Dual-Class (or Multi-Class) Shares

- Companies issue more than one class of stock with unequal voting rights.
- In general, a family or group of insiders controls the class with superior voting rights, giving them a disproportionate say over corporate matters.
- When these owners control more than 50% of the vote, the company cannot be taken over without their consent.
- Excess control (or “the wedge”) is calculated as the difference between the voting and economic interests of the controlling class.
  - E.g., if Class A has 30% voting and 10% economic interest, the wedge = 20%.
• Potential benefits:

(+) Allows insiders to access public capital without forfeiting control.
(+) Protects company from opportunistic takeover; allows for long-term investment.
(+) Preserves the independence of management and board.

• Potential costs:

(-) Insulates management and board from market forces that encourage performance.
(-) Can lead to management entrenchment.
(-) Can lead to rent extraction and excess compensation.

• Empirical evidence tends to be negative.

Dual-class shares are generally associated with higher agency costs and lower governance quality.
Masulis, Wang, and Xie (2009) examine the relation between dual-class shares and governance quality.

- Insiders hold 67% voting and 39% cash flow rights, on average (wedge = 28%).

Find that as wedge increases:
- Shareholders react more negatively to acquisitions and capital expenditures.
- Shareholders place less value on cash (i.e., expect it to be put to less valuable use).
- CEO compensation increases.

Conclusion: dual-class shares are associated with lower governance quality.

“These findings support the agency hypothesis that managers with greater excess control rights over cash flow rights are more prone to pursue private benefits at shareholders’ expense.”


Find that as wedge increases, dual-class companies pay higher effective tax rates.

Interpret results as consistent with hypothesis that entrenched managers face less market pressure to increase profit.

Conclusion: dual-class shares are associated with lower governance quality.

“Lower levels of tax avoidance are likely a result of excess voting rights creating managerial entrenchment that allows managers to perform at a suboptimal level without fear of job loss.”
Gompers, Ishii, and Metrick (2010) study the relation between dual-class shares and firm value.

- Find that firm value (Tobin’s Q) decreases as insider voting rights increase relative to cash-flow rights.

Conclusion: dual-class shares are associated with lower firm value.
Lauterbach and Pajuste (2015) study the impact of share-class unification on firm value.

Unification: voluntarily changing from dual-class to single-class shares.

Sample: 121 unifying companies, 190 non-unifying companies, 1996-2006.

Find that voluntary share-class unifications are associated with economically significant increases in firm value (Tobin’s Q).

Conclusion: removing dual-class shares is beneficial to firm value.

“These findings suggest that unifications, per se, are beneficial for public shareholders, most probably because of the corporate governance improvements accompanying them.”
Smart, Thirumalai, and Zutter (2008) also study the relation between share-class structure and firm value.

Sample: 253 dual-class, 2,369 single-class companies with IPOs 1990-1998.

Find that:
- Dual-class companies trade at lower values (relative to earnings and cash flow) than companies with single-class shares following IPO.
- Valuation discounts persist for the subsequent 5 years.
- Sensitivity of CEO turnover to performance is lower among dual-class companies.
- Shareholders react positively to share-class unifications (5-day period around the effective date).

Conclusion: dual-class shares are associated with lower firm value.
Cremers, Lauterbach, and Pajuste (2018) study the long-term performance of companies with dual-class shares.


Find that dual-class companies:
- Have similar long-term stock price performance.
- Have higher valuation at IPO (Tobin’s Q); premium disappears 6 to 9 years later. (however, those with a valuation discount at IPO continue to trade at a discount.)
- Are less likely to be taken over within 9 years following IPO (27% vs. 35%).
- Are less likely to be delisted due to financial distress (6.3% vs. 13%).
- Voting wedge increases over time (16% 1 year post IPO, 22% 5 years, 26% 9 years).

Conclusion: shareholders are not harmed by dual-class shares.
Anderson, Ottolenghi, and Reeb (2017) also study the long-term performance of companies with dual-class shares.

Sample: 2,379 companies, 2001-2015.

Find that:
- Founding families control 89% of dual-class firms (28% of single-class firms).
- Dual-class companies with family owners trade at 12% discount (Tobin’s Q).
- Those without family owners trade at 21% premium.
- Dual-class firms with family owners outperform benchmark by 3.5% annually.

Conclusion: governance quality depends on factors other than share structure.

“Investor concern about dual-class shares may not be driven by pure monetary concern but a behavioral bias against unequal voting rights.”
The evidence on dual-class shares tends to be negative.

In general, dual-class shares are associated with lower firm value, worse capital allocation decisions, and lower governance quality.

Researchers generally conclude that these outcomes are the result of a controlling share structure that insulates managers from market forces.

Nevertheless, some research finds that companies with dual-class shares do not perform worse than peers.

It might be the case that the variation of governance quality among companies with dual-class shares can be explained by variables other than share structure.


Martijn Cremers, Beni Lauterbach, and Anete Pajuste. The Life-Cycle of Dual Class Firms. 2018. Social Science Research Network.