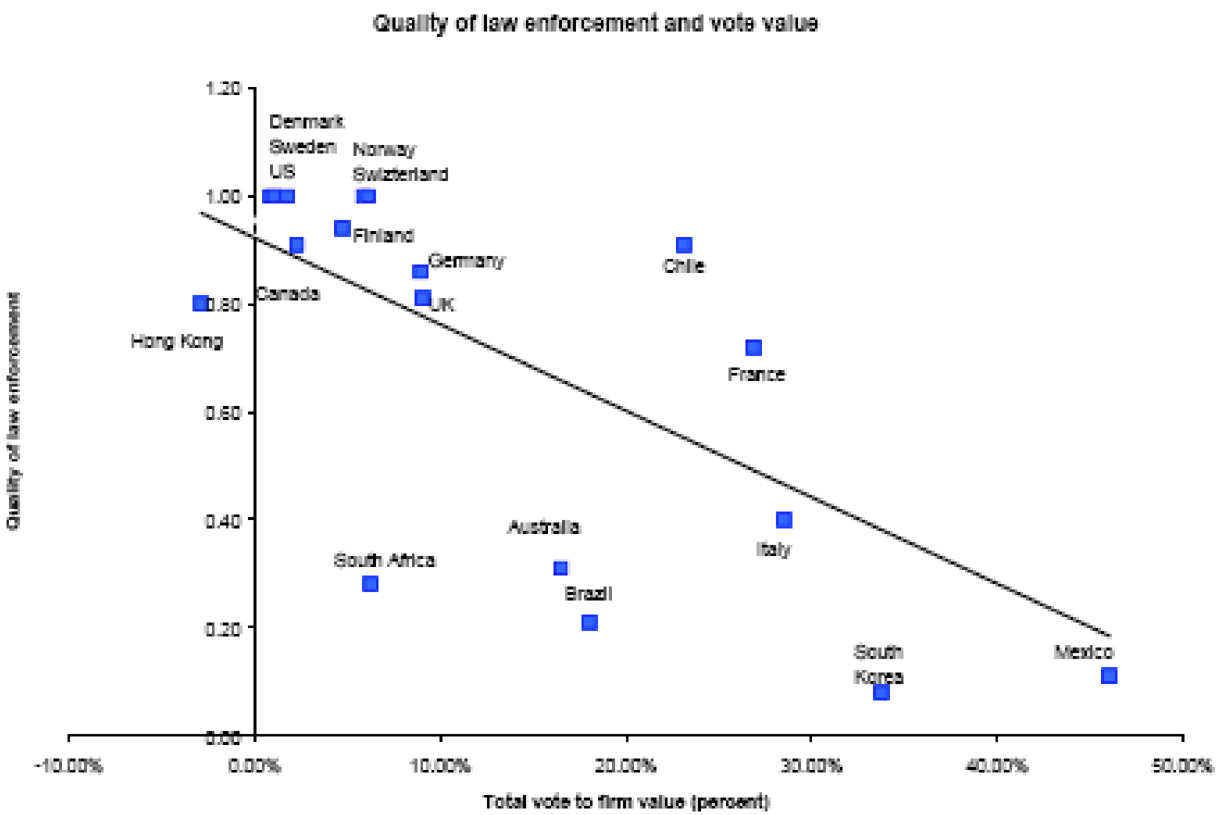

Figure 1

Source Nenova (2000, 2003)

The striking conclusion from this study and other similar ones is the critical importance of the legal framework to protect minority shareholders. With weak protection come large private benefits (e.g. Mexico, Italy, the latter has since taken several measures to improve its legal framework). With effective legal protection, only small private benefits accrue to controlling shareholders.

That is the case in Canada. The small overall premium observed for the multiple-vote shares of Canadian corporations results from the following empirical facts. In 1987, when the coattail rule was put in place, the TSX also entrenched the then-current situation; therefore a number of companies could continue to operate with a dual class of shares without any coattail provision. The TSX did not impose a period of transition. Therefore, twenty years later, the following situation prevails:

- At least 13 of the 96 companies with a dual class of shares still did not have a coattail provision;
- Of these 96 companies, 71 did not list their superior voting shares;
- Among the 25 companies that listed, only 8 had both a coattail provision and substantial float; the premium on those shares ranged **from none to less than 3%** over a 30-day period;
- For 12 of these 25 companies, their listed superior-voting shares are characterized by a small float and very few transactions, as most of these shares are owned by the controlling shareholders; in these cases, listing these shares appears to serve the purpose of providing the controlling shareholders with the ability to set at will an appropriate price for these superior voting shares.
- There were 5 companies among the 25, which had **no coattail** and a reasonable level of transactions; the premium on the superior voting shares of these companies was substantial **ranging from 4% to 15%** over a 30-day period;

The facts about superior-voting shares, control premium and coattails are pretty compelling:

- With a coattail provision, no premium is expected nor paid to the controlling shareholders;
- The absence of coattail in at least 13 cases is an anomaly twenty years after the enactment of this measure by the TSX, a situation that should be corrected;
- When superior voting shares are listed but very lightly traded, one should not assume that the price of these shares reflects a market assessment of the fair value of control; as a result, it is incorrect to state that shareholders who bought the non-voting shares were informed of the market premium for the voting shares;
- It is a fact, however, that buyers of the non-voting shares are well informed about the absence of a coattail provision. These companies' information circulars typically advise, in bold letters, that "**Holders of Non-voting Class B shares will not be entitled to participate in any take-over bid for the Common Shares of the Corporation".** Technically, in these cases, the holders of controlling shares could sell the control of the company without any offer made to the holders of other classes of shares;

- It is also a fact that companies without a coattail provision (and sufficient float) tend to show a significant market premium for their superior-voting shares.

Absent a coattail provision, it is consistent with financial market practices to be paid a "control" premium at takeover time. But is it fair? Is it appropriate for controlling shareholders to extract a premium to which they would not be entitled, had the company listed the superior-voting shares after 1987, or had the regulators put in place an orderly process for the inclusion of a coattail provision within a reasonable period of time?

All in all, recent research results are convergent and compelling. In the Canadian legal and regulatory context, ***where and when an effective coattail provision is in place***, the market premium on superior-voting shares is small to nil and the measured extraction of "private benefits" is minimal.[3]

- **On the benefits of family-controlled firms**

[3] "Of course, there may well be ***non-pecuniary*** benefits of control (prestige, social status, influence) but these private benefits are costless to other shareholders (See Gilson, 2006)"

From the vast bibliography on the issues and challenges of family-controlled corporations, emerge the terms and conditions for the effective and successful long-run management of these companies. (See among others the excellent work of Miller and Le Breton-Miller (2006)).

Two studies deserve special consideration for our purpose because of their scope, their recent publication, their careful design and the fact that they are based on data from the U.S.A., an efficient financial market with significant similarities to the Canadian legal environment.

The Anderson and Reeb study

The study by Anderson and Reeb (2003, 2004) is based on the S&P500 firms (excluding utilities and financial services) over the period 1992-1999. They found that families were present (i.e. held more than 5 % of shares) in one third of these companies and accounted for 18% of outstanding equity. The authors write:

"*Contrary to our conjecture, we find family firms perform better than non-family firms…Overall, our results are inconsistent with the hypothesis that minority shareholders are adversely affected by family ownership, suggesting that family ownership is an effective organizational structure*" (2003, p-1301)

They point out that: "*this result however, appears to be primarily driven by family firms* ***with greater degree of board independence*** *relative to family firms with few independent directors*" (2004, p24, emphasis added)…

"***Our results indicate that founding family ownership, balanced and tempered with independent directors, appears to be a particularly effective organizational structure***" (2004, p.27, emphasis added)

The Villalonga and Amit (2005) study

Their study is based on firms, which, at any time during the period 1994-2000, ranked among the Fortune 500 list of companies. A family firm is defined here as a "*firm whose founder or a member of the family by either blood or marriage is an officer, a director, or the owner of at least five percent of the firm's equity*" (2005; p.35).

These family firms account for some 36% of their Fortune 500 sample. Family shareholders owned 16% of the equity on average, with control-enhancing mechanisms (in half the cases) raising the share of vote to 33 % on average. Indeed, for 12% of these very large "family companies", the family is the largest shareholder with at least 20% of the votes.

The conclusions of their study are interesting and subtle.

*"**The data thus suggest that family firms are better performers than are non-family firms,** which is consistent with the findings of Anderson and Reeb (2004)" (2005, p11, emphasis added)*

However, family ownership creates maximum value… *"when it is combined with certain forms of family management and control. Family management adds value as long as the founder serves as the CEO of the family firm, or as its chairman with a non-family CEO" (2005, p.29)*

The authors of the study seek to answer a nagging issue about corporate structures*:*

"Which of two agency problems is more costly, the conflict between owners and managers (Agency Problem I) or the conflict between large and small shareholders (Agency Problem II)?"

The authors divide their sample into four groups, as follows:

- Type I: Family firms with control-enhancing mechanisms (dual-share classes, pyramids, cross-holdings, or voting agreements) and a family CEO. These firms might have Agency Problem II, but not Agency Problem I.
- Type II: Family firms with control-enhancing mechanisms but no family CEO. These firms might have both agency problems.
- Type III: Family firms with a family CEO but no control-enhancing mechanisms. These firms should not experience either agency problem.
- Type IV: Non-family firms, which may have Agency Problem I, but not Agency Problem II.

As shown in Table 3 herewith, there is a significant positive advantage to Type III family firms, i.e. firms with a family CEO but no control-enhancing mechanisms. It should be noted that in all cases, family firms perform as well or better than non-family firms.

TABLE 3
Impact of Agency Problems on Firm Value*

		Conflict of Interest Between Owners and Managers (Agency Problem I)	
		No	Yes
Conflict of Interest Between Large and Minority Shareholders (Agency problem II)	Yes	Type I 1.93	Type II 1.94
	No	Type III 2.66	Type IV 1.97

Source: Villalonga and Amit (2005) Table 4, p.38

- Measured by the q ratio, essentially a measure of the market value of assets divided by their book (or accounting) value.

In a second paper (Villalonga and Amit, 2006), the authors explore further their data bank to assess the impact of various control-enhancing measures on firm value. They conclude that dual-class shares have a negative impact on value for the first-generation of owners and a non-significant effect among second and later generation firms. They also find a *positive effect* on firm value for pyramidal structure and cross-shareholding agreements.

- **On family firms and quality of earnings**

Researchers have also investigated another claim made against family firms. Because of the undiversified wealth of family shareholders and their information advantage over other shareholders, these companies might have a strong inducement to manage earnings opportunistically (the entrenchment effect). The alternative view posits that there is a close alignment between family shareholders and other shareholders; this alignment effect would result in close monitoring of management, tight control on capital investments, swift decisions on executive changes, and commitment to long-term wealth creation.

Wang (2005) has carried out an exhaustive study of these two competing views of family firms. His conclusions are compelling:

"*The empirical results show that, on average,* ***founding family ownership is associated with higher earnings quality****. In particular, I find consistent evidence that founding family ownership is associated with lower abnormal accruals, greater earnings informativeness and less persistence of transitory loss components in earnings. (p.1, emphasis added)*

This line of research adds to the large body of empirical findings about the governance benefits of substantial shareholding on the part of board members. (Yermack, 1996; Agrawal and Knoeber, 1996; Klein, 1998; Hambrick and Jackson, 2000; Bhagat and Black, 1999, 2001; Baghat, Carey, and Elson, 1999; Joyce, Nohria, and Roberson, 2003).

Some researchers however contend that control of large corporations by a small number of families may lead to economic inefficiencies (Morck anf Yeung, 2004). This is an argument about the overall structure of ownership in a society; it has little relevance to the value-enhancing role of family firms.

- **On the value of the firm**

The argument goes that companies with dual share structures will be given a lower market value because of problems of performance expected as a result of such arrangements (i.e. the "agency costs"). Amoako-Adu and Smith (2005) fully test that hypothesis in a recent paper. They found no relationship in the Canadian context between a firm's market value (measured by Tobin's q-ratio) and its share structure, whether dual class, single class with concentrated ownership, or single class with widespread ownership. Allaire and Firsirotu (2003) found similar results for the 177 largest companies (on the basis of market value) listed on the Toronto Stock Exchange.

As noted above, Villalonga and Amit (2006) do find, in the U.S., some negative effect of dual-class shares for first-generation family firms but not for second and later generations. Zhang (2006) concludes his study of the same topic: "Overall the findings suggest that dual-class stock is not inefficient in U.S. firms" (p.23).

Furthermore, Ben-Amar and André (2005), having investigated the relationship between ownership structure and acquiring firm performance in Canada, conclude that dual-class share structures do not have any negative impact on performance.

"These results suggest that, contrary to other jurisdictions offering poor minority shareholder protection or poor corporate governance, separation of ownership and control is not viewed as leading to value destroying mergers and acquisitions, i.e. market participants do not perceive families as using M&A to obtain private benefits at the expense of minority shareholders." (Ben-Amar and André, 2005)

Context and recommendations

General

The issue of dual class share structures brings forth a host of broader legal, social and industrial issues. From the perspective of shareholder value creation, there is strong empirical backing for removing "entrenchment" measures put in place to protect **management.** The case is much weaker for dual-class shares, where the entrenchment benefits accrue to a class of shareholders and not to management. ***Whenever and wherever the legal framework ensures the protection of minority rights and the alignment of interests between minority and controlling shareholders, there are substantial benefits accruing to small shareholders from the monitoring exercised by the controlling shareholder.***

The coattail provision

Clearly, the coattail provision, along with the tighter governance rules implemented over the last ten years and the Canadian legal framework for protecting the rights of minority shareholders, have removed most, if not all, of the drivers of price premium and private benefits for Canadian dual-class-share structures. However, there are still a significant number (at least 13) of companies that benefit from the entrenchment of their status and do not have a coattail provision. The controlling shareholders of these companies could legally sell the control of the company and pocket the premium paid by the acquirer without a similar offer having been made to the minority shareholders.

Furthermore, it appears that a tightening of the coattail provision might be necessary to close some loopholes, such as the possibility of selling the controlling shares in a company to, say, two parties, neither one will, individually, acquire control but the two jointly will. Transactions of this type apparently would **not** trigger the coattail provision requiring that the same offer be made to all shareholders.[4]

Recommendation 1

Tighten the coattail provision such that any offer to buy control from a controlling shareholder must be broadened to include an offer on the same terms and conditions to all other shareholders.

A broad consensus exists around the notion that founders/entrepreneurs bring ideas, innovations and talent to a company, over and above financial capital; therefore, multiple-vote shares, not only protect them from unwanted takeovers, but also recognize this essential contribution to the success of a business.

The feature whereby a founder may have absolute control of a company with far less than 50% ownership acknowledges the value of entrepreneurship and family-owned enterprises. The issue here is to provide guidelines to entrepreneurs who in the future may want to call on public funding to finance the growth of their enterprises.

The following table shows the relationship between the ratio of multiple votes and the percentage of voting equity required for the **absolute** control of a company by a shareholder who owns all superior voting shares:

Voting ratio	**% of equity for control**
20 to 1	4.8%
10 to 1	9.1%
5 to 1	16.7%
4 to 1	20.0%

[4] See for example the battle for control of WIC International Communications Ltd. where this particular loophole played a major role.

A number of reasons may be marshaled to support a 20% threshold. For instance, this is the level at which a buyer of a company's shares is required to make an offer to all other shareholders. It is also the threshold level of ownership for tax-exempt inter-company dividends and for the consolidation of subsidiaries.

Therefore, **as a guideline for the future, it is recommended that a cap of 4 votes to 1** be placed on the number of multiple votes in a dual-class share structures. [Going forward, shares without any vote should not be permitted for a listed company]. This provision means that a shareholder must own at least **20%** of the total equity to maintain absolute control of a company. [5] This minimum level of ownership seems reasonable to control a publicly traded corporation. It provides entrepreneurs with considerable latitude for growth of their company before their voting power would fall below 50% (but their effective control would remain formidable even at that point).

Recommendation 2

As a guideline for future entrepreneurs, it is recommended that the class of multiple-vote shares going forward be capped at a ratio of 4:1.

Non-voting shares should be eliminated.

Board of directors

No matter how one slices the empirical evidence, there emerges a compelling support for the value-creating role of founders as CEO, chairman and controlling shareholder. The benefits of board directors with very large stakes in the company are clearly established. These benefits are enhanced when the company can count on independent-minded directors who are conscious of their role as **arbiters** between the

[5] The general formula is: minimum equity = **(k/1+k)** where k is expressed as the inverse of the number of votes: i.e. 4:1 becomes k= .25 or 25% and minimum equity becomes= 25/125=20.0%. Of course, this formula assumes that a shareholder (or related shareholders) own **all** multiple voting shares. If a controlling shareholder, for example, were to own only 80.0% of the multiple voting shares, then, this class of shares would have to represent 30.0% of total voting equity for that shareholder to have absolute control of the company.

interest of majority and minority shareholders. These board members must ensure that no private benefit is extracted from the company by the controlling shareholders.

Indeed, it is claimed that a board essentially made up of "independent" members with little of their wealth at stakes will not be, cannot be, an effective monitor of management. The ***unstated gist of Sarbanes-Oxley*** and similar legislations, which are essentially designed for corporations with diffuse shareholding, is to force companies to divulge enough information for the financial markets (and its guardians) to act as effective monitors of management, whether the board will do its part or not. (At the limit of this view, ***if enough information is provided to the market, boards become irrelevant.*** (Gordon, 2003))

But the situation is very different for companies with a controlling shareholder. The financial markets cannot impose their views on the controlling shareholders and cannot engineer a takeover of the company. Therefore, the legitimacy and independence of boards of directors is particularly critical in situations where the company is controlled by one or a few related shareholders.

Recommendation 3

Controlling shareholders should exercise their power to elect directors only for the fraction of the board equivalent to their percentage of total voting rights, with a cap of two-thirds of board members elected by a controlling shareholder. **It would be incumbent upon** ***the governance committee and the board to propose candidates for the board*** **who will likely receive a strong support from minority shareholders. Of course, once elected, all board members have a fiduciary responsibility to all shareholders.** ***The governance committee would determine the targeted make-up of the board, in terms of experience and expertise. The overall composition of the board should also comply with the appropriate criteria of independence set by regulatory authorities or relevant stock exchanges.***

In other words, control through superior-voting shares would place a **ceiling** of two-thirds on the number of board members elected by the controlling shareholder. "Minority" shareholders (even those with “no votes”) would elect the remaining fraction of the board, but not less than one third of board members in all cases. (Rousseau, 2005)

An alternative approach would be for ***shares with inferior voting rights*** to elect at least one third of directors (more if this class of shares accounts for a greater percentage of total votes). For instance, holders of class B shares with one vote would elect a third, at least, of directors; class A shareholders, with, say, four votes, would elect two-thirds, at most, of directors.

Clearly, the much-debated proposal to let shareholders vote for each individual director ***is almost a pre-requisite condition to make this recommendation effective***. However, when and if the voting system is modified to adopt individual voting, the results of the vote should not be made public; the governance committee of the board would inform shareholders whether all candidates for board position received a majority of votes; any director who did not receive a majority of votes would be asked to step down. The governance committee and the board would have to review situations where a board member received only a weak majority of votes.

The concept of cumulative voting could be introduced although it may not add much if the above recommendations were adopted.

Succession in family-controlled corporations

The research evidence is also clear about the conditions under which there are benefits of family control extending beyond the founder. These benefits tend to be maximized in the second or third generation when family members play an active role on the board but with a professional manager as CEO. But that is a finding with many exceptions. The history of corporations is replete with examples of great companies having been built by the sons of founders. Certainly, the admirable IBM of the 1960’s and 1970’s was the product of Thomas Watson Jr. and Johnson & Johnson achieved greatness under the son of the founder. *It is worth noting that if parents may sometimes suffer from a lack of objectivity in evaluating an offspring’s talent and abilities, there are also many cases where that judgment is sober, even harsh, particularly when the family fortune is in play.*

Be that as it may, the leadership succession in family controlled companies is an issue of legitimate concern for minority shareholders. Clearly, no one would argue that descendants of the founder be arbitrarily barred from succession ***because they are the descendants of the founder***. Neither should a founder be given an absolute right to appoint his/her successor when the company has a large number of investors and is publicly traded.

The challenge consists in putting in place a succession process that gives the proper assurance to all parties. A few facts about succession and corporate leadership may be useful here:

- The selection of the CEO and, more broadly, leadership planning and development are among the most value-creating roles that a board can play; however, board members in North America report that they do not spend enough time on this critical task, particularly in the wake of Sarbanes-Oxley and similar legislations, the requirements of which now dominate the board's agenda. A mere 21% of surveyed board members report satisfaction with their level of involvement in developing internal candidates for senior management positions (Charan, 2005).
- The process of CEO selection is inherently chancy (Conger and Nadler, 2004). Although fully reliable statistics are rather scarce, various sources place the failure rate for internal candidates at between 14% and 24% and at between 22% and 34% for external candidates (Byban and Bernthal, 2002); Charan reports on a Booz Allen study showing that 55% of "outside" CEOs who departed in 2003 were forced to resign by their boards; for internally chosen CEOs, the figure was 34% (Charan, 2005).
- There is some solid evidence that the optimal succession process at the top consists of what has been called "relay" succession whereby an heir is clearly identified and groomed carefully for succession. (Wei and Cannella, 2003; Rajagopalan and Zhang, 2004)
- In the midst of a growing trend towards external hires for the CEO position, several studies have cast doubt on the wisdom of that decision; Collins in his book ***Good to Great*** (2001) point out that of the 44 CEO's in his sample of great companies, 40 were insiders; in his sample of "direct

comparison companies" (i.e. mediocre equivalents), 20 of 65 CEO's were selected outside the ranks of the company. Khurana (2002) also makes a powerful case against the external hire as "corporate savior".

- Clearly, the descendants of the founder, having worked for the company and proven their mettle in different jobs within the company, qualify as legitimate **insiders** for succession, the carriers of the values and traditions that give soul and substance to a corporation.
- Given the stakes, the rights of all parties and the perceived risk of nepotism, the selection of a family member as CEO should result from a rigorous process along the line of our **fifth** recommendation.

When any descendant of the controlling shareholder is a candidate for the CEO position, the controlling shareholder has enormous emotional as well as financial stakes in the selection process. Ideally, the controlling shareholder should declare his/her conflict of interest; the board would then handle the succession decision *as if it were a related party transaction.*

However, would a CEO position become really attractive to a top-notch executive if the controlling shareholder is kept out of the decision process (let alone whether that is a plausible scenario)? Any savvy candidate will realize the potential for deadly conflict between a new CEO and a controlling shareholder who did not participate in, and does not accept, the decision!

Recommendation 4

Whenever a descendant or kin of the controlling shareholder is a likely candidate for the CEO position, we recommend that the independent members of the board, assisted by external advisers, if they so requested, define the personal qualities, the experience and abilities required for the next CEO. *The committee and the board should discuss thoroughly with the controlling shareholder the merits of different candidates*. The chairman of the committee would report at the annual meeting of shareholders following a CEO transition on the process adopted to select the new CEO.

Transition to a single-class share structure

Whenever an individual who controls a publicly listed corporation through a superior-voting class of shares, does not have, and is not likely to have in the future, any other family member qualified to play an active role in the management or on the board of the company, this controlling shareholder must discuss with the board the process of transition in capital structure.

Recommendation 5

In cases where there is no family succession to the controlling shareholder, either in management or as qualified board members, the controlling shareholder should plan a transition to a single-class share structure when he/she becomes unable or unwilling to play an active role on the board of the company. Whether that process takes the form of a sunset clause or some other form is irrelevant.

There is ample empirical evidence that, at that stage, the controlling shareholder will maximize the value of his/her holdings by a smooth transition to a professionally managed corporation without a dual class of shares.

The practice whereby a publicly listed company controls another publicly listed company **through a superior-voting class of shares** (see Table 1 for the frequency of such situations), should be prohibited in the future.

Conclusions

There are benefits to the continuity and assurance of control exercised by the founding entrepreneur and/or his heirs, particularly in a world of rampaging “investors” with little interest in the long-term health and performance of companies. However, there are also risks of actions and decisions on the part of controlling shareholders that may not be in the interest of other shareholders. Therefore, the proposals contained herein seek to strike a fair balance between the costs and benefits of dual-class share structures:

1. A strengthened coattail provision should be part and parcel of any capital structure where different classes of shareholders have different voting

rights; this is an important provision in Canada, which eliminates the greatest source of potential private benefits to a controlling shareholder: appropriating all or a larger part of the control premium paid by an acquirer.

2. **As *a guideline for future entrepreneurs, it is recommended that the class of multiple-vote shares going forward be capped at a ratio of 4:1, meaning that 20% of the equity is required for absolute control of a company.***

3. A substantial strengthening of minority rights by having a number of independent board members, proposed by the board, elected by shareholders other than the controlling shareholder. The proportion of board members so elected should be equal to the proportion of total votes held by non-controlling shareholders, but never less than one third of board members. **Once elected, all board members have a fiduciary responsibility to all shareholders. *The governance committee would determine the targeted make-up of the board, in terms of experience and expertise. The overall composition of the board should also comply with the appropriate criteria of independence set by regulatory authorities or relevant stock exchanges.***

4. Whenever a kin or descendant of the controlling shareholder is a candidate for the CEO position, independent members of the board, properly advised, would discuss the merits of various candidates with the controlling shareholder and report fully at the next annual meeting of shareholders on the process by which the board arrived at a decision.

5. When no family member of the controlling shareholder is likely to play in the future a significant role in the management or on the board of the company, the controlling shareholder should discuss with the board a process for the appropriate and orderly termination of the dual-class structures.

The overall aim of these recommendations is to enhance the benefits for all shareholders of dual-class structures. Indeed, the signal of an efficient system of legal protection for minority shareholders comes from the small premium attached to superior-voting shares, as is the case in Canada. In this sort of legal context, controlling shareholders provide substantial monitoring benefits to all shareholders. (Gilson, 2006)

Controlling shareholders should of course assess carefully the cost and benefits of maintaining these share structures; but, with the appropriate legal framework for protecting minority shareholders, the benefits would be mostly of the sort that works in the interest of all shareholders: committed, actively engaged, controlling shareholders closely monitoring management; a combination of independent board members and board members with their money and their reputation at stakes; long-term perspective and strategy, maintenance and transmission of values, loyalty and stability of talented personnel.

Appendix A

References

Agrawal, Anup & Charles R. Knoeber, "Firm Performance and Mechanisms to Control Agency Problems Between Managers and Shareholders", *Journal of Financial & Quantitative Analysis,* 31, 377, 1996.

Allaire, Y. and M. Firsirotu. « Changing the Nature of Governance to Create Value », *Institut C.D. Howe 189*, November 2003.

Amoako-Adu, Ben, Brian F. Smith, and Kalimipalli Madhu, "Concentrated and Dispersed Ownership Structures and Q Ratio: Dual and Single Class Shares", Working Paper, *Wilfrid Laurier University School of Business and Economics*, September 30, 2005.

Anderson, Ronald C. and David M. Reeb. "Board Composition: Balancing Family Influence in S&P 500 firms", *Journal of Economic Literature,* August 2004.

Anderson, Ronald C. and David M. Reeb. "Founding-Family Ownership and Firm Performance: Evidence form the S&P 500", *The Journal of Finance*, vol. LVIII, no. 3, June 2003.

Attig, Najah and Randall Morck. "Boards and Corporate Governance in a Typical Country", *CEA 39th Annual Meeting*, McMaster University, Hamilton, Ont., May 2005.

Barontini, Roberta and Lorenzo Caprio. "Family Control and Firm Value". *ECGI Working Paper*, June 2005.

Belcredi Massimo and Caprio Lorenzo, "Separation of cash-flow and control rights: Should it be prohibited?", *International Journal of Disclosure and Governance*, March 2004; 1,2; ABI/INFORM Global, pg. 171.

Bebchuk, Lucian and Oliver Hart. "A Threat to Dual-Class Shares: Viewpoint", *Financial Times,* May 31st, 2002.

Ben-Amar Walid and André Paul, "Separation of Ownership from Control and Acquiring Firm Performance: The Case of Family Ownership in Canada", *Working Paper*, University of Ottawa, May 17, 2005.

Bennedseny, Morten and Kasper Meisner N., "Separating the Impact of Dual Class Shares, Pyramids and Cross-ownership on Firm Value across Legal Regimes in Western Europe", *Working Paper SSRN,* November 2004.

Beos, Evangelos and Michael S. Weisback, "Private Benefits and Cross-Listings in the United States", *Emerging Markets Review*, University of Illinois, USA, 2004.

Bernthal, Paul R. and William Byham. "The Case for Internal Promotions", *Development Dimensions International*, White Paper, 2002.

Bhagat, Sanjai, Dennis C. Carey & Charles M. Elson, “Director Ownership, Corporate Performance, and Management Turnover”, *Business Law,* 54, 885, 1999.

Bhagat, Sanjai and Bernard Black, “The Uncertain Relationship Between Board Composition and Firm Performance”, *Business Lawyer*, 54, 1999.

Bhagat, Sanjai, and Bernard Black, “The Non-Correlation Between Board Independence and Long Term Firm Performance”, *Journal of Corporation Law*, *Vol. 27, Pp. 231-273, 2001*.

Bohren, Oyvind and Bernt Arne Odegaard. “Governance and Performance Revisited”, *ECGI-Finance Working Paper No.28,* February 2004.

Brennan, David M. “Fiduciary Capitalism, the Political Model of Corporate Governance, and the Prospect of Stakeholder Capitalism in the United States”, *Review of Radical Political Economics*, Winter 2005

Brin, Sergey and Larry Page. “Letter from the Founders- An Owner’s Manual For Google’s Shareholders”, SEC filing, Form S-1, April 29, 2004.

Burgundy Asset Management Ltd., “No good deed goes unpunished” September 2005.

Burkart, Mike, Fausto Panunzi and Andrei Shleifer. “Family Firms”, *The Journal of Finance*, vol. LVIII, no. 5, October 2003.

Bushee, Brian. “Identifying and Attracting the “Right” Investors: Evidence on the Behavior of Institutional Investors, *Journal of Applied Corporate Finance*, Vol. 16, No. 4, Fall 2004.

Carney, Michael. “Corporate Governance and Competitive Advantage in Family Controlled Firms”, *Entrepreneurships Theory and Practice*, vol. 29, no 3, May 2005.

Charan, Ram. “Ending the CEO Succession Crisis”. *Harvard Business Review*, February 2005.

Clark, Robert C. « Corporate Governance Changes in the Wake of the Sarbanes-Oxley Act: A Morality Tale for Policymakers Too », *Harvard Law and Economics,* Discussion Paper No. 525, December 2005.

Collins, Jim. *Good to Great Why Some Companies Make the Leap... and Others Don't*. Harper, Collins, 2001.

Conger, Jay and David. A. Nadler. “When CEOs step up to fail”, *MIT Sloan Management*, Winter 2005, 46 (2).

Cronqvist, Henrik and Mattias, Nilsson. “Agency Costs of Controlling Minority Shareholders”, *Journal of Financial and Quantitative Analysis*, vol. 38, no. 4, December 2003.

Dimitrov, Valentin and Prem Jain. « Dual Class Recapitalization and Managerial Commitment: Long-run Stock Market and Operating Performance", *Journal of Corporate Finance,* 2005.

Doidge, Craig. "U.S. Cross-Listing and the Private Benefits of Control: Evidence from Dual-Class Firms", *Journal of Financial Economics*, vol. 72, 2004.

Dunlavy, Colleen, "From Citizens to Plutocrats: Nineteenth Century Shareholder Voting Rights and Theories of the Corporation", *SSRH Paper*, 2004

Dyck, Alexander and Luigi Zingales. "Private Benefits of Control: An International Comparison", *The Journal of Finance*, vol. LIX, no. 2, 2004.

Edgecliffe-Johnson, Andrew and Aline Van Duyn. "Murdoch Weathers Investor Protest", *Financial Times*, October 21st, 2005.

Faccio, Mara and Larry H.P. Lang. "The Ultimate Ownership of Western European Corporations", *Journal of Financial Economics*, vol. 65, 2002.

Faleye, O., V. Mehrothra and R. Morck. "When Labor has a Voice in Corporate Governance", *NBER Paper*, March 2005.

Gilson, Ronald J. "Controlling Shareholders and Corporate Governance" in in Gram Mather, editor "One Share One Vote?", *supra*, 2006.

Gompers, Paul, Joy Ishii, and Andrew Metrick. "Corporate Governance and Equity Prices", *Quarterly Journal of Economics*, February 2003.

Gompers, Paul, Joy Ishii and Andrew Metrick. "Incentives vs. Control: An Analysis of U.S. Dual-Class Companies", *The Rodney L. White Center for Financial Research*, Working Paper, December 2004.

Gordon, Jeffrey N. "Governance Failures of the Enron Board and the New Information Order of Sarbanes-Oxley", *SSRN Paper*, March 2003.

Graham, John R., Campbell R. Harvey, and Shiva Rajgopal. "The Economic Implications of Corporate Reporting", *SSRN Paper*, January 2005

Gry, Tara, "Dual-Class Share Structures and Best Practices in Corporate Governance, *Economics Division*, Library of Parliament, August 18, 2005.

Joyce, William, Nithin Nohria, and Bruce Roberson. *What really works: the 4+2 formula for sustained business success,* HarperBusiness, 2003.

Hu, H. and B. Black, "Empty Voting and Hidden Ownership: Taxonomy, Implications and Reform", SSRN paper, 2006.

Khurana, Rakesh, S*earching for a Corporate Saviour,* Princeton University Press, 2002.

Klein, April, “Firm Performance and Board Committee Structure”, *Journal of Law & Economics,* 41, 275 (1998).

Klein, Peter, Daniel Shapiro, and Jeffrey Young. “Corporate Governance, Family Ownership and Firm Value: the Canadian Evidence”. *Corporate Governance*, vol. 13, no. 6, November 2005.

Kwak, Mary, “The Advantage of Family Ownership” *MIT Sloan Management Review*, Winter 2003.

Lortie, Pierre, “The price of control”, *National Post*, May 27th 2006

Martin, S. and F. Partnoy, “Encumbered Shares”, SSRN paper, 2004

Mather, Gram, editor, *One Share One Vote?* European Policy Forum, 2006

Morck, Randall and Bernard Yeung. “Family Control and the Rent-Seeking Society”, *Entrepreneurship Theory and Practice*, Summer 2004.

Morck, Randall, Daniel Wolfenzon and Bernard Yeung. “Corporate Governance, Economic Entrenchment and Growth”, *Journal of Economics Literature*, vol. 43, no. 3, September 2005.

Morck, Randall, David A. Strangeland, and Bernard Yeung, “Inherited Wealth, Corporate Control and Economic Growth: The Canadian Disease”, NBER working paper, 1998.

Morck, Randall. “The market and the closely held corporation in Canada: the implications of concentrated share ownership for corporate performance”. *Canadian Investment Review*. Toronto: Spring 1996. Vo. 9, 1: pg. 49

National Union of Public and General Employees. “The Disadvantages of Dual-Class Structures to Public Shareholders”, 2005.

Nenova, T., “The value of corporate voting rights and control: a cross country analysis”, *Journal of Financial Economics* 68, 2003, 325-351.

Nenova, T., “The Value of Corporate Votes and Control Benefits: A Cross-country Analysis”. Working Paper, Harvard University, 2000.

Pajuste, Anete. “Determinants and Consequences of the Unification of Dual-Class Shares”, *European Central Bank,* Working Paper no. 465, March 2005.

Pajuste, Anete. “What Drives the Unification of Multiple Class Shares?”, *European Financial Management Association Conference,* May 2005.

Parizeau, Robert. “Multiple Voting Shares and Governance”, *Director,* Issue 122, October 2005.

Porter, Michael. “Capital Choices: Changing the Way America Invests in Industry”, Journal of Applied Corporate Finance, Volume 5, No. 2, Summer 1992.

Rajagopalan, Nandini and Yan Zhang. “When The Known Devil Is Better Than An Unknown God”, *Academy of Management Journal*, 47(4): 2004, 483-500.

Robinson, Chris, John Rumsey and Alan White. “Market Efficiency in the Valuation of Corporate Control: Evidence from Dual Class Equity”, *Revue Canadienne des Sciences de l’Administration,* vol. 13, no. 3, September 1996.

Romano, Roberta. “The Sarbanes-Oxley Act and the Making of Quack Corporate Governance”. *Yale Law Journal*, vol. 114, 2005

Rousseau, Henri-Paul. “Gouvernance : une religion mais plusieurs églises ? Le cas de la multiplication des votes », *Entretiens du Centre Jacques-Cartier*, Décembre, 2005.

Sercu, Piet and Tom Vinaimont, « One Share One Vote ? » in Mather Gram, editor, 2006.

Shareholder Association for Research and Education. “Second Class Investors - The Use and Abuse of Subordinated Shares in Canada”, April 2004.

Smith, Brian and Ben Amoako-Adu. “Relative Prices of Dual Class Shares”, *Journal of Financial and Quantitative Analysis*, vol. 30, No. 2, June 1995.

Smith, Brian and Ben Amoako-Adu, “Management succession and financial performance of family controlled firms”, *Journal of Corporate Finance*, Vol. 5, Issue 4, December 1999, Pages 341-368.

Smythe, Donald. “Shareholder Democracy and the Economic Purpose of the Corporation”, *NBER Working Paper*, May 2006.

Stout, Lynn A. “Do Antitakeover Defenses Decrease Shareholder Wealth? The Ex Post/Ex Ante Valuation Problem”, *Stanford Law Review*. Vol. 55, Issue 3, 2002.

Villalonga, Bélen and Raphael Amit. “How Do Family Ownership, Control and Management Affect Firm Value”, *Journal of Financial Economics*, forthcoming, 2005.

Villalonga, Bélen and Raphael Amit. “Benefits and Costs of Control-Enhancing Mechanisims of U.S. Family Firms”, ECGI Working Paper, 2006.

Wang, Dechun, “Founding Family Ownership and Earnings Quality”, *SSRN Paper*, November 2005.

Wei, Shen and Albert A. Cannella Jr. “Will succession planning increase shareholder wealth?” *Strategic Management Journal*, Feb. 2003, 24 (2).

Yermack, David. ”Higher Market Valuation of Companies with a Small Board of Directors, *Journal of Financial Economics,* 40 (2), 1996.

Zhang, Yi. “Dual-Class Stock and Firm Performance” in Mather, Gram, editor, *One Share One Vote?* European Policy Forum, 2006

Appendix B
Dual-class companies traded on the TSX

Source: National Union of Public and General Employees. "The Disadvantages of Dual-Class Structures to Public Shareholders", 2005.

ADF Group Inc.
AGF Management Ltd.
Agricore United
Akita Drilling Ltd.
Alimentation Couche Tard Inc.
Alliance Atlantis Communications Inc.
Andres Wines Ltd.
Arbor Memorial Services Inc.
Astral Media Inc.
Atco Ltd.
Becker Milk Co. Ltd. (The)
BMTC Group Inc.
Bombardier Inc.
Brampton Brick Ltd.
Caldwell Partners International Inc.
Call-Net Enterprises Inc.
Canadian Tire Corp. Ltd.
Canadian Utilities Ltd.
Canam Manac Group Inc. (The)
Canwest Global Communications Corp.
CCL Industries Inc.
Celestica Inc.
Central Fund of Canada Ltd.
CGI Group Inc.
Chateau Inc. (Le)
CHC Helicopter Corp.
Chum Ltd.
Cogeco Cable Inc.
Cogeco Inc.
Coolbrands International inc.
Corby Distilleries Ltd.
Corus Entertainment Inc.
Cossette Communication Group Inc.
Danier Leather Inc.
Diaz Resources Ltd.
Dorel Industries Inc.
Dundee Bancorp Inc.
Electrohome Limited
Empire Company Ltd.
EXFO Electro-Optical Engineering Inc.
Extendicare Inc.
Fairfax Financial Holdings Ltd.
FirstService Corporation
Four Seasons Hotels Inc.
GLP NT Corporation
Graystone Corporation
GSW Inc.
Guardian Capital Group Ltd.
Hammond Manufacturing Co. Ltd.
Hammond Power Solutions Inc.
Inscape Corporation
International Forest Products Ltd.
Jean Coutu Group (PJC) Inc.
La Senza Corporation
Laperriere & Verreault Inc. (Groupe)
Lassonde Industries Inc.
Lindsey Morden Group Inc.
Logistec Corp.
M8 Entertainment Inc.
Magna Entertainment Corp.
Magna International Inc.
MDC Partners Inc.
Metro Inc.
MI Developments Inc.
Newfoundland Capital Corp.
Onex Corporation
Oppenheimer Holdings Inc.
Optimum General Inc.
Pan-Ocean Energy Corporation
Power Corporation of Canada
Premier Tech Ltee.
Prometic Life Sciences Inc.
Quebecor Inc.
Quebecor World Inc.
Reitmans (Canada) Ltd.
Rogers Communications Inc.
Royal Group Technologies Limited
Shaw Communications Inc.
Shawcor Ltd.
Spectra Group of Great Restaurants
Spectra Premium Industries Inc.
St. Lawrence Cement Group Inc.
Stonington Capital Corporation
Teck Cominco Ltd.
Teknion Corporation
Telus Corporation
Torstar Corporation
Transcontinental Inc.
Trizec Canada Inc.
TVA Group Inc.
Uniforet Inc.
Van Houtte inc.
Velan Inc.
Viceroy Homes Ltd.
Wescast Industries Inc.
Zenon Eironmental Inc.

Appendix C
Voting Power Dilution of TSX listed dual-class companies

Source: National Union of Public and General Employees. “The Disadvantages of Dual-Class Structures to Public Shareholders”, 2005.

Company	VPD
GLP NT Corporation	212505.13
Central Fund of Canada Ltd.	2358.41
AGF Management Ltd.	1576.34
Onex Corporation	834.69
Astral Media Inc.	144.12
Oppenheimer Holdings Inc.	134.40
Magna International Inc.	81.71
MI Developments Inc.	74.98
Teck Cominco Ltd.	30.38
Corus Entertainment Inc.	24.78
Canadian Tire Corp. Ltd.	23.80
Shaw Communications Inc.	20.30
MDC Partners Inc.	19.96
Dundee Corporation	19.58
Alliance Atlantis Communications Inc.	14.47
Metro Inc.	13.89
CCL Industries Inc.	13.31
Akita Drilling Ltd.	11.26
FirstService Corporation	10.85
M8 Entertainment Inc.	9.58
Atco Ltd.	8.58
Call-Net Enterprises Inc.	8.45
International Forest Products Ltd.	8.42
Pan-Ocean Energy Corporation	8.15
Torstar Corporation	7.87
TVA Group Inc.	7.07
Trizec Canada Inc.	6.99
Guardian Capital Group Ltd.	6.87
Premier Tech Ltee.	6.79
CHC Helicopter Corp.	6.62
Cogeco Inc.	6.36
Four Seasons Hotels Inc.	6.34
Celestica Inc.	5.98
CGI Group Inc.	5.94
Diaz Resources Ltd. *	5.65
Fairfax Financial Holdings Ltd.	5.48
Reitmans (Canada) Ltd.	5.18
Coolbrands International inc.	5.07
Electrohome Limited	5.07
Newfoundland Capital Corp.	5.06
Power Corporation of Canada	5.05
Andres Wines Ltd.	4.95
Uniforet Inc.	4.93
Rogers Communications Inc.	4.89
Royal Group Technologies Limited *	4.72
Prometic Life Sciences Inc.	4.59
Caldwell Partners International Inc.	4.45
GSW Inc.	4.40
Dorel Industries Inc.	4.36
Graystone Corporation	4.30

Company	VPD
Laperriere & Verreault Inc. (Groupe)	4.27
Lindsey Morden Group Inc.	4.22
Arbor Memorial Services Inc.	4.20
Transcontinental Inc.	4.17
Chum Ltd.	4.07
Extendicare Inc.	3.91
Danier Leather Inc.	3.87
Shawcor Ltd.	3.77
Bombardier Inc.	3.62
Stonington Capital Corporation	3.40
Spectra Group of Great Restaurants	3.39
Becker Milk Co. Ltd. (The)	3.34
Brampton Brick Ltd.	3.32
Canam Manac Group Inc. (The)	3.28
Canadian Utilities Ltd.	2.88
Alimentation Couche Tard Inc.	2.84
Van Houtte inc.	2.52
Quebecor Inc.	2.44
BMTC Group Inc.	2.44
Quebecor World Inc.	2.39
Inscape Corporation	2.39
Hammond Manufacturing Co. Ltd.	2.30
Hammond Power Solutions Inc.	2.30
La Senza Corporation	2.30
Viceroy Homes Ltd.	2.22
Cossette Communication Group Inc.	2.22
Cogeco Cable Inc.	2.21
Canwest Global Communications Corp.	2.04
Jean Coutu Group (PJC) Inc.	1.94
Empire Company Ltd.	1.88
Telus Corporation.	1.88
Magna Entertainment Corp.	1.76
St. Lawrence Cement Group Inc.	1.74
ADF Group Inc.	1.72
Spectra Premium Industries Inc.	1.70
Lassonde Industries Inc.	1.68
EXFO Electro-Optical Engineering Inc.	1.67
Logistec Corp.	1.66
Chateau Inc. (Le)	1.63
Wescast Industries Inc.	1.54
Teknion Corporation	1.51
Optimum General Inc.	1.34
Velan Inc.	1.32
Zenon Eironmental Inc.	1.23
Corby Distilleries Ltd.	1.17
Agricore United	1.02

** Pending Management proposal on proxy to eliminate dual class structure.*