

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 1974 to 2003. The voting premium varies from 1% to 100%, peaking during the late 1980s. A pure control contest explanation cannot fully explain our evidence. The identity of the largest shareholder is a key determinant of the price difference between voting and non-voting stocks. Family firms have higher voting premium, especially when the family owns a large stake in the company's voting equity. Being a widely-held firm increases the voting premium as well. The ratio between non-voting and voting shares raises substantially the price difference.

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1. Introduction

Since the early 1980s, researchers have investigated the value of voting rights, both with single-country studies (Lease *et al.*, 1983, Horner, 1988, Megginson, 1990, Zingales, 1994, 1995, Rydqvist, 1996, Hoffmann-Burchardi, 1999, Goetzmann *et al.* 2002, Linciano, 2002, Neumann, 2003) and with cross-countries analyses (Nenova, 2003).

Although previous research (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 level of private benefits of control, the voting premium literature has not systematically examined the effect of the controlling shareholder identity yet. Both Demsetz and Lehn (1985) and Holderness and Sheehan (1988) argue that individual investors, or to put it differently, families, have larger private benefits, including non pecuniary benefits, when they are controlling shareholders. In this paper, we investigate the relationship between the voting premium and the type of controlling shareholder, with particular attention to the role of families. Besides families, we consider other types of ultimate controlling shareholders, namely the state, and foreign owners, and Italian financial or corporate shareholders. Finally, we also take into account firms without controlling shareholder, i.e. widely-held firms.

We investigate the voting premium in Italy, a country 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, since 1974 (Law 216), listed companies can issue a type of equity security with no-voting rights. Furthermore, many listed companies issued non-voting stocks, including large companies.¹ Therefore, non voting shares cannot be considered irrelevant. Differently from Zingales (1994) who studies the 1987-1990 period and Linciano (2002) who examines the voting premium between 1990 and 2001, this paper is the first study to provide evidence for the entire period following the introduction

¹ Banca Intesa, Fiat, Montedison, Telecom Italia, and Unicredito, just to name a few. These are the *current* company names. Some of these companies changed name several times in the sample period.

of non-voting stocks.² Such a long period permits to examine whether and how changes in financial markets, corporate law, and corporate governance affect the voting premium and also to disentangle the ownership effects from these effects.

As common in the literature (Zingales, 1994), we define the voting premium as the price differential between voting and non-voting shares divided by the price of non-voting shares.³ The evidence documents that the voting premium fluctuated widely over the 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, it is necessary to examine the full sample period to avoid biases in the results due to the period examined.

The voting premium is often associated to private benefits of control. The argument is 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. This happens even when a mandatory bid rule is in place.⁴ Thus, 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 Italian evidence only with a control contest story. Although non-voting stocks were not covered by the mandatory bid rule introduced in 1992, the voting premium decreased in the 1990s, especially in the late 1990s when the number of

² The empirical analysis covers the period 1977-2003 because no firm in the sample had non-voting stocks listed on the Milan Stock Exchange (now Borsa Italiana) in the period 1975-1976.

³ We present results based on a different definition used by Nenova (2003) in the robustness section. Bigelli and Sapienza (2003) argue that the voting premium measured from voting and non-voting stock prices presents many problems in the period 2000-2002. The most serious one is due to the illiquidity of some non-voting shares following non-coercive unifications. We deal with this problem later in the paper.

⁴ Under the mandatory bid rule (and the equal opportunity rule), the bidder has to make the same offer to all the company's shareholders. Thus, it cannot just acquire 50.1% of the votes offering part of the expected private benefits to the marginal shareholder. However, to win the takeover battle, the bidder has still to offer something, otherwise the marginal shareholder will turn down the offer and the offer will fail.

acquisitions peaked. According to a pure corporate control contest argument, the voting premium should have gone up in a period of intense M&A activity. We examine the M&A transactions and we find that controlling shareholders were the bidder in the majority of M&A deals that took place in our sample. Far from being control contests, these transactions were simply aimed at delisting target firms in order to reorganize the group's structure.

We look to other determinants that may explain the voting premium. In particular, we focus on 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 since their private benefits (pecuniary and non pecuniary) are higher. Widely-held firms also have a larger voting premium. This is consistent with the fact that voting rights are more valuable when the probability of a control contest is high. The remaining two types of controlling shareholders, the state and foreign owners, do not generally have a significant impact on the voting premium. The paradox of having results that support both the control contest argument and the private benefits story is explained looking at percentage of voting equity held by families. In fact, the positive relationship between voting premium and family firms is concentrated in family firms where the family has high ownership stakes.

The voting ratio, the ratio between the number of non-voting shares and the number of voting shares outstanding, is another important determinant of the voting premium. 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, given a level of private benefits proportional to the assets under control, the higher the percentage of non-voting equity issued, the lower the ownership stake necessary to control the company.

This paper offers two important contributions to the literature. First of all, this paper is the first to attempt an investigation on the full period in which non voting shares can be issued in Italy, or in any other country. Studying the full period permits to disentangle the effects due

to different ownership structures from those due to changes in legislation, investor protection, and time effects. Second, the identity of the controlling shareholder has been almost ignored in the literature on the voting premium. This paper investigates extensively how the type of controlling shareholder affects the price differential between voting and non-voting shares. It also examines how the interaction between the type of controlling shareholder and the percentage of voting equity held by this shareholder impacts the voting premium.

The remaining of the paper proceeds as follows. Section 2 presents the basic institutional background. In Section 3, we introduce the hypotheses and predictions derived from the literature. Section 4 describes the data. Section 5 shows the behavior of the voting premium throughout the sample period. Section 6 contains the results. Section 7 presents some robustness tests. Sections 8 and 9 examine the impact of acquisitions and stock unifications on the voting premium. Section 10 deals with problem related to the voting premium measurement. Section 11 discusses the endogeneity problem. Section 12 concludes.

2. Institutional Aspects of Non-Voting Shares and Corporate Law Changes

In this section, we present the main institutional and legal aspects concerning non voting shares. While a detailed analysis of Italian laws goes beyond the scope of this paper, some institutional background is essential to understand the paper.

Law 216/1974 gave listed companies the possibility to issue a new type of equity security with no-voting rights. This new security can be either convertible in common stock or nonconvertible. Non voting shares are generally bearer shares. Therefore, it is not usually possible to identify who owns non-voting shares. Bigelli *et al.* (2006) describe few recent cases where it was known that the controlling shareholder also owned non-voting shares.

To compensate for the lack of voting rights, non voting shares enjoy a privilege both in dividends and liquidation. Non-voting shares are entitled to a minimum dividend (5 percent of the par value) and to an additional dividend (2-3 percent of the par value) with respect to voting

shares when a dividend is paid to these shares. Differently from Germany, non-voting shares do not receive any temporary voting right if minimum dividends are not paid.⁵ The rights on unpaid minimum dividend distributions are cumulated for the following two years. 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.

Another important point of Law 216 is that non-voting shares do not have to exceed 50% of the company's equity capital. This provision assures that there are always more voting shares than non-voting shares. Thus, it is not possible to have in Italy situations like those described by Rydqvist (1996) for small Swedish firms, whose equity capital is composed primarily by low voting rights shares (Class B shares). Since only listed firms can issue non voting shares, it is not possible to have companies with only non voting shares listed.⁶

The legal regime changed twice during the period analyzed: in 1992, Law 149, and in 1998, Legislative Decree 58, the so-called Consolidated law of Financial Intermediation (*Testo unico dell'intermediazione finanziaria*). Before 1992, public offers were not required by law and control changes took place in private negotiations between the incumbent controlling shareholder and the would-be one (Caprio *et al.*, 1994). Minority voting shareholders could not extract any gain from this kind of transaction, except the potential improvement in the company performance under the new owner. Law 149 introduced the mandatory bid rule when a bidder attempts to buy or has already acquired the majority control of the firm. In a mandatory bid rule, the bidder has to make a public offer to buy all the target's outstanding ordinary shares after exceeding a given threshold.⁷ The rationale of the mandatory bid rule is that minority voting

⁵ In Germany, if a 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).

⁶ There were some exceptions. Formerly state-owned companies Banca Nazionale del Lavoro, Banco di Napoli, and Banco di Sardegna had only non voting shares listed on the stock market for some time.

⁷ Briefly, the law introduced four different types of public offers:

- voluntary public offer, where the bidder voluntarily offers to buy x% of the target firm's shares;

shareholder should be able to participate to the transaction at the same terms as the controlling shareholder. However, the mandatory bid-rule was not extended to non-voting shares.

While not modifying the regulation on non-voting shares, the 1998 law enhanced the protection of minority shareholders, reducing the expected value of private benefits. The 1998 Law also simplified the takeover rule requiring that any person (or company) who exceeds the threshold of 30% has to make a public offer to buy all the ordinary shares.

3. 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 the stake held by the largest shareholder (*FIRST_SH*) is often used as a proxy for the allocation of control among shareholders.⁸ If the largest shareholder owns more than 50% of the voting equity, 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 votes, a negative relationship is still 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 Shleifer and Vishny (1986) toehold argument, 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

- 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.

- "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.

- mandatory freeze-out bid if free-float is reduced below 10% (or a threshold decided by CONSOB).

⁸ Another proxy usually used in the literature is the Shapley value or modified versions of it, see Zingales (1994). We present results for the Shapley Value and other alternatives to *FIRST_SH* in Section 7.

hypothesis, the size of the stake held by the second largest shareholder (*SECOND_SH*) is used. 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.⁹

We have four dummies FAMILY, WH, STATE, and FOREIGN, to capture the identity of the controlling shareholder.¹⁰ Table 1 provides the number and the relative frequency of each type of firm among the firms with non-voting shares outstanding in the sample period. Not surprisingly, almost two-thirds of firm-year observations concerns family firms. The relative frequency of family firms among non-voting firms is even higher in the last years of the sample, suggesting that family firms are the most reluctant controlling shareholder to get rid of dual class share structures.

[Please insert Table 1 here]

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 corporate control transactions among firms with a majority individual shareholder with the fact that some benefits of control cannot be transferred, like the pride of running the company she, or a family member, founded. Therefore, we expect that families value control more than corporate shareholders. Following La Porta, *et al.* (1999), Claessens *et al.* (2000), and Faccio and Lang (2002), we define *FAMILY* firms whose largest ultimate

⁹ Unfortunately, it is not possible to collect reliable data about the composition of voting trusts for the entire period investigated, especially the initial years. Our source, *Il Taccuino dell'Azionista*, reports the company's ownership structures but it is often not consistent in reporting voting trusts. Following Rydqvist (1996), we control for this possibility using the sum of the stakes held by the two largest shareholders (FIRST_SH+SECOND_SH) as explanatory variable in a robustness test.

¹⁰ When all the four dummies are zero, the controlling shareholder is either a financial institution or a corporate shareholder.

controlling shareholder is a family (including an individual) or a firm that is unlisted. Following earlier studies, the largest shareholder must control at least 10 percent of votes. Thus, if families reduce the probability of a control contest, we should expect a negative relationship between the voting premium and the dummy for family-owned firms. However, the fact that families value control so much may result in a positive relationship between *FAMILY* and the voting premium. In fact, families could react to any potential threat by other parties trying to strengthen their control buying voting shares.

As in many European countries, many listed firms were state-owned in Italy. During the privatization wave started in the early 1990s, the state sold its controlling stake in many of these companies. This privatization wave explains the decrease in the number of state-owned firms with non-voting shares outstanding during the 1990s in Table 1. Nevertheless, a few listed companies are still state-owned. As Zingales (1994) argued, state-owned enterprises are the less likely to change hands. While this is true for the period 1977-1992, even after the start of the privatization program, talks of selling the controlling stake were virtually not existent in some industries, for example energy. We define *STATE* firms whose largest ultimate controlling shareholder is the state.

The probability of a control contest, or at least of a block acquisition, is relatively high for widely-held firms compared to family and state-owned companies. As in the literature (La Porta *et al.*, 1999, Claessens *et al.*, 2000, and Faccio and Lang, 2002), we define *WH* firms without a shareholder with at least 10 percent of the voting rights.¹¹ We expect a positive coefficient for WH because voting rights are more valuable when the probability of a control contest is high and ownership concentration is low. Italy is a country with very few widely-held firms, as documented by previous researches.¹²

¹¹ Using a 20% threshold, instead of 10%, does not change the results.

¹² Some of the observations are formerly state-owned companies that were privatized and, initially, no shareholder was allowed to own more than 3% of voting rights. Banca Commerciale Italiana, Unicredito, and Telecom Italia were among these firms.

Finally, Italy has a bad reputation for investor protection (Zingales, 1994, and La Porta *et al.*, 1999). 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 negative relationship between *FOREIGN* and 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 share market price. A higher additional dividend is expected to lower the voting premium. While the impact of dividends on the voting premium is expected to be negative, there is a series of factors that can mitigate it. While Michaely and Murgia (1995) find that in their 1981-1990 sample period almost 85 percent of the firms pay dividends in any given year, there is anecdotal evidence that in the 1990s investors and fund managers were highly disappointed because non-voting shares failed to deliver these additional dividends.¹³ Minimum dividends are also based on the book value of the company's shares, not on the market value. Moreover, non-voting shares do not receive any temporary voting rights if minimum dividends are not paid.

Since Italian companies cannot issue non-voting shares in excess of 50 percent of the equity capital, there are usually less non-voting shares than voting shares. We include in the analysis the ratio of non-voting to voting share (*RATIO_N*). *RATIO_N* controls for the fact that non-voting shares are one way to deviate from the one-share-one-vote principle. As argued by Nicodano (1998), a large voting ratio means that the large shareholder may control the company

¹³ 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.

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.

Zingales (1995) points out that liquidity is a possible reason for the voting premium. Neumann (2003) finds that, in absence of takeover contests, the price differential in stock classes reflects investors' liquidity risks in Denmark. Pagano and Roell (1990) document that voting shares have larger bid-ask spreads than non-voting shares in Italy. Zingales (1994) infers from their evidence that liquidity cannot cause the large discount of non-voting shares. Unfortunately, we do not have data on bid-ask spreads for the entire sample period. We control for liquidity using the log of the ratio between the euro turnover of voting shares in year *t* and that of non-voting shares in the same year (*LN_VO*), as in Dittman (2003). We expect that the coefficient of *LN_VO* is positive if voting shares are more liquid than non-voting shares.

We include *MARKET* to control if the behavior of the voting premium follows the stock market return. *MARKET* is computed as the yearly variation of the market index (COMIT General¹⁴). A positive coefficient would indicate that voting premium is pro-cyclical.

The change in the fiscal treatment of dividend income of non-voting shares is captured by the dummy *FISC_TREAT* (equal to 1 from 1977 to 1994, and 0 otherwise). This variable only captures the change in the fixed tax rate for non-voting shares. It is not related to the investors' identity and their marginal tax rate. All other things equal, the lower fixed tax rate is an advantage for non-voting shares. The coefficient is expected to be positive.¹⁵

Linciano (2002) 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

¹⁴ We choose Comit General as the general market index because it is the only index that covers the whole sample period.

¹⁵ This variable does not obviously capture the difference in tax treatment between voting and non-voting shares. The so-called dividend washing, i.e. any technique designed to take advantage of the relatively favorable tax treatment accorded to a particular category of investor, was common in Italy, especially until 1993-1994 (but also after).

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 legislative decree. 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. L92 is expected to increase the voting premium because it makes voting rights more valuable. L98 is expected to impact negatively on the voting premium because of the better minority investor protection should reduce the expected value of private benefits.

We also include some accounting variables. ASSET is the log of the firm's total assets. It controls for the firm size. LEVERAGE is computed as total debt 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 are lengthy and usually neither voting nor non-voting shareholders receive anything.¹⁶ 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. Finally, we include NEG_EARNING, a dummy that takes value 1 if the annual published after-tax profit is negative. NEG_EARNING is also related to the expectation that the firm may be in financial or economic distress.¹⁷ In addition, in case of negative earnings, firms should pay the minimum dividend in the following fiscal year if they want to pay dividend to voting shareholders. The expectation of higher dividends for non-voting shares should reduce the voting premium.

The definitions of the variables used in the analysis are summarized in Appendix A.

4. Data

The starting sample consists of all companies that issued non-voting stock reported in the annual publication *Indici e Dati* (Indexes and Data), edited by R&S Mediobanca. We check

¹⁶ 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.

¹⁷ 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. The model is estimated with a pooled least square model and not with fixed effects because of the firm-dummy for bankruptcies.

issues from 1975 to 2004. Non-voting shares were introduced in 1974, but the first non-voting shares started to trade in 1976.¹⁸ From *Indici e Dati*, we obtain 153 non-voting stocks. Some companies are excluded because of missing stock price data. In a few cases, 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 *Borsa Italiana*, previously called Milan Stock Exchange (MSE).¹⁹ The sample period ends on 31 December 2003.

We obtained stock price data and euro volume from *Borsa Italiana* for the period August 1986 to December 2003. Stock prices were manually collected 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 *Borsa Italiana*. Dividends and dividend 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 *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, year in which the company was founded, is from *Indici e Dati*. We search for additional information, including bankruptcies, on *Il Sole-24 Ore*. Finally, accounting data are from *Worldscope* database.

5. The Voting Premium throughout the Sample Period

Figure 1 presents the plot of the mean and median monthly voting premium through the period February 1977 – December 2003.²⁰ The voting premium is the price difference between voting

¹⁸ The company whose non-voting stock started to trade in 1976 is not included in the sample because of missing data.

¹⁹ The name *Borsa Italiana* was adopted in 1998. Before 1998, it was called Milan Stock Exchange. Throughout the paper, we use the name *Borsa Italiana* even for the pre-1998 period.

²⁰ February 1977 is the first month in which a non-voting stock in our sample is listed on *Borsa Italiana*.

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 3 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 two measures are quite similar. VP is the measure used in the empirical analysis. Results using VP_M are discussed in Section 10.

Table 3 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 increases. 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% (76.62% using VP_M), remarkably similar to the 81.5% reported in his paper. The strong increase in the voting premium took place shortly after the 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.²¹

[Please insert Table 3 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 momentarily increased the voting premium, but the effect was

²¹ Unfortunately, we do not have data about mutual funds' purchases to examine in detail this conjecture.

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. 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 in the late 1980s, the number of firms issuing non-voting stocks was also increasing. 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. Hoffmann-Burchardi (1999) document a similar increase in Germany, too. German listed companies 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 and Switzerland, as documented by Ulbricht and Dittman (2004) and Pajuste (2005).

The fact that both the voting premium and the number of non-voting premium exhibit a similar pattern gives rise to a causality problem. Results from a Granger causality test (not reported) show that the number of firms with non-voting shares outstanding causes the average voting premium, but the average voting premium does not cause the number of firms with non-voting shares outstanding. However, this is true only if we include more two or more lags in computing the test. In fact, the Granger causality test is not statistically significant with only one lag. Thus, firms do not decide to issue non-voting shares based on the price differential with voting shares. The fact that many firms issued non-voting shares in the 1986-1988 when the

voting premium was at its highest level supports this conclusion. Nine firms that issued non-voting shares in that period were IPO firms.²²

The rollercoaster behavior of the voting premium leaves open many questions about its determinants over such a long period. Since Zingales (1994) examines the voting premium during the period in which it peaked, it is difficult to generalize his results to other periods.

6. Empirical Results

We use a fixed effects panel data model to estimate the regressions. Panel data models are preferred to simple pooled regressions, because our dataset has both a time-series dimension and a cross-section dimension. Table 3 presents the results. The dependent variable is the voting premium at the end of the calendar year, *VP*. Regressions in Columns V and VI include fixed time effects. We include fixed time effects (year dummies) to control for the possibility that the results in the first columns are driven by time effects, as it might be possible looking at Figure 1. When we control for time effects, *FISC_TREAT*, *L92*, and *L98*, are dropped from the regression model to avoid perfect collinearity. We also drop all variables with no cross-sectional variation, like, *MARKET*, *INT_RATE*, and *NV_FIRMS*.

[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, *FIRST_SH* is no longer significant in four out of six regressions and significant only at the 10% level in the remaining two. Thus, more than the percentage of equity controlled, it is who

²² In the whole sample, only 16 firms issued non-voting shares at their IPOs. Eleven of these firms were family firms.

controls the company that matters. This is not completely surprising given the characteristics of the Italian market, 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. 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 because it shows that these identity dummies capture different effects previously incorporated in a unique variable. In untabulated regressions, we include in the model *FIRST_SH2*, the square of the size of the first shareholder's stake to account for possible non-linear relationship between ownership stake and voting premium. *FIRST_SH2* is never significant.

The coefficient for the variable *FAMILY* is positive and significant. This does not appear 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 the most to lose (reputation, social prestige, private benefits and even political connections). In this case, it is the expectation of the controlling shareholder's actions that leads to a larger price differential.

The dummy *WH* is positively and significantly related to the voting premium. If there is no controlling shareholder, a control contest is more likely to take place. While expected, this result is not as obvious as it may appear. In fact, some widely-held firms are former state-owned companies privatized during the 1990s.²³ The Italian government maintained a golden-share in

²³ The three former state-owned companies classified as widely-held firm following their privatizations for at least one year are: Credito Italiano, Banca Commerciale Italiana, and Telecom Italia.

some of them and, usually, golden-shares discourage potential bidders.²⁴ Differently from Zingales (1994), the coefficient for the dummy *STATE* is negative but not significant. However, it is important to keep in mind that the privatization program of the early 1990s may have changed the perception of state-owned firms. Studying the whole sample period 1977-2003, these two effects may cancel out. However, *STATE* is still insignificant in an unreported regression for the period 1977-1991.

Finally, the last dummy for the controlling shareholder's identity, *FOREIGN*, is generally not significant. The variable is only significant in Column II at the 10% level. 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, Sweden, and Switzerland.

Although the coefficient has the expected sign, the size of the second shareholder is not significant, with the only exception of Column VI (10% level). 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. We postpone the discussion of this problem to a later section.

The differential dividend does not impact the voting premium. The fact that the privilege is stated in term of the par value of the share, usually a fraction of the market price, and the missed dividend payments in the 1990s are likely to be responsible for 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

²⁴ However, the golden share owned by the government did not prevent the takeover of Telecom Italia by Olivetti in 1999.

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.²⁵

The log of the ratio between the euro value of the turnover of voting and non-voting shares (*LN_VO*) is negative and significant in four out of six regressions. A negative relationship between *LN_VO* and the voting premium is also found by Dittman (2003) for US and German companies. The negative relationship seems to indicate that non-voting shares have a larger turnover than voting shares because many voting shares are held in block and never traded. But a closer inspection of the euro turnover does not support this argument.²⁶ Voting stocks are much more liquid than non-voting stocks. In fact, euro turnover for voting stock is higher than that for non-voting stock in every single year from 1977 to 2003, and the ratio increases dramatically after 2000, due to the presence of some illiquid non voting shares. Thus, liquidity reduces the voting premium.

The less favorable fiscal treatment of the dividend income of non-voting shares before 1995 increases the voting premium, as expected. However, this result is not confirmed in Column III and IV. When the number of firms with non voting shares outstanding is included in the regression, *FISC_TREAT* loses its significant. The voting premium shows a counter-cyclical behavior. In fact, the variable *MARKET* is negative and significant in Columns I and II.

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 generally insignificant. It becomes significant in Columns II and IV when the accounting variables are included. The 1998 law (*L98*) has the expected impact in the first two regressions. The coefficient is negative and

²⁵ 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.

²⁶ Data available from the authors.

significant, confirming that the new and more investor-friendly law reduces the voting premium. However, again, when we introduce *NV_FIRMS*, *L98* changes sign and loses its significance. Thus, it seems that 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), for example the increased M&A activity and stock unifications, that are also partially captured by *NV_FIRMS*.

About the accounting variables,²⁷ *ASSETS* is positive and significant only in Column II. Thus, there is very weak evidence indicating that value rights are more valuable in large firms. *LEVERAGE* is always negative but insignificant. *NEG_EARN* is significant at the 10% level in Column II. This is also consistent with the view that when the firm is in trouble, as it is often the case when the firm reports negative earnings, discretionary expenses must be reduced. Thus, controlling shareholders have fewer opportunities to divert companies' resources to their advantage. This reduces the expected value of pecuniary private benefits and leads to a lower voting premium. However, the coefficient is not significant in regressions IV and VI, even if they have the expected sign.²⁸

[Please insert Table 4 about here]

Table 4 includes the interaction between the takeover regulation dummies and the identity variables *FAMILY* and *WH*. The most intriguing result concerns family firms. In fact, while the coefficient for *FAMILY*L92* is not significant, the coefficient for the interaction of family firms with the *L98* is negative and significant. Thus, the impact of families on the voting premium is lower during the last few years of the sample period than in the previous period.

²⁷ Including accounting variables reduces the number of observations marginally. However, this reduction may be important because many lost observations are concentrated in the early years of the sample, especially from 1977 to 1979. To address this problem, we collect manually these data for the missing firm-year from the *Taccuino dell'Azionista*. We thank Roberto Barontini for providing us part of the missing accounting data. Results are similar to the ones presented in Table 3 and not reported.

²⁸ We run regressions including also measures of accounting performance like the return on capital employed (WC08376) and ROE (return on equity, WC08301). Accounting variables are generally insignificant, with the exception of the return on capital employed (negative sign). All the coefficients of remaining variables are similar in magnitude and statistical significance to those in Table 3.

This result is consistent with the fact that the introduction of this new law significantly reduced the possibility to extract private benefits of control, making families less willing to defend their firms. In fact, while they still have an average holding that easily permits to fend off any unwanted attention, families reduced their stakes from 54.95% of voting equity in 1992 to 42.25% in 2001. Once accounting variables are included, the interaction between the widely-held firm dummy and *L98* is negative and significant. This supports the view that the 1998 law made takeovers more likely.

The results presented in previous tables are quite difficult to interpret. In fact, results for widely-held firms support the control contest argument, while results for family firms indicate a private benefits story

. We try to reconcile these two effects including in the regression an interaction variable between *FAMILY* and *FIRST_SH*. If families are worried about losing control of their companies, they are likely to hold large stake (high *FIRST_SH*). When they hold large stake of voting equity, the only way controlling shareholders can extract pecuniary private benefits is exploiting non-voting shareholders. Thus, this should lower the price a non-voting share creating a large voting premium.

Table 5 supports this argument. The coefficient for the interaction variable is significant and positive, meaning that voting premium is higher when the largest shareholder is a family holding very large stakes. Meanwhile, once this interaction variable is introduced, *FAMILY* becomes negative and significant as expected from a pure corporate control story. Widely held is still positive but not significant, while the coefficient for *FIRST_SH* is now negative and significant. Thus, once removed family firms, the size of the stake held by the largest shareholder has the expected impact on the voting premium.

[Please insert Table 5]

Generally speaking, these last tables confirm that the identity of the largest shareholder plays an important role in determining the voting premium. However, we still have to take into account the effect caused by the expectation of an M&A and of a stock unification on the voting premium.

7. Robustness Checks

In Table 3 we use the size of the stake held by the largest shareholders as proxy for the allocation of control. Another well-known measure is the Shapley Value, used by Rydqvist (1988) and Zingales (1994). The Shapley Value of the votes held by small shareholders is the probability that those votes will be pivotal in a random coalition formation.

We use the Shapley Value only in a robustness test and not in the main analysis because this measure presents theoretical problems in post-1992 Italy. In fact, while in the period investigated by Zingales (1994) there was no mandatory bid rule in Italy, such a measure was introduced in 1992. Moreover, starting from 1998, whoever buys more than 30% of a company's voting equity has to bid for all the remaining voting. Using a cutoff at 50% for the random coalition formation does not take into account the fact that none can build a stake greater than 30% without making a bid to all shareholders. Thus, the pivotal shareholder's votes are not as valuable as in the pre-mandatory bid rule period.^{29 30}

With this caveat in mind, we run the regression using the relative Shapley Value as a dependent variable. We compute the Shapley Value using 50.1% of the votes as the quote to determine control. Following Zingales (1994), we standardize the Shapley Value by the fraction

²⁹ We thank Marco Bigelli for this helpful suggestion.

³⁰ Notice that using a 30.01% cutoff for the random coalition makes no sense at all. In fact, a single large shareholder owning 69.9% can still lose in a proxy contest according to this new Shapley Value (the value of the index is 0.997 not 1 as expected). Obviously, this does not make any sense in our situation since owning 50% of the votes is enough to control the company.

of voting equity held by small shareholders to obtain the Relative Shapley Value (RSV).³¹ Since RSV measures the control value of small shareholders' votes, the coefficient is expected to be positive. In fact, a high value of RSV indicates that voting rights are valuable. Table 5 presents the results using the RSV. Using the Shapley Value instead of the RSV does not change the results. While the RSV turns out to be insignificant in all the regressions and even with the wrong sign when the year effects are included, the main results concerning the coefficients of family and widely-held firms are confirmed.

[Please insert Table 6 about here]

We also test the robustness of the results in Table 3 using other variables to capture the presence of a dominant shareholder in a company. First of all, we control whether the largest shareholder owns the majority of the voting rights. We use the dummy *MAJ_SH*, which takes value 1 when the largest shareholder owns the majority of votes (at least 50%). Table 7 shows that the main findings of Table 3 are robust to the change of the proxy for the allocation of control. In fact, *WH* and *FAMILY* have positive and significant coefficient. The coefficient of *MAJ_SH* is positive and significant, indicating that the voting premium is higher when the company has a majority shareholder. Similarly to Table 5, this surprising result is explained by the presence of family majority owners.³² A large second blockholder's stake increases the voting premium, as expected from the toehold argument. Having the state as largest shareholder decreases the voting premium, but the evidence is very weak. The coefficient of foreign-owned firms is negative but generally insignificant.

³¹ We consider large players all shareholders holding at least 5% of the voting capital. Small shareholders are, therefore, all shareholders with less than 5% of the voting capital.

³² In fact, if the interaction between *MAJ_SH* and *FAMILY* is included in the regression, *MAJ_SH* becomes negative as expected (although not significant), while the interaction is positive and significant.

[Please insert Table 7 about here]

We also use *FIRST-SECOND*, *FIRST+SECOND*, and *CONT_SH* as proxies for the allocation of control. The first variable is the difference between the size of the stake held by the largest shareholder and that of the second largest one. This difference is the main explanatory variables in the empirical model in Rydqvist (1996). *FIRST+SECOND* is the sum of the stakes of the two largest shareholders in the company. As pointed out by Rydqvist (1996), the two largest blockholders may collude. This is especially true in Italy, where large shareholders are often members of the same voting trust. Finally, *CONT_SH* is a dummy that takes value one when the largest shareholder either owns at least 50% of the voting rights or owns a stake at least twice as large as that of the second largest shareholder.

In untabulated analysis, we run the same tests using these variables. *CONT_SH* is generally negative and insignificant. A large differential in the stake held by the two largest shareholders (*FIRST_SH-SECOND_SH*) decreases the voting premium, which is consistent with the control contest story. When we use *FIRST+SECOND*, the coefficient turns out to be insignificant. Results for family and widely held firms hold in all the regressions. Results for the other variables are similar to those in Table 3.

In another untabulated regression, we check the effect of pyramids on voting premium. Almeida and Wolfenzon (2006) argue that diversion is higher for firms placed in a pyramid than for firms in which families have direct control. Unfortunately, we cannot track the level in pyramids over our full sample period. As in Linciano (2002), we include *GROUP*, a dummy variables taking value one when the immediate controlling shareholder is a listed company, to proxy for the stronger incentives provided by pyramidal structure to take advantage of minority shareholder. The variable is insignificant.

8. M&A

Voting premium is often associated to the probability for the marginal shareholder to become pivotal in control contests. This section examines the control contests that took place in the sample period and their impact on the voting premium. As mentioned before, the takeover legislation changed twice. The mandatory bid rule was introduced in 1992 and modified in 1998. The mandatory bid rule was modified to require that any person who exceeds the threshold of 30% has to make a public offer to buy all the ordinary shares. In sample period, there were 73 mergers or acquisitions regarding firms with non-voting stocks outstanding, of which only 13 took place before 1992. There were also 13 freeze-out bids, introduced in 1992, which are not included in the analysis since they are merely follow-ups required by the law.

M&A deals are expected to have a positive impact on the voting premium because bidders usually pay a takeover premium to gain control of the company and they are under no legal obligation to extend their offer to non-voting shares. However, M&A may even reduce the voting premium if bidders volunteer to extend the offer to non-voting shares. Since relatively unexpected, the percentage increase in the price of non-voting stocks can be even larger than that of voting stocks. 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.

[Please insert Table 8 about here]

Table 8 presents the results when the M&A dummy is included. *M&A* takes value one in the year before an acquisition or a merger is announced.³³ The coefficients for this dummy are not significant. Results for the remaining variables confirm those presented in previous tables. The coefficient for *M&A* is still insignificant even when we include accounting variables

³³ We tried to build empirical models to predict actual M&A, but all models perform poorly. Including the fitted value from this regression in the model for the voting premium is pointless. Thus, we chose the approach based on the dummy representing the actual realization of the deal.

(*ASSETS*, *LEVERAGE*, and *NEGATIVE_EARNING*). Thus, there is no evidence to support the hypothesis that the expectation of an M&A deals increase the voting premium. This can be also due to the fact that the market is not able to identify which firms are going to be taken over in the subsequent 12 months.³⁴

The results can also be, at least partially, explained by the fact that, 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 57 out of 73 mergers or acquisitions announcement, the offer has been extended to non-voting shareholders (78.08%). The percentage is 72% if only acquisition announcements are considered (36 out of 50).³⁵ 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 many of M&A deals are simply internal group reorganizations. 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. However, bidders do not usually offer the same price for voting and non voting shares. Differently from Bergstrom and Rydqvist (1992), who find that equal bids for voting and non-voting shares are more frequent than differentiated bids in Sweden, there are only 8 equal bids in our sample. The average premium for voting shares with respect to non-voting shares is 56.74% for the 34 observations for which we have offer prices for both voting and non-voting shares.

A related point is how the type of controlling shareholder impacts on the probability of being taken over, and, consequently, on the voting premium. Holmen and Nivorozhkin (2005) examine the relation between dual class shares and takeovers in Sweden. They find that for family controlled firms, the hazard rate of takeover is significantly reduced when the firm uses

³⁴ We control these results using two other variables to capture the effect of the expectation of mergers and acquisitions on the voting premium. The first variable is *OFFER*, which takes value one in the year before a public offer is announced. The latter, *CONTROL_CHANGE*, is equal to one in the year before a control change takes place. Both variables are not significant.

³⁵ We do not have information about two mergers. This explains why only 21 mergers out of 23 are extended to non voting shares.

dual class shares. Since our database is composed only by dual class share firms, it is obviously impossible to replicate their analysis for our Italian sample. On the other hand, it is possible to investigate if given dual class shares, family firms are less likely to be involved in a M&A transaction. Table 9 presents the M&A transactions according to the type of controlling shareholder at the year end before the deal announcement. Family firms have the lower takeover frequency of all the types but state owned firms. The frequency for family firms (4.46%) is statistically different from that of financial or corporate shareholders (7.77%), widely held firms (9.52%), and foreign owned firms (9.26%). Thus, the voting premium on family firm does not certainly come from a higher frequency of corporate control contests.

[Please insert Table 9 here]

Summing up, the evidence indicates that M&A were not common, especially in the first part of our sample period. Family firms are generally not involved in M&A deals. Our proxy for M&A expectation does not have an impact on voting premium. One possible explanation for this result is due to high number of M&A in which the offer is extended to non-voting shares, even if the offer price is lower for non voting shares than for voting share.

9. Stock Unifications

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. For example, Bigelli *et al.* (2006) examine stock unifications in Italy, while Dittmann and Ulbricht (2004) studied dual class stock unifications in Germany. Pajuste (2005) extend the analysis of the unification of dual-class shares to a cross-section of seven Continental Europe countries.

Conversion of non-voting stock into voting stock is a relatively recent phenomenon. While there were only four stock unifications before 1993 and none of them was coercive, 25

out of the 36 stock unifications took place in the period 1998-2003 (17 coercive). Similarly, Dittmann and Ulbricht (2004) find few stock unifications before 1996 in Germany. The variable *UNIFICATION* is a dummy that takes value one in the year before the company decides to convert its non-voting shares. This variable should capture the expectation of a stock unification. 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, a high number of conversions in one year should be negatively related to the voting premium.

[Please insert Table 10 about here]

In Table 10, the unification dummy is negative as expected, but not significant. Conversely, the number of conversions announced during the calendar year has the expected negative impact on the voting premium in Column III. In Column IV, *UNIF_YEAR* is no longer significant, but it was expected since *NV_FIRMS* already takes unifications into account. Results for the other variables are similar to previous tables. Only *FIRST_SH* is marginally significant at 10% level.³⁶

The evidence suggests that the market is not able to anticipate at the end of the year preceding the event which companies will carry out dual class share unification. However, when there are many unifications in a given year, the market updates the probability that the remaining firms will unify their equity structure.

³⁶ In an unreported table, both the acquisition and unification variables are included in the regressions. The results confirm those of Tables 8 and 10, in which the variables are insignificant.

10. Different Measures of Voting Premium and Illiquidity

The analysis so far is based on the unitary voting premium used in Zingales (1994), a measure that presents some problem as discussed in the introduction. In this section, we present results based on the Nenova (2003) measure of the value of corporate voting rights. As Nenova (2003) argues, her definition transfers focus from the value of a single vote to the value of control-block votes in the aggregate. One unappealing feature of this measure is that it depends negatively on the number of non-voting shares issued. This seems counterintuitive since issuing non-voting shares reduces the capital investment that the controlling shareholder needs to control the firm. While we believe that the unitary voting premium is a better measure than Nenova (2003), we check in this section the robustness of our results using the latter.

The Nenova (2003) measure represents the value of control-block votes, in the Italian case $(P_v - P_{nv}) * N_v$, where P_v (P_{nv}) is the price of voting (non-voting) shares,³⁷ and N_v is the number of outstanding voting shares, and it is adjusted to comprise 50% of the voting power, and scaled by the firm market value.³⁸

While there are a few differences, the main findings of Table 3 are confirmed by this robustness check presented in Table 11. In fact, the size of the stake of largest shareholders is not significant when the dependent variable is the value of the control-block votes. Conversely, the identity of the controlling shareholder matters. In fact, having a family as controlling shareholder increases the voting premium. As expected, widely-held firms reports a positive and significant coefficient in four out six regressions. The widely-held dummy is not significant in Columns I and IV, which do not include accounting variables. The coefficient for the ratio between non-voting and voting shares outstanding is still positive and significant, but its magnitude decreases. This is due to the fact that now the dependent variable takes into account the ratio between the number of voting and non voting shares outstanding. The log of the ratio

³⁷ Prices are adjusted for capital changes.

³⁸ Following Nenova (2003), preference shares, when they exist, are not included in the computation of the voting premium.

of the euro turnover volume is now statistically significant at 1% level. A relatively more liquid voting stock decreases the voting premium.

[Please insert Table 11 about here]

In an untabulated analysis, we run regressions using the average monthly voting premium in each sample year as dependent variable, a slightly different measure with respect to that used in the main empirical analysis. Results are generally similar to those of Table 3, but there are a couple of differences. *STATE* is negative and significant as in Zingales (1994). The stake held by the second largest shareholder is generally positive and significant, in particular when time effects are introduced. Despite these differences, the key results about family and widely held firms do not vary with the measure of the voting premium.

Bigelli and Sapienza (2003) point out that the voting premium has many drawbacks in the last few years of our sample period. The biggest one is due to the fact that some non voting shares were illiquid and their prices had no economic significance. Bigelli and Sapienza (2003) use two criteria based on trading days and euro turnover value to determine whether or not the non-voting shares is illiquid. Unfortunately, since we examine a much larger sample period than theirs (2000-2002), we cannot use the same approach. However, one common feature of illiquid non voting shares is that they generally associated to a negative voting premium.³⁹ Therefore, to take into account this illiquidity problem, we drop from our sample the firm-year in which the voting premium is negative.⁴⁰ Then, we repeat the analysis on the reduced sample. Results are remarkably similar to those in Table 3 and not reported. The only difference is that in these regressions *LN_VO* is no longer significant.

³⁹ However, we stress that this is a simplification. A negative voting premium does not necessarily imply that the non voting stock is illiquid. See the discussion in Bigelli and Sapienza (2003).

⁴⁰ It is obvious that excluding these observations increase the voting premium in the last years of the sample period, making the decline after 1998 less strong.

11. Endogeneity

A concern regarding the analysis carried out in the previous sections is that ownership structure is endogenously determined by the company's shareholders (Demsetz and Lehn, 1985). In this section, we use an instrumental variable two-stage least squares model to deal with this problem (Wooldridge, 2002). We consider the stake held by the first and the second largest shareholders, *FIRST_SH* and *SECOND_SH*, as endogenous variables. We use as instruments a set of variables: *SALES GROWTH*, *VOLATILITY*, *Q*, *ROA*, *AGE*, and industry dummies.

SALES GROWTH is the growth in total sales in the year considered. A firm with a strong growth may need funds to finance its growth, increasing the likelihood of an equity issue and, therefore, a dilution in the ownership concentration. *VOLATILITY* is the standard deviation of the monthly voting stock return over a 60-month period (or less if there are not enough data) ending in December of the year considered. This variable should capture the riskiness of a security (Beiner *et al.*, 2006). *Q* in year *t* is given by the market value of the company plus the total assets minus the book value of equity divided by the total assets. *Q* measures growth opportunities (Morck *et al.*, 1988), but also misvaluation (Dong *et al.*, 2006). If the stock is overvalued, the controlling shareholder may be more prone to sell at least part of her stake. Growth opportunities have two offsetting effects. First, these opportunities need to be financed increasing the probability that the controlling shareholder's stake is diluted and second, they increase the willingness of the shareholder to hold the stock. *ROA* is the return on assets, a measure of the firm's operating performance. *AGE* is equal to the difference between the year considered and the year in which the company was founded. Young firms are more likely to have concentrated ownership and to be run by the founder. Industry dummies are based on the twelve industry classification of Ferson and Harvey (1991). These dummies serve as a control for differences among industries. We also use *ASSETS*, *LEVERAGE* as instruments. The first one serves as a proxy for the size of the firm. Large firms are more likely to have a diffuse

ownership. Leverage impacts both the probability that firms may have to finance their projects issuing equity and the probability that firms may be declared bankrupt.

[Please insert Table 12 about here]

The results shown in Table 12 confirm our findings. In particular, the coefficients for *FIRST_SH* and *SECOND_SH* are still insignificant as in previous regressions. More important, the coefficient for family and widely held firms are significant and positive. The introduction of the Legislative Decree in 1998 reduces the voting premium (as long as *NV_FIRMS* is not included in the regression).

12. Conclusions

Italy has been known for long time for its high level of private benefits, measured by the relative price differential between voting and non-voting shares. While the paper confirms the presence of a staggering voting premium in the second half of the 1980s and in early 1990s, it also shows that voting premium strongly decreased after 1998. Moreover, before 1986 the voting premium was relatively low. These findings are independent of the measure used to compute the voting premium. Thus, far from being constant, the behavior of the voting premium in Italy looks like a rollercoaster.

The overall picture emerging from the analysis is that the probability of a control contest is a determinant of the voting premium. This effect is captured by many variables used in the analysis. However, this is not the whole 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. Moreover, we find that the expectation of a M&A deal does not increase the voting premium. 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, especially when they hold large stakes. Thus, it may be that the expectation that families would have done anything to maintain the control over the firm that made the voting premium so valuable.

Finally, there are some issues we do not fully address in this paper. The large increase in the voting premium between 1985 and 1986 certainly deserves future research. This jump took place shortly after the introduction of mutual funds in Italy in 1984.⁴¹ With the introduction of mutual funds, a significant fraction of households' savings 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. Another issue that this paper does not tackle is why some firms choose to issue non voting shares and the effect of this choice on the voting premium. In fact, we observe the voting premium only for firms that have non voting shares outstanding.⁴² We leave the analysis of these important topics for future research.

⁴¹ Before 1984, mutual funds of Luxembourg law were the only ones offered to Italian investors.

⁴² We do not have the necessary data to run the first stage selection model in the Heckman two step procedure to control for selection bias. In fact, to run such a regression, we need to know the ownership structure and accounting data of all firms listed on *Borsa Italiana* for each sample year.

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Appendix A

The table reports 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.
VP_NEN	It represents the value of control-block votes used by Nenova (2003). In Italy, where the non-voting shares have no voting rights, the formula is: $VP_{Nen} = \frac{(P_v - P_{nv}) * N_v / 2}{P_v * N_v + P_{nv} * N_{nv}}$ where P_v (P_{nv}) is the price of voting (non-voting) shares, adjusted for capital changes, and N_v (N_{nv}) is the number of outstanding voting (non-voting) shares. Following Nenova (2003), preference shares, when they exist, are not included in the computation of the voting premium.
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.
REL SV	Relative Shapley value. To compute the Shapley value, large players are defined as those who own 5 percent or more of a company's voting shares as in Zingales (1994). The relative Shapley Value is obtained by dividing the Shapley Value by the fraction of votes held by small shareholders.
MAJ_SH	Dummy taking value 1 when the largest shareholder owns the majority of the voting rights (at least 50%).
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 taking value 1 if in a given year the company is state-owned.
WH	Dummy taking value 1 if in a given year the company is widely-held.
FAMILY	Dummy taking value 1 if in a given year the company is family-owned.
FOREIGN	Dummy taking value 1 if in a given year the company is owned by a foreign firm.
MARKET	Annual market returns (COMIT Index).
FISC_TREAT	Dummy taking value 1 in the period in which the tax rate for non-voting stock was higher (1977-1994).
L92	Dummy taking value 1 in the period after the introduction of the mandatory bid rule and before the 1998 Law (1992-1997).
L98	Dummy taking 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 (WS Item 02999), 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).
NEG_EARNING	Dummy taking value 1 if the annual published after tax profit (Worldscope Item 01401-01451) is negative.
INT_RATE	Year end Official Discount Rate (Bank of Italy). For the period 1999-2003 the interest rate on the main refinancing operations (MRO) is used.
NV_FIRMS	Number of firms with non-voting shares outstanding at the end of each sample year.
M&A	Dummy taking value 1 for firm i in year t if a M&A is announced in year $t+1$.
UNIFICATION	Dummy taking value 1 for firm i in year t if a stock unification is announced in year $t+1$.
UNIF_YEAR	Number of stock unifications announced in a given year.

Figure 1

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

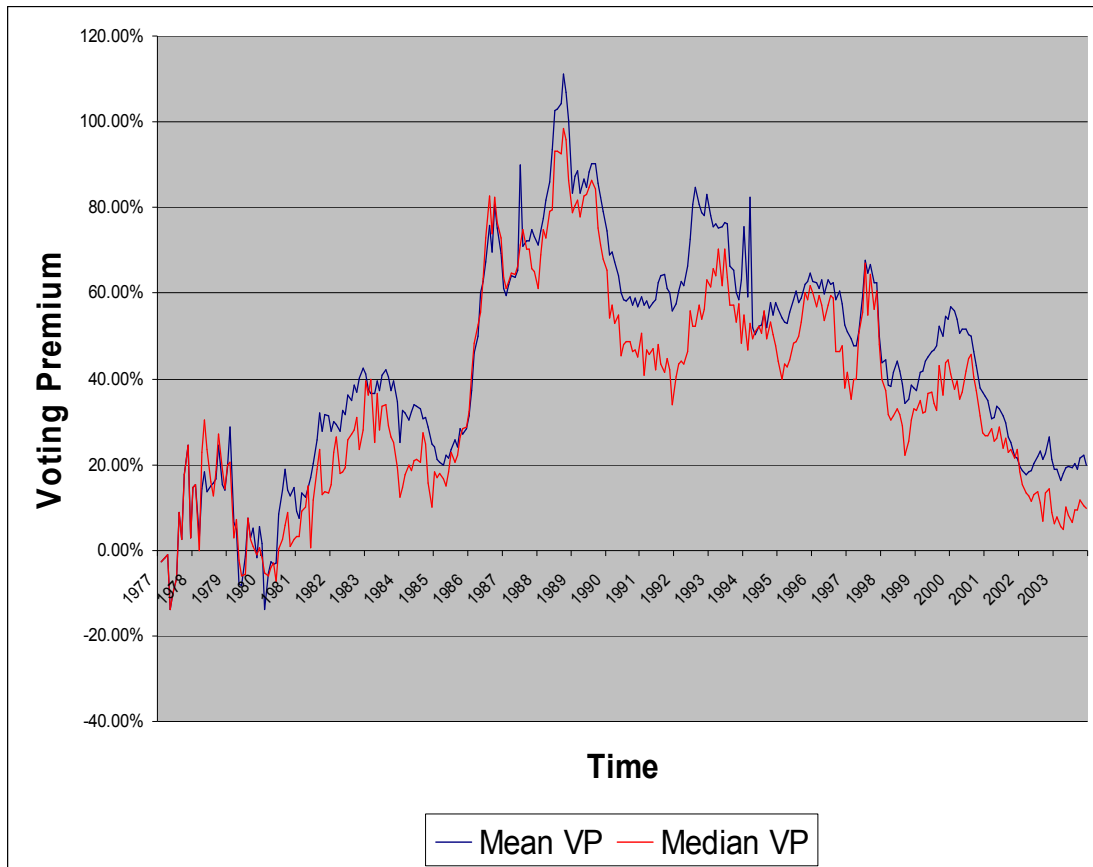


Table 1

The table presents the number and relative frequency of family, state-owned, widely-held, and foreign-owned firms among firms that issued non-voting shares. FinCorp is a residual category including firms with a financial institution or corporate shareholder as largest shareholder.

<i>Year</i>	<i>FinCorp</i>	<i>Family</i>	<i>State</i>	<i>WH</i>	<i>Foreign</i>	<i>Total</i>
1977-1981	4	15	0	0	1	20
	20	75	0	0	5	100
1982	3	9	0	0	1	13
	23.08	69.23	0	0	7.7	100
1983	3	10	2	0	2	17
	17.65	58.82	11.8	0	12	100
1984	4	13	3	0	1	21
	19.05	61.9	14.3	0	4.8	100
1985	5	17	4	0	3	29
	17.24	58.62	13.8	0	10	100
1986	14	34	7	0	6	61
	22.95	55.74	11.5	0	9.8	100
1987	11	48	8	1	7	75
	14.67	64	10.7	1.33	9.3	100
1988	11	48	9	1	7	76
	14.47	63.16	11.8	1.32	9.2	100
1989	12	53	10	1	8	84
	14.29	63.1	11.9	1.19	9.5	100
1990	11	53	10	0	7	81
	13.58	65.43	12.4	0	8.6	100
1991	9	57	11	1	7	85
	10.59	67.06	12.9	1.18	8.2	100
1992	7	57	11	1	8	84
	8.33	67.86	13.1	1.19	9.5	100
1993	7	56	11	1	6	81
	8.64	69.14	13.6	1.23	7.4	100
1994	9	49	9	2	6	75
	12	65.33	12	2.67	8	100
1995	11	44	9	3	7	74
	14.86	59.46	12.2	4.05	9.5	100
1996	10	43	9	2	4	68
	14.71	63.24	13.2	2.94	5.9	100
1997	8	43	7	3	4	65
	12.31	66.15	10.8	4.62	6.2	100
1998	10	42	3	4	3	62
	16.13	67.74	4.84	6.45	4.8	100
1999	12	43	1	0	4	60
	20	71.67	1.67	0	6.7	100
2000	9	38	1	0	3	51
	17.65	74.51	1.96	0	5.9	100
2001	8	35	1	0	3	47
	17.02	74.47	2.13	0	6.4	100
2002	6	34	1	0	3	44
	13.64	77.27	2.27	0	6.8	100
2003	4	26	1	1	2	34
	11.76	76.47	2.94	2.94	5.9	100
<i>Total</i>	188	867	128	21	103	1,307

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. VP_M is the average voting premium over the year. The number of non-voting stock included in the sample is taken at the end of the year.

<i>Year</i>	<i>VP</i>		<i>VP_M</i>		<i>No. Obs</i>
	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	
1977	2.76%	2.76%	0.39%	0.39%	2
1978	13.89%	14.26%	13.03%	14.65%	4
1979	5.59%	0.58%	4.01%	-1.49%	5
1980	14.56%	2.60%	12.49%	2.52%	6
1981	31.29%	13.42%	24.35%	14.07%	11
1982	42.37%	28.04%	35.33%	26.98%	15
1983	34.59%	19.19%	36.93%	26.51%	19
1984	24.90%	10.05%	27.95%	21.23%	23
1985	28.52%	28.62%	24.93%	25.14%	30
1986	69.27%	72.93%	69.25%	75.45%	63
1987	73.19%	65.09%	67.88%	66.93%	76
1988	100.28%	86.40%	92.77%	85.83%	76
1989	79.26%	67.86%	83.60%	81.46%	84
1990	56.99%	45.15%	62.21%	48.40%	81
1991	55.84%	34.09%	59.35%	41.53%	85
1992	83.05%	63.10%	72.76%	48.71%	84
1993	63.18%	48.34%	70.41%	59.03%	81
1994	57.77%	47.65%	58.07%	51.91%	76
1995	64.84%	61.82%	58.81%	52.99%	74
1996	52.51%	38.02%	62.86%	60.42%	68
1997	49.97%	48.15%	56.79%	52.90%	67
1998	37.73%	33.07%	40.77%	32.38%	62
1999	53.79%	44.56%	47.11%	37.45%	60
2000	36.85%	27.37%	48.53%	35.06%	51
2001	21.60%	23.39%	29.84%	25.66%	47
2002	21.23%	8.64%	22.41%	13.91%	44
2003	19.76%	9.82%	19.99%	8.53%	35
1977-2003	56.51%	45.18%	57.41%	48.48%	1329

Table 3

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
FIRST_SH	-0.1988 (0.1247)	-0.0918 (0.1417)	-0.2045* (0.1191)	-0.0666 (0.1355)	-0.2039* (0.1148)	-0.0830 (0.1326)
SECOND_SH	0.2030 (0.2365)	0.2571 (0.2480)	0.1889 (0.2226)	0.2779 (0.2426)	0.3032 (0.2263)	0.4769* (0.2526)
DIFF_DIV	-3.6071 (55.2564)	-14.9952 (53.2480)	-8.6093 (51.6038)	-18.4605 (51.3258)	-34.1312 (47.0068)	-36.4037 (47.0105)
RATIO_N	99.1414*** (15.9774)	105.1889*** (17.3036)	87.5038*** (15.0903)	93.2150*** (16.5815)	80.7900*** (14.4892)	89.7120*** (13.3158)
LN_VO	-3.2047* (1.8364)	-3.2209* (1.9061)	-1.2251 (1.7090)	-1.1191 (1.7855)	-3.5288** (1.7165)	-2.9730* (1.7659)
STATE	-11.7397 (9.4859)	-11.8888 (10.1898)	-9.1435 (8.9886)	-10.0165 (9.6002)	-8.8199 (9.0564)	-8.5477 (9.6652)
WH	30.1067** (15.1043)	38.6283** (15.8903)	25.8275* (14.4664)	33.0153** (15.1360)	29.2846** (14.7630)	38.3393** (15.2423)
FAMILY	27.2055*** (7.9825)	27.6246*** (8.8860)	26.5058*** (7.4839)	25.6625*** (8.1680)	26.9729*** (7.3319)	26.1648*** (7.8738)
FOREIGN	-6.3073 (9.0869)	-19.1601* (10.1315)	-8.7758 (8.5447)	-9.9803 (10.3684)	-9.9539 (8.2476)	-10.1569 (9.8537)
MARKET	-12.6885*** (4.4807)	-12.6075** (5.0046)	-0.9185 (4.2539)	-3.3126 (4.7601)		
FISC_TREAT	9.1640** (4.6059)	12.6539** (5.0554)	-2.9607 (4.6289)	-0.5806 (4.9998)		
L92	4.9494 (3.8458)	9.4206** (4.3072)	8.0386 (6.0613)	13.0437** (6.5116)		
L98	-19.8709*** (5.3178)	-16.0073*** (5.7249)	10.3161 (11.1587)	16.3657 (11.5755)		
INT_RATES			2.9648*** (1.0246)	2.5819** (1.1307)		
NV_FIRMS			0.8688*** (0.1126)	0.9891*** (0.1499)		
LOG(ASSETS)		5.2289* (2.7810)		1.5084 (2.9134)		2.0988 (2.9820)
LEVERAGE		-5.2401 (13.4873)		-9.6532 (13.0203)		-8.6799 (13.0574)
NEG_EARN		-8.3107* (4.9174)		-6.4058 (4.6347)		-3.0552 (4.6205)
YEAR EFFECTS	NO	NO	NO	NO	YES	YES
Adj. R ²	0.5284	0.5486	0.5534	0.5718	0.5802	0.6035
No. Obs	1153	1031	1153	1031	1153	1031

Table 4

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>III</i>	<i>IV</i>	<i>VI</i>		
FIRST_SH	-0.2159* (0.1243)	-0.1243 (0.1443)	-0.2305* (0.1260)	-0.1552 (0.1469)	-0.2320* (0.1195)	-0.1202 (0.1397)
SECOND_SH	0.1443 (0.2406)	0.2093 (0.2518)	0.1278 (0.2415)	0.1818 (0.2522)	0.1243 (0.2273)	0.2160 (0.2455)
DIFF_DIV	-8.6883 (55.9114)	-19.8167 (54.2077)	-8.8312 (56.0326)	-19.1513 (54.3287)	-13.6388 (52.1712)	-22.8801 (52.1615)
RATIO_N	100.9515*** (16.0453)	105.9274*** (17.3708)	100.862*** (16.0553)	105.8414*** (17.3309)	89.1056*** (15.1580)	93.6281*** (16.6276)
LN_VO	-3.3691* (1.8395)	-3.4488* (1.9209)	-3.3646* (1.8444)	-3.5800* (1.9208)	-1.4044 (1.7179)	-1.4715 (1.7982)
STATE	-6.6205 (10.1090)	-7.3207 (11.0379)	-7.2201 (10.2594)	-8.3356 (11.0910)	-4.9202 (9.7113)	-6.7824 (10.4320)
WH	31.1494** (14.9854)	38.4531** (15.8066)	55.2083** (26.2927)	92.4631*** (21.2461)	46.4628* (23.9266)	80.1479*** (20.0578)
FAMILY	32.6142*** (9.4009)	33.7841*** (10.8248)	33.4751*** (9.4776)	35.8482*** (11.0154)	31.8185*** (8.8177)	31.8021*** (10.0169)
FOREIGN	-6.7714 (9.1660)	-19.2656* (10.3864)	-7.1415 (9.1951)	-19.5063* (10.4230)	-9.3930 (8.6525)	-10.2211 (10.4659)
MARKET	-12.7715*** (4.4793)	-12.6120** (5.0107)	-12.576*** (4.5180)	-12.4280** (5.0390)	-0.9386 (4.2536)	-3.4150 (4.7495)
FISC_TREAT	8.5058* (4.6200)	12.0324** (5.0749)	8.4773* (4.6641)	12.0609** (5.1078)	-3.4774 (4.6471)	-0.8306 (5.0127)
L92	3.2024 (6.1006)	9.4217 (6.0292)	3.9960 (5.9869)	11.2879* (5.9278)	6.6578 (7.1083)	13.1313* (7.2480)
L98	-6.7017 (7.6181)	-3.9684 (8.3974)	-5.3391 (7.9506)	-1.5690 (8.7805)	23.1497* (12.3928)	27.5764** (12.9518)
INT_RATE					2.9668*** (1.0276)	2.5447** (1.1346)
NV_FIRMS					0.8573*** (0.1121)	0.9699*** (0.1477)
LOG(ASSETS)		4.3739 (2.8494)		4.7121 (2.8942)		1.1570 (3.0356)
LEVERAGE		-5.7261 (13.5540)		-9.8528 (14.0056)		-13.7750 (13.5526)
NEG_EARN		-8.1842 (4.9718)		-7.8551 (4.9337)		-6.2119 (4.6688)
L92*FAMILY	2.2943 (7.1248)	-0.1594 (7.3407)	1.5216 (7.1209)	-1.9715 (7.2897)	2.2553 (6.9727)	0.6318 (7.1104)
L98*FAMILY	-18.6034** (7.8140)	-16.5502* (8.7856)	-19.9194** (8.0122)	-18.8586** (9.0186)	-17.5593** (7.5718)	-14.9966* (8.5231)
L92*WH			-26.3969 (38.9262)	-59.4053 (36.4539)	-19.6106 (36.7692)	-49.5328 (35.1096)
L98*WH			-37.4433 (29.6549)	-71.6174*** (26.1334)	-33.4743 (27.6657)	-64.5127** (25.3334)
Adj. R ²	0.5306	0.5497	0.5303	0.5509	0.5546	0.5731
No. Obs	1153	1031	1153	1031	1153	1031

Table 5

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
FIRST_SH	-0.8084*** (0.1786)	-0.8556*** (0.2168)	-0.7763*** (0.1731)	-0.8243*** (0.2128)
SECOND_SH	0.2044 (0.2216)	0.3420 (0.2374)	0.2969 (0.2235)	0.5029** (0.2435)
DIFF_DIV	-15.0264 (48.6664)	-22.4817 (48.7018)	-40.9358 (44.4503)	-39.8345 (44.5234)
RATIO_N	85.6934*** (14.2969)	92.5948*** (15.2443)	79.2185*** (13.8634)	89.2358*** (12.5397)
LN_VO	-1.2474 (1.7386)	-1.4262 (1.8182)	-3.5201** (1.7583)	-3.2049* (1.8214)
STATE	7.4860 (10.5054)	10.9278 (11.3815)	6.9618 (10.2322)	11.2807 (11.0928)
WH	3.2709 (14.0669)	3.1168 (14.6488)	7.3032 (14.3049)	9.6929 (14.6947)
FAMILY	-30.4055*** (11.0993)	-44.2158*** (11.8267)	-26.7407** (10.7156)	-39.2758*** (11.5338)
FAMILY*FIRST_SH	1.2910*** (0.2513)	1.6028*** (0.2762)	1.2175*** (0.2425)	1.5012*** (0.2669)
FOREIGN	-5.4668 (8.6114)	-8.8194 (9.9640)	-6.2748 (8.4432)	-9.0603 (9.7280)
MARKET	0.3490 (4.1712)	-0.4590 (4.5973)	-0.7763*** (0.1732)	-0.8243*** (0.2128)
FISC_TREAT	-5.5578 (4.6157)	-3.7151 (4.9455)		
L92	9.7727* (5.9123)	14.5461** (6.2942)		
L98	13.9534 (10.9496)	19.4265* (11.2188)		
INT_RATE	3.4270*** (1.0054)	3.1320*** (1.0802)		
NV_FIRMS	0.8229*** (0.1068)	0.8819*** (0.1337)		
LOG(ASSETS)		2.3249 (2.7913)		3.2291 (2.8615)
LEVERAGE		-11.4442 (12.6241)		-9.4378 (12.7065)
NEG_EARN		-5.5684 (4.3933)		-2.3182 (4.4519)
YEAR EFFECTS	NO	NO	YES	YES
Adj. R ²	0.5686	0.5925	0.5936	0.6215
No. Obs	1153	1031	1153	1031

Table 6

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
REL. SV	17.3321 (13.4911)	21.3309 (14.6684)	14.5944 (12.5351)	18.9876 (13.4872)	-20.4197 (14.3800)	-16.4441 (15.0822)
DIFF_DIV	-3.6115 (54.9563)	-17.2934 (52.5026)	-8.1869 (51.5088)	-20.9604 (50.7180)	-33.6989 (46.9798)	-39.7365 (46.7023)
RATIO_N	100.1338*** (15.7149)	105.2653*** (16.9130)	88.7703*** (14.9256)	93.1065*** (16.4207)	82.0060*** (14.3546)	89.3480*** (13.3708)
LN_VO	-2.7550 (1.8124)	-3.0795* (1.8690)	-0.7356 (1.6970)	-1.0300 (1.7619)	-2.9898* (1.7159)	-2.7900 (1.7716)
STATE	-14.6606 (9.1583)	-12.7727 (9.7169)	-12.2704 (8.6662)	-10.5177 (9.1776)	-12.5892 (8.8849)	-9.9997 (9.3697)
WH	35.0837** (14.6228)	41.1008*** (15.4386)	30.9158** (13.9586)	34.7583** (14.6511)	33.8622** (14.3039)	39.5736*** (14.8195)
FAMILY	27.1145*** (8.0306)	27.5823*** (8.7991)	26.3131*** (7.5401)	25.5780*** (8.1120)	26.4690*** (7.4232)	25.3726*** (7.8791)
FOREIGN	-6.8920 (9.1368)	-18.7959* (10.3206)	-9.4020 (8.6213)	-9.6931 (10.5261)	-10.7626 (8.3242)	-10.0477 (10.0971)
MARKET	-12.7064*** (4.4981)	-12.5352** (5.0148)	-0.9223 (4.2890)	-3.0429 (4.7829)		
FISC_TREAT	8.7655* (4.6165)	12.4441** (5.0667)	-3.3182 (4.6443)	-0.8546 (5.0240)		
L92	4.8351 (3.8753)	9.6682** (4.3301)	7.8379 (6.0869)	13.4824** (6.5063)		
L98	-20.3117*** (5.3459)	-16.0913*** (5.7340)	9.7714 (11.2360)	16.7386 (11.6145)		
INT_RATE			2.9565*** (1.0281)	2.6448** (1.1314)		
NV_FIRMS			0.8681*** (0.1133)	0.9861*** (0.1505)		
LOG(ASSETS)		5.3324* (2.7997)		1.5711 (2.9333)		2.0448 (3.0126)
LEVERAGE		-6.0943 (13.5143)		-10.2908 (13.0589)		-8.7289 (13.1559)
NEG_EARN		-8.4486* (4.9135)		-6.4623 (4.6253)		-2.9437 (4.6125)
YEAR_EFFECTS	NO	NO	NO	NO	YES	YES
Adj. R ²	0.5255	0.5463	0.5503	0.5695	0.5769	0.6000
No. Obs	1152	1029	1152	1029	1152	1029

Table 7

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
MAJ_SH	7.7956** (3.9421)	6.4814* (3.8547)	11.4892*** (4.1113)	12.5648*** (4.1669)	2.3468 (3.6901)	6.6769* (3.9092)
SECOND_SH	0.4538** (0.2298)	0.4252* (0.2172)	0.4561* (0.2380)	0.4672* (0.2423)	0.4830** (0.2211)	0.6041** (0.2483)
DIFF_DIV	4.2293 (56.1445)	-1.1947 (52.4754)	-12.8800 (51.6803)	-9.0045 (53.6666)	-28.3578 (47.5796)	-31.7249 (47.2899)
RATIO_N	103.7066*** (15.9742)	91.9648*** (15.2334)	97.7567*** (16.8291)	110.045*** (17.2607)	84.0852*** (14.6323)	93.0346*** (13.5340)
LN_VO	-2.3091 (1.8297)	-0.3932 (1.7104)	-0.4685 (1.7663)	-2.4288 (1.8835)	-2.8525 (1.7394)	-2.4346 (1.7722)
STATE	-17.7716* (9.2699)	-14.8825* (8.7796)	-14.8428 (9.3220)	-17.5429* (9.8656)	-13.2446 (8.9633)	-12.2041 (9.4514)
WH	37.4425*** (14.4987)	33.0108** (13.8574)	37.9470*** (14.5016)	44.2672*** (15.2548)	35.3414** (14.1940)	42.2891*** (14.6532)
FAMILY	26.6181*** (7.9359)	25.9376*** (7.4439)	24.7046*** (8.0269)	26.3914*** (8.7086)	26.4431*** (7.3060)	25.3955*** (7.7694)
FOREIGN	-7.6898 (8.9347)	-9.9717 (8.4516)	-10.9276 (10.3390)	-20.0366** (10.0534)	-10.8203 (8.1612)	-10.7957 (9.8327)
MARKET	-12.6525*** (4.4780)	-0.8918 (4.2533)	-3.0308 (4.7442)	-12.5893** (4.9788)		
FISC_TREAT	8.7927* (4.6230)	-3.3271 (4.6501)	-1.4110 (5.0035)	11.9295** (5.0649)		
L92	4.5253 (3.8533)	7.8412 (6.0879)	13.4802** (6.5188)	9.1868** (4.2947)		
L98	-20.4482*** (5.3421)	10.0764 (11.1766)	16.9281 (11.5437)	-16.637*** (5.7244)		
INT_RATES		3.0063*** (1.0308)	2.7504** (1.1402)			
NV_FIRMS		0.8619*** (0.1135)	0.9775*** (0.1526)			
LOG(ASSETS)			1.6918 (2.9050)	5.2887* (2.7559)		2.2246 (2.9794)
LEVERAGE			-7.8751 (12.8942)	-3.3900 (13.3732)		-7.7210 (12.9920)
NEG_EARN			-5.9209 (4.6381)	-7.7479 (4.9165)		-2.8104 (4.6144)
YEAR EFFECTS	NO	NO	NO	NO	YES	YES
Adj. R ²	0.5287	0.5532	0.5744	0.5516	0.5793	0.6042
No. Obs	1153	1031	1153	1031	1153	1031

Table 8

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
FIRST_SH	-0.2002 (0.1241)	-0.2062* (0.1183)	-0.0731 (0.1339)	-0.0987 (0.1403)	-0.2062* (0.1137)	-0.0909 (0.1305)
SECOND_SH	0.2024 (0.2367)	0.1881 (0.2228)	0.2740 (0.2437)	0.2541 (0.2491)	0.3023 (0.2268)	0.4731* (0.2538)
DIFF_DIV	-3.3116 (55.2879)	-8.2489 (51.6243)	-16.9970 (51.2120)	-13.4755 (53.1560)	-33.5619 (47.0457)	-34.5701 (46.8933)
RATIO_N	99.0666*** (16.0001)	87.4258*** (15.1093)	93.1619*** (16.5676)	105.017*** (17.2674)	80.6674*** (14.5128)	89.6295*** (13.3016)
LN_VO	-3.1832* (1.8215)	-1.2004 (1.6931)	-1.0582 (1.7690)	-3.1434* (1.8860)	-3.4924** (1.7003)	-2.8980* (1.7516)
STATE	-11.4215 (9.4634)	-8.7717 (8.9477)	-8.8566 (9.5326)	-10.5954 (10.1381)	-8.2677 (9.0306)	-7.1185 (9.5878)
WH	30.0278** (15.1073)	25.7424* (14.4666)	32.8831** (15.1505)	38.4134** (15.8981)	29.1756** (14.7565)	38.2116** (15.2371)
FAMILY	27.2322*** (7.9942)	26.5410*** (7.4957)	25.7419*** (8.1869)	27.6846*** (8.9008)	27.0266*** (7.3453)	26.2639*** (7.8940)
FOREIGN	-6.1981 (9.0791)	-8.6402 (8.5321)	-9.6720 (10.3405)	-18.7542* (10.0976)	-9.7682 (8.2287)	-9.8021 (9.7913)
MARKET	-12.7187*** (4.4836)	-0.9284 (4.2561)	-3.2287 (4.7566)	-12.6142** (4.9976)		
FISC_TREAT	9.1833** (4.6023)	-2.9666 (4.6329)	-0.4116 (4.9938)	12.9249** (5.0293)		
L92	4.8601 (3.8340)	7.9868 (6.0560)	13.0155* (6.4975)	9.1525** (4.3012)		
L98	-20.0687*** (5.3365)	10.2075 (11.1626)	16.2133 (11.5584)	-16.624*** (5.7320)		
INT_RATES		2.9792*** (1.0244)	2.6391** 1.1289			
NV_FIRMS		0.8691*** (0.1126)	0.9861*** (0.1498)			
LOG(ASSETS)			1.7737 (2.8953)	5.4803** (2.7712)		2.4040 (2.9645)
LEVERAGE			-10.0240 (13.0273)	-5.6898 (13.4887)		-9.0894 (13.0650)
NEG_EARN			-6.6869 (4.6259)	-8.6216* (4.9149)		-3.3855 (4.6042)
M&A	1.8683 (7.5011)	2.1522 (7.1556)	6.6244 (7.7080)	7.4659 (8.0910)	3.1539 (7.1241)	7.9518 (7.5495)
YEAR EFFECTS	NO	NO	NO	NO	YES	YES
Adj. R ²	0.5280	0.5530	0.5718	0.5487	0.5799	0.6037
No. Obs	1153	1031	1153	1031	1153	1031

Table 9

The table presents M&A deals according to the type of controlling shareholder at the year end before the M&A announcement.⁴³ The relative frequency for each type of controlling shareholder is also reported. FinCorp is a residual category including firms with a financial institution or corporate shareholder as largest shareholder.

<i>Controlling Shareholder</i>	<i>No M&A</i>	<i>M&A</i>	<i>Total</i>
FinCorp	173	15	188
	92.02	7.98	100
Family	827	40	867
	95.39	4.61	100
State	123	5	128
	96.09	3.91	100
Widely Held	19	2	21
	90.48	9.52	100
Foreign Owners	93	10	103
	90.29	9.71	100
Total	1,235	72	1,307
	94.49	5.51	100

⁴³ The number of M&A differs from that reported in Section 8 because for 22 firm-year observations we do not have the ownership structure of the firm.

Table 10

The table presents the results of the fixed-effects panel data regressions of the voting premium at the end of the year on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>IV</i>
FIRST_SH	-0.1942 (0.1242)	-0.2005* (0.1186)	-0.2107* (0.1240)	-0.2066* (0.1186)	-0.1997* (0.1142)
SECOND_SH	0.2099 (0.2353)	0.1950 (0.2212)	0.1795 (0.2337)	0.1869 (0.2205)	0.3109 (0.2246)
DIFF_DIV	-0.6543 (54.7704)	-5.9219 (51.1008)	-6.6681 (53.9594)	-9.6874 (50.9958)	-31.5803 (46.5887)
RATIO_N	99.7528*** (16.0267)	88.0935*** (15.1549)	99.8761*** (16.0689)	88.1870*** (15.1133)	81.4586*** (14.5818)
LN_VO	-3.1781* (1.8325)	-1.2068 (1.7039)	-3.1940* (1.8267)	-1.2725 (1.7039)	-3.5119** (1.7125)
STATE	-12.0133 (9.3518)	-9.3924 (8.8539)	-11.6909 (9.2584)	-9.5039 (8.7950)	-9.0595 (8.9144)
WH	29.5768* (15.1403)	25.3678* (14.5019)	29.4576** (14.7940)	25.2098* (14.3924)	28.8981* (14.7808)
FAMILY	27.2646*** (7.9470)	26.5647*** (7.4486)	27.0933*** (7.9702)	26.3241*** (7.4433)	27.0063*** (7.2847)
FOREIGN	-6.2423 (9.0466)	-8.7019 (8.5162)	-5.8769 (9.1713)	-8.8231 (8.5469)	-9.9146 (8.2189)
MARKET	-12.3326*** (4.4750)	-0.6102 (4.2532)	-12.2433*** (4.4422)	-1.8863 (4.4105)	
FISC_TREAT	9.0964** (4.5927)	-3.0115 (4.6154)	14.0806*** (5.3219)	1.0391 (5.6387)	
L92	5.1600 (3.8565)	8.2632 (6.0755)	9.7089** (4.5559)	8.5445 (6.1099)	
L98	-18.9557*** (5.4013)	11.1567 (11.2384)	-2.8699 (8.9373)	13.9785 (11.7877)	
INT_RATES		2.9688*** (1.0253)		2.3183** (1.0479)	
NV_FIRMS		0.8666*** (0.1126)		0.8279*** (0.1120)	
UNIFICATION	-10.3636 (8.4016)	-9.3218 (8.1226)	-11.1509 (8.4410)	-9.7235 (8.1548)	-9.7220 (8.2528)
UNIF_YEAR			-3.0874*** (1.1347)	-1.6076 (1.1359)	
YEAR_EFFECTS	NO	NO	NO	NO	YES
Adj. R^2	0.5287	0.5535	0.5316	0.5538	0.5804
No. Obs	1153	1153	1153	1153	1153

Table 11

The table presents the results of the fixed-effects panel data regressions of the value of the control-block votes, i.e. the Nenova (2003) measure of voting premium, on a series of variables. All the regression models include firm specific constants, which are not reported in the table. 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>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
FIRST_SH	-0.0069 (0.0487)	0.0278 (0.0525)	-0.0082 (0.0475)	0.0298 (0.0518)	-0.0090 (0.0460)	0.0235 (0.0514)
SECOND_SH	0.0558 (0.0657)	0.0720 (0.0690)	0.0522 (0.0645)	0.0670 (0.0685)	0.0693 (0.0647)	0.0889 (0.0697)
DIFF_DIV	16.7879 (17.5085)	16.6168 (18.7648)	16.0596 (17.6615)	16.8430 (18.9668)	11.8343 (17.7843)	14.4576 (19.5625)
RATIO_N	16.4118*** (5.4470)	18.7367*** (5.7092)	14.4738*** (5.3804)	17.4895*** (5.8398)	13.0334** (5.3432)	16.9874*** (5.7158)
LN_VO	-1.9236*** (0.5861)	-1.5418*** (0.5873)	-1.5855*** (0.5832)	-1.2582** (0.5925)	-1.9940*** (0.5920)	-1.5826*** (0.6081)
STATE	-2.3440 (2.2121)	-1.1770 (2.4071)	-1.8673 (2.1678)	-0.7936 (2.3699)	-1.7512 (2.2408)	-0.3373 (2.4378)
WH	6.0024 (4.1286)	8.9243* (4.5980)	5.3073 (4.0100)	8.4209* (4.4719)	5.5232 (3.9659)	8.7944** (4.4576)
FAMILY	8.6575*** (3.0199)	8.9357*** (3.2665)	8.5659*** (2.9701)	8.7985*** (3.2206)	8.6790*** (2.8810)	8.9036*** (3.1056)
FOREIGN	2.2233 (2.7026)	-2.0466 (2.8446)	1.8638 (2.6165)	-0.9261 (2.9330)	1.8756 (2.6326)	-0.8670 (2.8003)
MARKET	0.7836 (1.5220)	1.5211 (1.7270)	2.9536 (1.7982)	3.6221* (1.9675)		
FISC_TREAT	2.4240* (1.4176)	2.6404* (1.4001)	0.1735 (1.5645)	0.0321 (1.5228)		
L92	-1.4753 (1.0615)	-1.8247 (1.2030)	-0.6230 (1.4406)	0.1805 (1.5598)		
L98	-5.3210*** (1.7478)	-6.5393*** (1.7409)	0.5957 (2.7659)	1.3384 (2.9397)		
INT_RATES			0.5982** (0.2922)	0.8024** (0.3124)		
NV_FIRMS			0.1506*** (0.0338)	0.1384*** (0.0434)		
LOG(ASSETS)		3.0228*** (1.0860)		2.7132** (1.1664)		3.0160*** (1.2001)
LEVERAGE		6.6212 (4.6803)		6.1053 (4.7778)		7.2218 (4.8809)
NEG_EARN		-1.9093 (1.4981)		-1.6391 (1.4859)		-0.5981 (1.5031)
YEAR EFFECTS	NO	NO	NO	NO	YES	YES
Adj. R ²	0.6366	0.658629	0.6426	0.6628	0.6505	0.6722
No. Obs	1153	1031	1153	1031	1031	1153

Table 12

The table presents the results of the second stage of FE-2SLS panel data regressions. All the regression models include firm specific constants, which are not reported in the table. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

<i>Variable</i>	<i>I</i>	<i>II</i>	<i>III</i>
FIRST_SH	0.1375 (0.4699)	0.4409 (0.4444)	0.3274 (0.4546)
SECOND_SH	-1.9649 (1.5753)	-0.2841 (1.8723)	-2.1981 (2.4246)
DIFF_DIV	-26.1257 (53.6737)	-8.4691 (51.6900)	-48.3179 (54.1616)
RATIO_N	96.6484*** (15.1480)	93.0676*** (14.4664)	85.7239*** (15.3909)
LN_VO	-4.7794** (2.1792)	-1.5268 (2.2249)	-3.9858* (2.3281)
STATE	-12.9357 (14.1342)	-17.2316 (13.5226)	-11.0908 (13.8147)
WH	30.7635* (17.6297)	35.7594** (16.8686)	33.2373* (18.2589)
FAMILY	19.6198*** (7.4412)	16.9859** (7.0123)	15.1797** (7.1460)
FOREIGN	-25.0270 (18.2034)	-18.7156 (18.2037)	-27.3276 (19.7606)
MARKET	8.3996* (4.9130)	-3.9703 (5.2738)	
FISC_TREAT	-7.3464 (5.6075)	-1.3081 (6.0453)	
L92	9.5882** (4.2836)	11.2029* (6.0920)	
L98	-15.8377** (6.1902)	14.1459 (10.8472)	
INT_RATE		2.0804* (1.2025)	
NV_FIRMS		1.0693*** (0.1689)	
YEAR EFFECTS	NO	NO	YES
Wald chi2(.)	1705.06	1961.94	1993.13
Prob>Chi2(.)	0	0	0
No. Obs	928	928	928