The Effect of Tenure-Based Voting Rights on Stock Market Attractiveness: Evidence from the Florange Act*

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Abstract

We examine the capital market consequences of a regulatory intervention aimed at generalizing tenure voting in French public companies. The 2014 Florange Act departs from the 'one share one vote' principle by automatically granting double voting rights (DVR) to shares held for at least two years. However, firms can opt out through an annual meeting vote. We find that firms that adopt DVR by default—especially those with a large blockholder—experience a decrease in foreign institutional ownership and an increase in cost of capital relative to other firms. Furthermore, the market reacts positively to successful opt-out votes. Collectively, our evidence casts doubt on the merit of regulation-induced tenure voting as a desirable corporate governance mechanism. Instead, the results echo critics ' concerns that mandating double voting rights reinforces insiders' entrenchment.

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1 Introduction

Agency costs due to the separation of ownership and control have been a fundamental characteristic of modern public corporations (Berle and Means, 1932). One of the key mechanisms to address those agency costs is shareholder voting, which allows investors to express their preferences on various major topics including management turnover, director elections, executive compensation, dividend policy, and merger and acquisitions.[1] However, the allocation of voting rights among shareholders remains a fiercely debated issue in corporate governance as different groups disagree on the best corporate voting regime. Recent studies suggest that the dominant corporate voting regime, one-share one-vote (OSOV, hereafter), may not solve collective action problems effectively (e.g., Posner and Weyl, 2014). In this context, another form of voting right allocation has gathered momentum – namely, tenure-based voting rights (thereafter, tenure voting). We use the 2014 passage of the Florange Act in France to examine the capital market effects of a regulatory approach to generalizing tenure voting for listed firms.

Multiple corporate voting regimes co-exist within and across countries: the OSOV regime corresponds to the traditional corporate democracy model where each share carries one vote. While this voting regime is widespread, public companies often argue that it exposes executives to (perceived) myopic market pressure to focus on short-term performance. This pressure stifles innovation (e.g., He and Tian, 2013) and leads to potentially suboptimal investment decisions(e.g., Edmans et al., 2017).[2]

In response to (perceived) short-termism, several of the most highly valued firms in the U.S. stock markets have adopted dual-class share structures to endow corporate insiders with greater voting power, and around one-fifth of the companies that went public in the U.S. in 2017 have dual-share classes with unequal voting rights. Dual-class share voting regime supposedly offer managers / founders a great ability to maximize a firm's long-term

[1] See Yermack (2010) and Ferri (2012) for literature reviews on shareholder voting.

[2] For more academic evidence on short-termism, see for example: Stein (1989), Graham et al. (2005), Roychowdhury (2006), Bhojraj et al. (2009), Asker et al. (2015), and Brochet et al. (2015).

value. This is the main argument used by firms such as Alphabet or Facebook to grant their founders controlling stakes through dual-class share structures.[3] However, prior research finds that the separation of cash flow and voting rights is associated with lower firm value (e.g., Claessens et al., 2002; Masulis et al., 2009), presumably due to to the agency and entrenchment frictions that disproportionate ownership generates.[4]

Recently, an alternative voting regime has (re-)emerged: tenure voting. For example, Silicon Valley venture capitalists recently created the 'Long Term Stock Exchange' (LTSE) where tenure voting would be the norm. While the LTSE is still being considered for regulatory approval, legal scholars have explored the merits of tenure voting as a mechanism to optimize voting rights in public corporations. Dallas and Barry (2016) examine twelve U.S. public firms that took advantage of a regulatory gap between 1985 and 1987 to voluntarily introduce tenure voting in their bylaws. They note that the companies' primary reason for adopting tenure voting was to "decrease the influence of short-term investors" and "increase the relative influence of long-term investors". Although small, their sample suggests that tenure voting empowers long-term existing shareholders without encouraging long-term shareholding over the long run. Other recent studies argue that tenure-voting could constitute an alternative "middle ground" between dual-class shares and OSOV governance regimes by giving investors a meaningful voice in companies while addressing real and perceived issues concerning short-termism in financial markets (Berger et al., 2017; Edelman et al., 2018).

In this paper, we seek to contribute to the nascent debate on tenure voting by examining whether the regulatory-induced adoption of tenure voting by French listed firms specifically attracted long-term oriented shareholders, and how the law affected firms' access to public equity capital more broadly. In early 2014 the French government brought into force 'The

[3]For Alphabet: https://abc.xyz/investor/founders-letters/2004/ipo-letter.html
For Facebook: https://www.nytimes.com/2009/11/25/technology/internet/25facebook.html

[4]These agency frictions include distortions in investment decisions (Bebchuk et al., 2000), tunneling (Johnson et al., 2000), inefficiencies in the market for corporate control (Grossman and Hart, 1988; Harris and Raviv, 1988) and inefficient perk consumption (Yermack, 2006).

Florange Act'. The Act grants double-voting rights to any shares held in a registered form by the same shareholder for at least two years, provided that the company does not prohibit double-voting rights in its bylaws.[5] Before the adoption of the law, French listed firms were allowed to amend their bylaws to voluntarily grant double voting rights to long-term shareholders. A significant number of firms had opted for that regime. A number of firms, however, did not grant double voting rights before the law and were subject to the change in governance regulation. Firms could opt out from this new regime within two years through a resolution at the shareholder annual meeting requiring a two-third majority. This leaves us with three groups of firms which we label as follows: early adopters, forced adopters and voluntary rejecters.

Our sample consists of 258 unique French firms headquartered and listed in France for which we obtain data to test the effect of regulatory-induced changes in voting rights on firms' ownership structures. We hand-collect data on firms' adoption or rejection of double voting rights through online searches. Of the 86 companies that had not adopted double voting rights prior to Florange, we find 59 that formally rejected it within the two-year window. We obtain detailed shareholdings from Capital IQ, accounting and stock data from Worldscope and Datastream, and analyst data from I/B/E/S.[6]

We examine the effect of the Florange Act on firms' ownership structure by focusing on foreign institutional ownership. Institutional ownership and its role in monitoring managers varies not only within but also across countries. As capital markets become increasingly global, large foreign institutional investors account for a large and increasing fraction (around 20%) of the French stock markets and constitute the marginal providers in this capital market. Despite criticism that foreign capital may foster short-termism (Stiglitz, 2002), the evidence thus far points to the contrary. Aggarwal et al. (2011) find that positive changes in foreign institutional ownership lead positive changes in firm- level governance. Bena et al. (2017) document a positive effect of foreign institutional ownership on long-term

[5]Throughout this paper, we use double-voting rights and tenure voting interchangeably.
[6]Our sample selection procedure is detailed in Section 3.

investment. In this paper, we reverse the link and examine whether foreign institutions' investment choices are sensitive to changes in governance regimes. In the case of France, our sample of foreign institutional investors presents three important features: (1) They are long-term oriented, (2) they are not blockholders of French listed firms and, (3) by definition they are not domestic investors and therefore will not suffer from home bias.[7] We use foreign institutional ownership to examine whether these investors - who hold small minority stakes yet are relatively long-term oriented - respond positively or negatively to the mandatory adoption of a tenure voting regime.

We start our empirical analysis by comparing our groups of voluntary adopters and non-voluntary adopters (that will then be divided between forced adopters and voluntary rejecters) before the change in regulation. Our univariate comparisons reveal that foreign institutional investors own 17% of voluntary adopters' shares on average, compared to 24% for non-voluntary adopters, leading to a sizable difference of 7% points in institutional ownership between the two groups. This comparison is consistent with the results in Belot et al. (2017) who find that voluntary adopters are more likely to have a large fraction of their shares held by a family. While this allocation of voting rights and foreign ownership arose endogenously, it is consistent with foreign institutional investors being less willing to invest in firms where the voting structure allows (domestic) blockholders to maintain control with fewer shares. Our univariate tests further indicate that non-voluntary adopters exhibit greater (direct or indirect) ownership by the French government and tend to have a larger market value and be less profitable, on average. However, the two groups do not display statistical or economical differences in terms of market-to-book ratios, likelihood to pay dividends, momentum, and membership in the major French equity index (CAC 40). We next compare within our group of non-voluntary adopters the sub-sample of forced adopters relative to the sub-sample of voluntary rejecters. Before the adoption of the Florange Act, voluntary rejecters have a higher level of foreign institutional ownership, a lower level of ownership by the French gov-

[7] Local investors may be hesitant to re-balance their portfolio optimally following changes in home-country governance regulation.

ernment, and a lower profitability. However, they do not differ from early adopters in terms of growth opportunities, dividend policy, liquidity and momentum.

Next, we rely on multivariate tests to analyze the time-series change in foreign institutional ownership. To do so, we compare the change in ownership structure across our group of forced adopters relative to a pooled group of voluntary adopters and voluntary rejecters in the period (2012-2013 versus 2015-2016) centered around the change in voting regulation in 2014.[8] A clear pattern emerges from our tests: we find that firms that automatically adopt double voting rights experience a decrease in foreign ownership. The magnitude of the documented effect is economically important. Our most conservative within-firm estimate reveals that foreign institutional ownership is 2.2% lower in our group of forced adopters relative to our benchmark group post Florange. Given the sample average of 20%, the magnitude is economically significant at 10% of the baseline.

To understand the mechanism behind our main findings, we perform a cross-sectional test by splitting our sample based on the presence of a large public or private blockholder. The intuition behind this partition is that the group with (without) a large blockholder is facing relatively high (low) risk of agency frictions between majority and minority shareholders. Indeed, around two-third of our forced rejecters have a state-owned blockholder or can be classified as family firms (Thesmar and Sraer, 2007). As such, the interests of the domestic blockholder may not be aligned with that of foreign minority institutional investors.[9]

Our tests reveal that the main effect is concentrated in the group of firms where the largest investor owns at least 20% of the shares. That is, with double voting rights, the blockholder obtains de facto a majority voting stake or at least a blocking minority when it comes to mergers and acquisitions, or special dividend policy. In the low agency frictions group, the absence of a change in foreign institutional ownership suggests that investors

[8]We pooled the groups of early adopters and voluntary rejecters together as a control group to gain statistical power as the two groups experience identical trends in foreign institutional ownership (Figure 2).

[9]This situation contrasts with the model in Edmans (2009) where blockholders have aligned interest with minority shareholders and incentives to acquire costly information to monitor managers.

do not particularly value tenure voting as a monitoring tool.[10] This finding is consistent with recent theory models where the horizon of investors arise endogenously based on a firm's performance rather than being exogenously set ex ante (Edmans, 2009). This further echoes the opinion in Edmans (2017) that one must not confuse the holding period with the orientation of a shareholder to address short-termism.

The concentrated decrease in foreign institutional ownership in the subgroup of firms with a large blockholder suggests that mandated tenure voting was primarily perceived by foreign investors as exacerbating agency frictions between controlling shareholders and minority shareholders in the group of firms with a higher risk of agency conflicts between existing shareholders (Adams and Ferreira, 2008). Our results on the ownership structure are consistent with some anecdotal evidence that French insiders prevented firms from opting out of double voting rights to maximize their own voting rights, suggesting that the Act may indeed have exacerbated frictions between majority and minority shareholders. For example, Vincent Bolloré, who was the largest owner (holding then 14.5% of the shares) and chairman of the supervisory board of Vivendi campaigned and voted against the resolution to opt out of the new voting regime, which ultimately failed and left him with substantially more voting rights than before the law. Consistent with our results and this anecdote, the Florange Act elicited strong criticism from shareholder advocates in France and outside who argued that it was a self-serving move to consolidate the government's and other entrenched family insiders' hold on French companies. For example, Loïc Dessaint, Associate director of the French proxy advisor Proxinvest stated that "The double voting right provision is a protectionist tool used by dominant shareholders to keep control of the company while reducing the rights of the minority shareholders".[11]

[10]Significant differences remain among institutions in terms of investment style (Bushee, 1998, 2001). While transient / short-term investors 'vote with their feet' by selling upon bad news, dedicated and passive investors are more likely to hold a stock for longer periods of time, and therefore should be more sensitive to the other tool at their disposal to monitor managers – namely, voting to express their voice as improved by the Florange Act. For example, prior research finds that the ability to coordinate through securities lawsuits affect firms' ownership structure (Crane and Koch, 2018).

[11]In the Financial Times, Angeli Braham (Corporate Governance Manager at Legal General Investment Management) further wrote: "It is a form of protectionism. In France, there are a lot of government or

Next, we examine the effect of double voting rights on firms' cost of equity capital. If firms deviate from an optimal allocation of voting rights by adopting the Florange mandate, this may increase their cost of capital if minority shareholders discount shares due to an expected increase in the probability of expropriation. However, there are several assumptions underlying this hypothesis. First, if the effect follows strictly from the withdrawal of foreign capital, then it must be that the supply of domestic capital is not sufficient for firms' external funding needs.[12] Alternatively, it is possible that Florange drive away French minority investors as well. A competing hypothesis is that double voting rights foster long-term oriented investments by shielding managers from short-term oriented investors. In that case, adopting firms could experience a decrease in cost of capital. Consistent with investors discounting shares due to a higher probability of expropriation, we find that the cost of capital increases by about 1.1% for forced adopters relative to our benchmark group after the change in regulation. The effect is concentrated among forced adopters that experience a decrease in foreign ownership.

In a final set of tests, we measure the market reaction to annual meeting votes for firms that eventually rejected double voting rights. A study by Belot et al. (2017) documents an average negative abnormal return on the registration date of the resolution to opt out, suggesting that shareholders have a positive perception of loyalty shares. We find a subsequent reversal of this effect through statistically and economically significant positive returns to votes eventually rejecting double voting rights. This result suggests that the market participants positively value the re-affirmation of the 'one share one vote' principle. The result is also consistent with prior literature showing that the separation of cash flow and control rights decreases firm value (Claessens et al., 2002). Collectively, we interpret the evidence as the Florange Law having a negative effect on French capital markets. By failing to reject the

family-owned companies and they are not really interested in what minority shareholders have to say." (This article is available at: https://www.ft.com/content/5f390b20-b839-11e4-b6a5-00144feab7de)

[12]This assumption seems reasonable given that (1) foreign institutional investors already account for around a fourth of the French stock market and (2) French households are known for their limited willingness to invest directly and indirectly in capital markets, in part due to cultural factors such as lack of trust (Guiso et al., 2008).

new standard of double voting rights, firms lose foreign institutional shareholders and coincidentally experience an increase in cost of capital. Our interpretation of the results is that the Act disrupted a market equilibrium in terms of firms' choice of voting right allocations.

Our paper contributes to the literature in several ways. First, we add to the literature on the 'one share one vote' principle. There is a substantial theoretical literature on the resource allocation impact of corporate voting regimes (Burkart and Lee, 2008).[13] As Adams and Ferreira (2008) point out, there is little empirical evidence on the determinants of ownership proportionality. This is, in part, due to the lack of homogeneity in the voting structures – such as dual share classes, cross ownership or pyramids – across firms and countries. Prior research has established that deviations from that principle—when corporate insiders control more voting rights relative to cash flow rights—lead to lower firm value and stock returns.[14] In our French setting, double voting rights first emerged as a market mechanism before being generalized for a subset of firms by the Florange Act. Furthermore, all shareholders are technically eligible for tenure voting, whereas other structures such as dual-class shares tend to indefinitely endow insiders alone. In terms of consequences, our evidence suggests that generalized double voting rights are associated with a decrease in the value of outside equity.[15]

Second, our paper adds to the literature on the effect of corporate governance regulation. While Larcker et al. (2011) find negative market reactions to governance regulatory changes in the U.S., we document a positive reaction for firms that opt out of a regulatory change. In line with their result, we find that regulation-induced governance changes are costly. In our case, there is a double punishment: it has negative capital market consequences and further fails to attract investors with a supposed long-term orientation. We also add significantly to their findings because our setting falls outside of the proxy access and executive pay

[13] This theoretical literature focuses mostly on two consequences of voting regimes: takeover outcomes (e.g., Grossman and Hart, 1988; Harris and Raviv, 1988; Burkart et al., 1998) and the incentives of blockholders (e.g., Burkart et al., 1997).

[14] See Claessens et al. (2002), Lemmon and Lins (2003), Harvey et al. (2004), and Gompers et al. (2010).

[15] This result is also consistent with the findings that optimal firm governance varies between different firms within a country (e.g., Demsetz and Lehn, 1985; La Porta et al., 1998; Bruno and Claessens, 2010).

types of events that they examine. In a cross-country setting, Iliev et al. (2015) find that shareholder voting is an effective governance mechanism in the presence of regulations that bind managers to implement voting outcomes.[16] Our paper differs from this study as we focus on one particular country where regulation dramatically changed the voting power of certain investors. Additionally, in a global context, other recent regulatory initiatives have sought to impart upon shareholders greater voting power – with 'say on pay' (SoP) laws around the world being a prime example. Correa and Lel (2016) document significant changes in CEO pay practice and improvements in firm valuation following the adoption of SoP. While SoP seeks to address myopia from the managers' incentives standpoint, the Florange Act tackles it from the investor side – unsuccessfully if one assumes that is the regulator's primary objective. From that point of view, our paper is also indirectly related to Agarwal et al. (2018), who document a negative effect of mandated mutual fund transparency on corporate investment horizon.

Third, our study adds to the literature on corporate short-termism. Specifically, we contribute to the debate on the possible sources and mitigating factors of myopia from the intersection of investor base, governance, and regulation. While Aggarwal et al. (2011) and Bena et al. (2017) document a positive effect of foreign institutional ownership on corporate governance, we provide evidence on a reverse channel, where double voting right adoption deters foreign institutional ownership and increases firms' cost of capital. Overall, regulation-induced governance changes that affect the allocation of voting rights do not seem to attract more long-term oriented shareholders. Our results thus inform the (largely conceptual thus far) debate initiated in the legal literature about the merit of tenure voting as an anti-myopia mechanism (see, e.g., Berger et al. (2017) and Edelman et al. (2018) for a review).[17]

[16] We also acknowledge that there is an ongoing debate on how much governance is exercised through voting voting by institutional shareholders (e.g., Appel et al., 2016; Heath et al., 2018). While only indirectly related, our paper stresses that changing the voting regime has an implications on the preferences of institutional shareholders.

[17] It should be stressed that our results should not be interpreted as tenure voting being a non-desirable governance regime per se. As discussed in Edelman et al. (2018), it could be a useful governance regime under certain circumstances. Our results highlight the failure of regulation-induced tenure voting to attract long-term shareholders.

2 Institutional Background

On March 29 2014, the French parliament adopted the "Florange Act" in response to events that happened in 2012 in the city of Florange (in Northeastern France).[18] The Arcelor-Mittal[19] conglomerate decided to permanently shut down a set of blast furnaces. Tensions arose when commentators argued that the plant was profitable and that its closure primarily served to reduce the reported losses of the group due to several other underperforming debt-intensive acquisitions. This plant was under much public scrutiny as elected President– and former head of the Socialist Party – Francois Hollande came on site during his campaign to assure employees that they would not lose their job at a time where the factory was facing temporary closure.

This situation led to the promulgation of a law package that contains three distinct chapters: Chapter 1 requires companies to look for a potential buyer before being authorized to close a factory in France.[20] Chapter 2 facilitates the acquisition by employees of a subsidiary or plant that a larger group would like to close. Finally, as the events in Florange were supposedly initiated because of Arcelor-Mittal trying to boost its short-term performance in response to pressure from the financial markets, Chapter 3 introduced some measures to promote the long-term orientation of shareholders in firms listed on the French stock market.[21]

In Chapter 3, the Florange Act automatically grants double-voting rights to any shares held in a registered form by the same shareholder for at least two years, provided that the company does not prohibit double-voting rights in its bylaws. The two-year holding period triggering the automatic acquisition of double-voting rights started on April 1, 2014. Double-voting rights started to be automatically applied March 31, 2016. Any French listed

[18] The official name of the law is "Loi 2014-384 du 29 mars 2014 visant à reconquérir l'économie réelle".

[19] In 2006, the Indian conglomerate Mittal group (controlled by Lakshmi Mittal) acquired Arcelor, a European group in the steel industry that employed 100,000 people in 60 countries.

[20] This section of law was repealed by the Conseil Consitutionnel (the French Supreme Court) on the grounds that is was against the free entreprise principle.

[21] ArcelorMittal argues that the reasons behind the plant closure were (1) high production costs and (2) weak demand for steel in continental Europe.

company that did not prohibit double-voting rights in their by-laws prior to the Act or did not opt out by 31st March 2016 is subject to the automatic regime. In order to formally reject the automatic granting of double voting rights, at least two thirds of shareholder votes (supermajority) must be cast at the annual meeting in favor of a resolution stating that the one-share-one-vote principle prevails. Before the adoption of the Florange Act, a supermajority was required to voluntarily implement double-voting rights. As a result, in the pre-Florange period a minority shareholder (or a coalition of minority shareholders) with a third of the votes would not be able to impose the adoption of double-voting rights. The Florange Act basically reversed the situation by mandating double-voting rights and imposing a super majority to opt out. Thus, a group of minority shareholders holding a third of the voting rights would be able to maintain tenure voting and thwart attempts to revert to the 'one-share one-vote' regime.

The French government promoted this regulation as a chance to reduce excess short-term pressure and pushed for the implementation of the double-voting right regime in listed companies where it already had sizeable stakes. For instance, the government strategically purchased 1.23bn worth of shares in car manufacturer Renault to increase its stake from 15% to 19.7% (and 23% of voting rights) and in time to be able to opt for the double rights regime within Renault, despite 60.53% of the votes being cast against it. Similar cases occurred in other major French listed firms, including Alstom, where large public and private minority shareholders blocked attempts to opt out of the new voting regime.

After the adoption of the law and despite the strong support for double-voting rights by the French government, some investors immediately pushed to overturn Florange's implementation. For instance, a campaign led by French institution PhiTrust and backed by 19 institutional investors from countries such as Germany, the UK and Switzerland and that collectively manage 2,300bn in assets, tried to introduce resolutions to maintain the 'one share one vote' system on the agenda at several companies' annual meetings.[22] They viewed

[22] https://www.ft.com/content/05314dfe-e27d-11e4-ba33-00144feab7de

this change in governance structure as a protectionist tool used by dominant (minority) shareholders to keep control of the company while reducing the rights of minority shareholders. They were particularly concerned with issues related to minority shareholders' dilution and executive compensation, another culprit in the pervasiveness of corporate myopia (e.g., Edmans et al., 2017).

3 Data

3.1 Sample Selection

We start our sample construction by considering the universe of firms included in the CAC All Tradable index (formerly SBF 250) over the 2012-2016 period (377 unique firms). We require firms in our sample to be listed for five consecutive years centered around the adoption of the Florange Act. Thus, we exclude companies that listed after 2012 or delisted before the end of 2016. We exclude companies for which we are not able to retrieve financial information (DataStream and I/B/E/S), accounting information (Worldscope), or ownership data (capital IQ) for the full time period. We also drop companies that are not headquartered in France. Lastly, we exclude firms if we cannot find information relative to voting rights in their by-laws. We obtain information on firms' voting structures from their websites and the Journal of Official Announcement website (BALO). Please refer to Appendix *A* for more details on the exact steps we followed to construct our sample and the observations that we lost for each required data item. This procedure leaves us with a balanced panel of 258 unique firms over the 2012-2016 period.

[Insert Appendix A about here]

3.2 Measures

Double-voting rights First, we start by assessing whether a company granted double-voting rights to shares held for a minimum period of time before the introduction of the Florange Act (March 29, 2014). To do so, we manually look at all companies' by-laws in their 2013 annual reports. For companies that do not have double-voting rights in their by-laws prior the introduction of the Florange Act, we then collect the resolutions voted in annual meetings over the April 2014 to the April 2016 period — the period during which firms were allowed to reject double voting rights — and identify those that expressly rejected the introduction of double-voting rights and those that did not. Ultimately, the Florange Act requires firms to permanently adopt double-voting rights either because investors failed to reject the new governance regime through a vote at the annual meeting or because investors did not vote on the matter.

[Insert Table 1 about here]

Table 1 reports summary statistics on the presence of double-voting rights prior to and after the introduction of the Florange Act in our sample of French public companies. 66% (172 out of 258) of the companies already have double-voting rights in their by-laws prior to the introduction of the Florange Act. Among the rest, 68% (59/86) voted a resolution in an annual meeting between April-2014 and April-2016 to reject its implementation, and thus still do not have double voting rights by the end of 2016. 32% (27/86) of the companies adopted double-voting rights over the period 2014-2016 because of the Florange Act.[23] Figure 1 shows the number of resolutions that succeed in rejecting the DVR as provided by the Florange Act by calendar month over the 2014-2016 period. Most of these resolutions were voted in

[23]This distribution is in line with the descriptive statistics from two other studies on the Florange Act: Belot et al. (2017) use a larger sample and report that 69% of the firms in their sample voluntarily adopted double-voting rights before the Florange Act; Becht et al. (2018) use a smaller sample than ours based on the SBF120 index and find that 58 out of the 104 companies from the index had implemented double voting rights before the adoption of the Florange Act. We compare the subsample of firms in our sample and that of Becht et al. (2018) as listed in their Appendix and find that our manual data collection lead to the same allocation of firms between early adopters, voluntary rejecters and forced adopters.

mid-2015 (during the proxy season for firms with December fiscal year-ends). Appendix B lists the French companies that adopted double-voting rights because of the Florange Act (forced adopters) and those that maintained the "one-share one-vote" regime through a vote during the annual meeting (voluntary rejecters).

[Insert Figure 1 about here]

Foreign Institutional Ownership We measure foreign ownership using data provided by Capital IQ (Total Ownership) for all French listed companies that belong to the CAC All Tradable index. For each company, we collect data on its quarterly ownership over the 2012-2016 period. We drop negative positions and positions equal to 0. In addition, we only keep positions for which the corresponding daily share price in DataStream is not missing. We collect a total of $714,276$ positions for $7,900$ unique investors. This accounts for around 70% of the total ownership of the firms in our sample.

Capital IQ classifies investors into different types (see Appendix C for details). In Panel A of Table 2, we report for each type the number of investor-year-quarter-stock observations, the total euro amount invested in the French equity market, and the same amount relative to the total amount invested by all investors. Traditional Investment Managers are the largest class of investors (43.46% in value), followed by Private Corporation (26.35%), State Owned Shares (6.25%) and Public Corporations (7.16%). Individually, the other types represent less than 5% in value of the total amount invested by all the investors.

[Insert Table 2 about here]

Capital IQ also identifies shares directly owned by the government, labelled as "French Republic". Our data reveals that it represents about 6.17% of the total value invested by all the investors in the French equity market. This definition of state ownership is restrictive. When we also include the shares owned by other institutions that can be assimilated with the French public authority (i.e., that can be influenced by the French government), government

ownership increases to almost 7.81% of the total value invested by all the investors in the French equity market.[24]

Importantly for our study, Capital IQ indicates the country in which the investor is headquartered for all investors except for individuals/insiders. We assume that individuals/insiders are located in France. Panel B of Table 2 reports summary statistics at the investor nationality level. In terms of total value invested, French investors are dominant (51%), followed by US (23%), UK (4%), Swiss (4%), Dutch (3%), Luxembourgish (3%), Norwegian (3%) and German investors (2%). This shows that foreign public equity ownership (49%) is almost as large as domestic ownership in France (51%). Finally, for our firm-level analyses, we compute the percentage of foreign ownership by aggregating the number of shares owned by foreign investors and dividing it by total common shares outstanding.

Not all foreign investors are necessarily long-term oriented. We employ two methods to ensure that the majority of foreign investment in our sample comes from long-term oriented investors. First, in Panel C of Table 2, we list the names of the 20 largest foreign investors in the French stock market and report their type (as per Capital IQ), their country of origin, their total invested value, average ownership and number of firms in their portfolio.[25] This list primarily consists of pension funds (such as BlackRock, Vanguard, Fidelity, and the Public Pension fund of Norway) that are known to be long-term oriented. Furthermore, in the last column of Panel C we report the portfolio turnover measure developed by Derrien et al. (2013). In their classification, an investor is considered as a long-term investor if its portfolio turnover in the past three years is lower than 35%. We compute this ratio for our large foreign investors during the two-year period before Q1 2014 (when the Florange law was adopted). The portfolio turnover of the large foreign investors in our sample is low. Indeed, the two largest foreign investors have a turnover inferior to 5% over that time, and most

[24]We add the positions of the following investors (referring to the CAPITAL IQ variable "IQ HOLDER NAME"); "BPI France Investissement", "BPI France Participations SA", "Fonds de Réserve pour les Retraites", "Caisse des dépôts et consignations", and "Caisse Nationale des Caisses".

[25]We tabulate the largest investors with more than 10 firms in their portfolio and remove corporate cross-ownership structure (such as the Nissan-Renault partnership).

of the remaining ones have a turnover below 20%. This suggests that they are long-term oriented and thus well suited to analyze whether they react positively to the government-induced adoption of double voting rights (that supposedly empowers long-term investors) in some French listed firms.

Implied Cost of Equity We follow Gebhardt et al. (2001) to compute the implied cost of equity capital for our sample of French listed firms. Specifically, we rely on the residual income model of Ohlson (1995) to equate the price of a stock to the stream of expected abnormal earnings. We provide details of this calculation in Appendix D.

4 Results

4.1 Descriptive Statistics

Table 2 reports firm-level summary statistics for our full sample. We winsorize continuous variables at the 1st and 99th percentiles. In our sample, the average of *Foreign Ownership* for the three groups of firms combined is 20%. We start our empirical analysis by comparing firms' characteristics before the adoption of the Florange Act across groups. Specifically, we first compare voluntary adopters and non-voluntary adopters (that will then be divided between forced adopters and voluntary rejecters) in the years 2012 and 2013 that precede the change in regulation. Our univariate comparisons reported in Table 3 Panel A reveal that foreign institutional investors own 17% of voluntary adopters' shares during that period, compared to 24% for non-voluntary adopters. The 7% difference in foreign institutional ownership between the two groups is economically and statistically (at the 1% level) significant. This comparison is consistent with the results in Belot et al. (2017), who find that voluntary adopters are more likely to have a large fraction of their shares held by a family. While this allocation of voting rights and foreign ownership arose endogenously, it is consistent with foreign institutional investors being less willing to invest in firms where the voting structure

allows (domestic) blockholders to maintain control with fewer shares. Our univariate tests further indicate that non-voluntary adopters exhibit greater (direct or indirect) ownership by the French government and tend to have a larger market value and be less profitable, on average. However, the two groups are not statistically or economically different in terms of market-to-book ratios, likelihood to pay dividends, momentum, and membership in the major French equity index (CAC 40).

We next further break down our sample and examine only firms affected by the regulation. Our univariate comparisons are reported in Table 3 Panel B. Voluntary rejecters have an economically and statistically higher level of foreign ownership than forced adopters (25% v. 21%). Consistent with anecdotal evidence on the French government's self-serving interest in enacting Florange, forced adopters have a much higher level of direct and indirect ownership by the French government. Forced adopters are larger, more likely to be included in the major French equity index (CAC 40), and more profitable than voluntary rejecters. Otherwise, the two groups do not differ in terms of growth opportunities, dividend policies, liquidity, and momentum.

[Insert Table 3 about here]

4.2 The Impact of the Florange Act on Ownership Structure

The univariate results reported in Table 3 Panel B suggest that firms with double-voting rights attract fewer foreign institutional investors. However, these results are of a descriptive nature, as they arise from firms' endogenous allocation of voting rights to their shareholders. To better identify the effect of double-voting rights (i.e., tenure voting) on foreign institutional ownership, we use the introduction of the Florange Act as a shock to the market equilibrium of voting right allocations.

[Insert Figure 2 about here]

We first plot the time-series of foreign ownership (in levels) for our three groups of early adopters, forced adopters, and voluntary rejecters. In Figure 2, the green upper round dotted line represents the level of foreign ownership for voluntary rejecters. The orange solid line and the dashed yellow line plot the level of foreign ownership for forced adopters and early adopters, respectively. While the three groups differ in levels at the beginning of our sample, they clearly follow a similar growth rate (of around 0.5%) per year until 2014.[26] After 2014, the growth rates in foreign ownership for early adopters and voluntary rejecters remain stable. On the other hand, the growth rate becomes negative for forced adopters, suggesting that, against the upward trend in foreign ownership, these firms experience a decrease in overall level of foreign ownership post Florange. This constitutes our first piece of evidence that government-induced adoption of double voting rights has a negative effect on foreign institutional investors.[27]

Next, we turn to our multivariate tests and estimate the following empirical model:

$$Pct\ Foreign\ Ownership_{it} = \beta_0 + \beta_1 Post_{it}\ X\ Forced\ Adopters + X_{it} + \alpha_i + \gamma_t + \epsilon_{it}$$

In this model, the dependent variable is the fraction of foreign ownership for firm i during year t. *Post* is a dummy variable that takes the value of one for observations that fall after the adoption of the Florange Act (2015 & 2016), and zero otherwise (2012 & 2013). *Forced Adopters* is a dummy variable that equals one for firms that did not opt out of the new

[26] Indeed, in a univariate test, the difference between forced adopters and early adopters and the difference between forced adopters and voluntary rejecters are both statistically significant at the 10% level (the difference between early adopters and voluntary rejecters is statistically significant at the 1% level).

[27] A natural follow-up question would be to investigate the re-allocation of capital for foreign institutional investors that reduce their overall exposure to forced adopters in response to the change in voting rights, as documented in Figure 2. We see two non-mutually exclusive scenarios: foreign funds re-invested their capital in other French listed firms (from the early adopters and/or voluntary rejecters groups), or they re-invested that capital in another country. Testing this consequence is difficult because we do not observe the global portfolio of these large foreign investors. To examine these scenarios, we compare the growth rate of foreign institutional ownership between early adopters and voluntary rejecters. Univariate tests suggest that the differences in growth rate before and after the Florange Act are not statistically different from zero (with associated p-values of 0.54 and 0.62, respectively). This test is inconclusive because it is consistent with two interpretations: either the Florange Act had a negative impact on French capital markets and capital allocated to those firms was partially re-invested abroad, or the group of forced adopters is too small for the re-allocation within the country to be captured in a material way in our statistical tests.

voting right regime and thus have implemented double voting rights after the adoption of the Florange Act. Since the model includes firm fixed effects (α_i) and year fixed effects (γ_t), the coefficients on *Forced Adopters* and *Post* are subsumed. Firm fixed effects account for time-invariant firm characteristics, while year fixed effects account for time-varying factors that could affect both the dependent variable and the allocation between forced adopters and our benchmark group. Our coefficient of interest, β_1, captures the change in foreign ownership for our group of forced adopters relative to observations from our pooled groups of early adopters and voluntary rejecters.[28]

[Insert Table 4 about here]

In the first column of Table 4, the coefficient on β_1 is negative and statistically significant at conventional levels (5%). Relative to companies from the benchmark group, companies that were forced to adopt double voting rights by the Florange Law experience a decrease of 2.5% of their foreign ownership post 2014. Given the sample average of 20%, the magnitude is economically significant at 10% of the baseline. In the first two columns, the model does not include firm fixed effects. Furthermore, in the second column, we add various firm-level controls, including size, market-to-book ratio, profitability, illiquidity, momentum, the level of ownership by the French government and an indicator for whether firms pay dividends or not. Adding these covariates does not affect the precision of our estimate. The primary benefit of this approach is to estimate the cross-sectional effect of firms' characteristics on foreign institutional ownership. Consistent with the literature (e.g., Dahlquist and Robertsonn, 2001), larger firms attract more foreign institutional investors, all else equal. Besides, firms with higher level of direct and indirect ownership by the French State have lower foreign ownership. This again is not surprising as these two groups of investors likely possess diverging preferences. In the next two columns of Table 4, we re-estimate our model by including firm fixed effects and again display the results without (column 3) and with (column

[28] We pool those two groups to increase the statistical power of our tests. This procedure seems reasonable since both groups exhibit the same patterns over our sample period as established in Figure 2.

4) covariates. Our within-firm estimates of β_1 remains statistically significant at the 5% level. Adding control variables marginally reduces the magnitude of our estimate to 2.2% without reducing its precision.[29]

To understand the mechanism behind our main findings, we perform a cross-sectional test by splitting our sample based on the presence of a large public or private blockholder. We use a 20% cut-off point as the minimum level of ownership to classify the presence of a blockholder, following Thesmar and Sraer (2007). The intuition behind this partition is that the group with (without) a large blockholder is facing relatively high (low) risk of agency frictions between majority and minority shareholders. Our sample reveals that two thirds of the firms from our group of forced adopters have a blockholder. The vast majority of the blockholders in that group are either state- or (French) family-owned.

[Insert Table 5 about here]

Our tests are reported in Table 5, where we repeat our estimations without firm fixed effects (column 1 & 2) and with firm fixed effects (column 3 & 4). Our tests reveal that the decrease in foreign institutional ownership is concentrated in the group of firms with a large blockholder (columns 2 & 4). In this group, with double voting rights, the blockholder obtains de facto a majority voting stake. Indeed, as only around 70% (85% including broker votes) of the votes are cast during shareholder general assembly meetings[30], double voting rights (assuming a certain turnover of shares owned by other investors) provide the blockholder either with a simple majority or at least a blocking minority when it comes to merger and acquisitions, or special dividend policy. As a result, a domestic blockholder with a different agenda than that of foreign institutional owners (i.e., other than maximizing the long-term value of the firm) will be empowered to exert more influence on the company, potentially at

[29] A concern with the small size of our group of forced adopters (27 unique firms) is that our effect might be driven by an outlier for a reason potentially orthogonal to the change in voting regime. To rule out this concern, we re-estimate our most conservative specification (column 4 of Table 4) and drop individually each firm from our group of forced adopters. Our estimate remains stable (within the $[-0.035; -0.022]$ interval) and significant at conventional statistical levels.

[30] See: https://www.broadridge.com

the expense of other minority shareholders.[31] In a recent example in the Florange period, the U.S. fund Elliott Management revealed on December 11, 2018 that it had acquired a 2.5% stake in French company Pernod Ricard. The fund pointed out that the profitability of the firm was low due to high operating costs and the presence of unprofitable brands in the firm's portfolio. However, commentators noted that the attempt to influence the way the corporation is managed would suffer from the existence of double voting rights that confer more than 20% of the voting rights to the historical family, whose heir is serving as CEO.[32]

In the low agency frictions group reported in the first and third columns of Table 5, the absence of a change in foreign institutional ownership for our group of forced adopters suggests that investors do not particularly value tenure voting as a monitoring tool. This finding is consistent with recent theory models where the horizon of investors arises endogenously based on a firm's performance rather than being exogenously encouraged by regulations (Edmans, 2009). This further echoes the opinion in Edmans (2017) that one must not confuse the holding period with the orientation of a shareholder in the fight against short-termism. Overall, the results in Table 5 suggests that foreign institutions did not value double voting rights as an additional monitoring tool (voice). Instead, they perceive this regulation as exacerbating agency frictions and therefore decrease their ownership in firms with higher agency risks (exit). One interpretation is that firms are now relying on a suboptimal governance regime that does not maximize the long-term value of the firm as per the standards of passive long-term investors.

4.3 The Impact on the Cost of Capital

We next examine broader capital market consequences and examine the impact of the loss of foreign ownership on firms' cost of capital. To test whether the introduction of double-

[31] For example, Bertrand et al. (2018) document that French firms alter their production function by temporarily increasing job and plant creation rates and lowering rates of destruction in election years to support the re-election of local candidates, especially in politically contested areas. This additional cost does not seem to translate into increased future economic opportunities for the firm and thus destroys value for shareholders primarily interested in maximizing the long-term value of that firm.

[32] See https://www.ft.com/content/8bd97c72-fda0-11e8-ac00-57a2a826423e

voting rights has an impact on the cost of equity capital, we use a similar regression model as in the previous sub-section but with the implied cost of equity as the dependent variable (please refer to Appendix D for details about the computation of this variable). The results are reported in Table 6.

[Insert Table 6 about here]

In column (1), our estimate reveals that the cost of capital increased by around 1% for forced adopters relative to the benchmark group after Florange. In this specification, the model includes the following covariates: size, market-to-book ratio, a risk measure based on return volatility, and analyst coverage. This set of control variables is derived from prior studies (e.g., Claus and Thomas, 2001; Gebhardt et al., 2001; Easton, 2004). In column (2), we further include a firms' forecast dispersion, long-term growth and bid-ask spread measures, which reduce our sample size but does not affect the magnitude or the precision of our effect. In line with prior studies, our cost of capital measure is positively correlated with the level of risk (Fama and French, 1992), and negatively correlated with the number of analysts following the stock, which proxy for the amount of information available (Brennan et al., 1993).

To further reconcile our two sets of results based on foreign ownership and on the cost of capital, we conduct an additional cross-sectional test. We create a dummy variable that equals one if, for a given firm, the level of foreign institutional ownership is lower after the Florange Act relative to before, and zero otherwise. We then interact this dummy labeled *Decrease Foreign Ownership* with our main coefficient of interest *Post x Forced Adopters*.[33] This allows us to test whether the decrease in foreign institutional ownership is a channel through which forced adopters experience an increase in cost of equity capital, as we infer from the results thus far. We report our estimations in columns (3) and (4) of Table 6. In both

[33]We acknowledge that our variable *Decrease Foreign Ownership* is endogenous as it is affected by our treatment (the inability to opt out from the new default voting regime. However, for our results to be biased there would need to be unobservable factor that affects both the level of foreign ownership and the cost of capital in the same direction as our results relative to other firms, at the same time as the Florange Act, and for reasons orthogonal to the change in voting regime.

specifications, our estimates on non-interacted *Post x Forced Adopters* are not statistically different from zero.[34] This indicates that firms from the group of forced adopters whose level of foreign ownership did not decline post-Florange do not experience a change in their cost of capital. On the contrary, the coefficients on *Post x Forced Adopters x Decrease Foreign Ownership* are positive and statistically significant at conventional levels in both columns. This suggests that, in line with our previous interpretation, the increase in cost of capital is concentrated in the sub-group of firms that exhibit a decrease in foreign institutional ownership as a response to changes in voting regime. Overall, these results indicate that firms that were forced to adopt tenure voting experience an increase in their cost of capital.

4.4 Market Reactions to the Rejections of Double Voting Rights

Lastly, we examine the market reaction to successful votes in favor of resolutions rejecting the double-voting rights. We use a sample of 55 rejections of the implementation of double-voting rights as otherwise mandated by the Florange Act that were voted upon in shareholders' annual meetings.[35] We use several measures of market reaction on the day of the vote. In particular, we use the stock's raw return (Market Reaction Raw); the raw return in excess of the CAC 40 index return (Market Reaction CAC40); the raw stock return in excess of the CAC All Tradable index return (Market Reaction CACAll); and the stock return in excess of the return predicted by the CAPM market model (Market Reaction CAPM).[36] For each of the four stock return measures, we perform a test of whether the market reaction is statistically greater than zero. We report our estimation in Table 6. We find a consistent and significantly positive market reaction of around 40 to 50 basis points across all four models (statistically significant at the 5% level). This market reaction shows that opting out was not fully anticipated and that it was perceived, on average, positively by investors. The inability to fully anticipate the results of the vote may have stemmed from situations where

[34] Our non-interacted dummy variable *Decrease Foreign Ownership* is constant per firm, and hence subsumed by firm fixed effects.

[35] We could not identify when rejections exactly occurred for four firms in our sample of voluntary rejecters.

[36] We estimate the market model over the 255 days ending 46 days before the event date.

existing large owners (like the French State in the case of Renault) significantly increased their stake in the company prior to the vote to ensure that the opt-out resolution would not pass (indeed, the resolutions failed in a handful of cases).

[Insert Table 7 about here]

5 Conclusion

In 2014, the French Congress passed the Florange Act, which mandates the granting of double voting rights to holders of publicly-listed companies' shares who have held shares for at least two consecutive years, unless shareholders explicitly vote to opt out and maintain the 'one share one vote' principle. The law was officially passed to promote greater long-term orientation in public corporations' decision making. Yet, critics argued that it was a move to cement the French government's stronghold on companies where it owned minority stakes, and that it would otherwise favor entrenched French blockholders at the expense of minority shareholders. Our main findings indicate that firms forced to adopt double voting rights experience a decrease in the percentage of their shares held by foreign investors relative to those who rejected such governance change. Furthermore, these firms experience a relative increase in cost of equity capital while the market reacts positively to rejection votes. Insofar as foreign shareholders are more long-term oriented, the results suggest that the law failed to achieve its stated objective, and that it may have led to value destruction in firms that departed from the 'one share one vote' principle by default.

Overall, our results cast doubt on the effectiveness of a regulatory approach to addressing the (presumed) pervasiveness of myopia in public equity markets. However, it remains possible that similar efforts could yield a different outcome outside of the French market, depending on other capital market institutions and ownership diffusion, among others.

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Figure 1: Number of Resolutions Rejecting Double-Voting Rights over Time

We plot the number of resolutions successfully passed during the annual meeting by French listed companies that belong to the All CAC Tradable universe by calendar month in the two years following the introduction of the Florange Act.

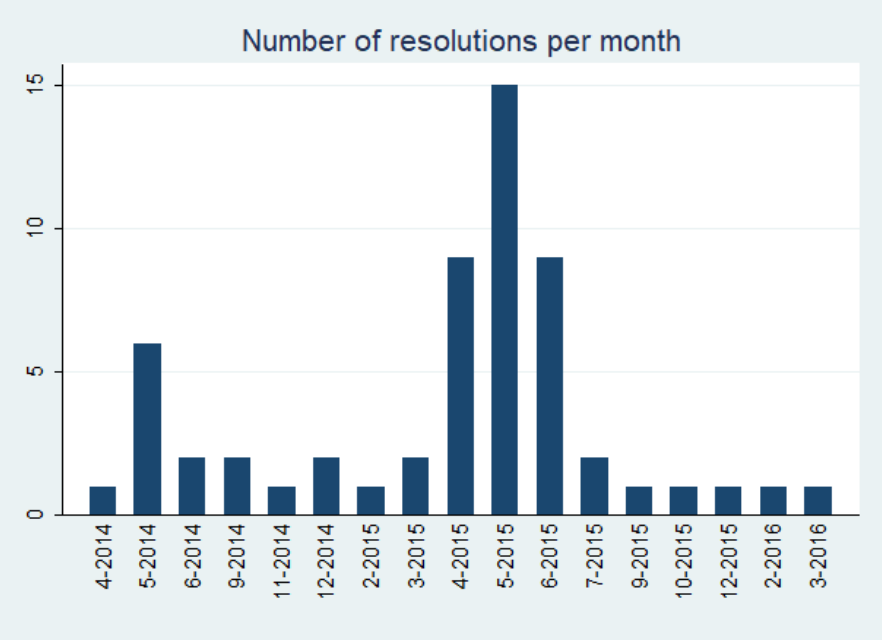

Figure 2: Evolution of Foreign Ownership over Time

This figure shows the average foreign ownership for our three groups (Forced Adopters, Early Adopters, and Voluntary Adopters) over the 2012 to 2016 time period. The horizontal axis corresponds to time and the vertical axis to the level of foreign ownership.

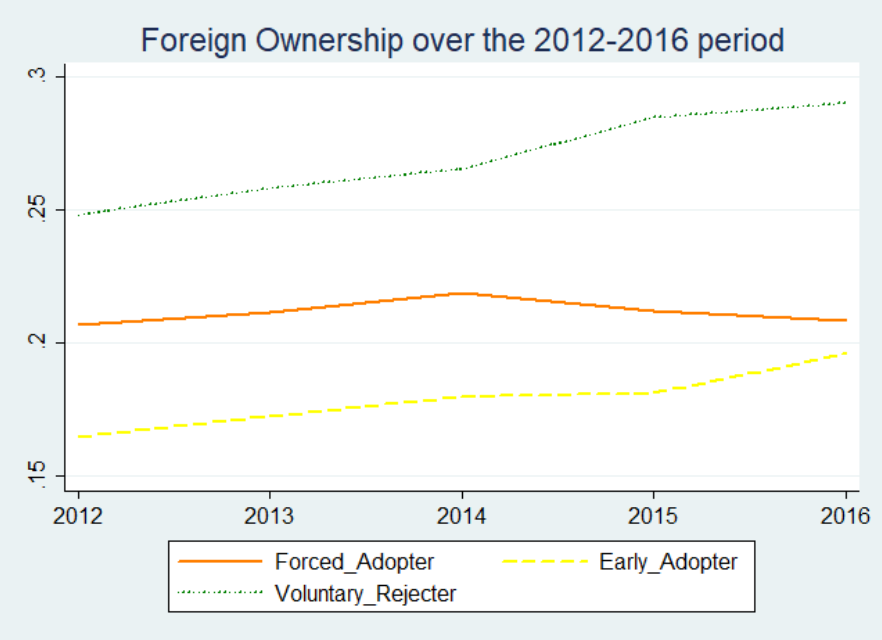

Table 1: Double-voting rights in French companies around the Florange Act

This table reports the number of firms by voting structure in our sample of French listed firms before and after the adoption of the Florange Act. The first column reports the membership in each group. The second column indicates whether a company has double-voting rights in its by-laws before the introduction of the Florange Act. The third column indicates whether a company introduced double voting-right following the introduction of the Florange Act. The fourth column reports the number of companies in each category.

Groups	**DVR pre Florange Act**	**DVR post Florange Act**	**Number of Unique Firms**
Early Adopters	Yes	Yes	171
Early Adopters	Yes	No	1
Forced Adopters	No	Yes	27
Voluntary Rejecters	No	No	59

Table 1 - Panel A: Summary Statistics by Type of Investors

This table reports summary statistics on investor characteristics in the French equity market. There are 714,276 investor-year-quarter-stock observations reported by type of investor, using the Capital IQ classification (see Appendix C for the definitions of the different types). The types of investors are ranked by the value invested with respect to the total value invested by all the investors. For each type, we report the total number of investors-year-quarter-stock observations, the dollar value of the total amount invested, and the value invested relative to the total amount invested by investors covered in the Capital IQ database.

Investor Type	**Number of positions**	**Amount Invested** (bn)	**Amount Invested %**
Traditional Investment Manager	613,610	7,910	43.46%
Corporations (Private)	6,639	4,800	26.35%
Corporations (Public)	1,022	1,300	7.16%
State Owned Shares	276	1,140	6.25%
ESOP	2,572	711	3.91%
Individuals/Insiders	42,580	563	3.09%
Government Pension Sponsor	8,496	549	3.02%
VC/PE Firm	7,414	416	2.28%
Bank/Investment Bank	5,424	241	1.32%
REITs	3,614	202	1.11%
Sovereign Wealth Fund	1,148	138	0.76%
Hedge Fund Manager	9,622	135	0.74%
Insurance Company	1,648	34	0.19%
Unclassified	1,245	32	0.17%
Corporate Pension Sponsors	345	19	0.11%
Family Offices/Trust	8,532	12	0.07%
Educational/Cultural Endowment	60	0.7	0.00%
Charitable Foundations	29	0.2	0.00%

Table 1 - Panel B: Summary Statistics by Nationality of Investors

This table reports summary statistics on investor nationality in the French equity market. There are 714,276 investor-year-quarter-stock observations in the sample. We use the Capital IQ variable "COUNTRY NAME"" to infer the nationality of an investor. Nationalities are ranked by the total value invested with respect to the total value invested by all the investors. We only report nationalities with a total value invested greater than 0.05% of the value invested by all the investors. For each nationality, this table reports the percentage of the total value invested and the dollar value invested.

Country Name	**Total Value Invested (%)**	**Total Amount Invested** (bn)
France	50.98%	9,280
United States	23.62%	4,300
United Kingdom	3.78%	689
Switzerland	3.63%	661
Netherlands	3.06%	556
Luxembourg	3.02%	550
Norway	2.67%	486
Germany	2.34%	425
Belgium	1.52%	277
Total	1.20%	219
Canada	1.05%	191
Spain	0.74%	134
Sweden	0.68%	124
Italy	0.61%	111
Japan	0.57%	105
Bermuda	0.54%	99.1
Qatar	0.25%	44.7
Ireland	0.19%	3.5
China	0.16%	2.9
Australia	0.09%	1.5
Denmark	0.08%	1.4
Austria	0.05%	0.9
Uruguay	0.05%	0.8

Table 1 - Panel C: Top 20 Foreign Investors as of 2014-Q1

This table reports descriptive statistics on foreign investors in the French equity market with the highest portfolio value over for the 2012/Q1-2014/Q1 period. We exclude foreign investors with less than 10 positions and for which we cannot identify the country of incorporation as well as cross-ownership with corporations. For each foreign investor, the table reports the average ownership in French listed companies, the percentage of blockholder stakes, defined as a percentage ownership greater or equal to 5%, the number of French listed firms in the portfolio, and the portfolio turnover over the period 2012/Q1-2014/Q1 computed following Derrien et al. (2013).

Investor Name	Investor Type	Investor Country	Total Value ($bn)	Avg. Ownership	Avg. Blockholding	# Portfolio Firms	DKT Turnover
BlackRock, Inc.	Traditional Investment Manager	United States	28.6	1.43%	7.58%	132	3.08%
Norges Bank Investment Management	Government Pension Sponsor	Norway	21.7	1.45%	0.65%	153	4.92%
Capital Research and Management Company	Traditional Investment Manager	United States	15.8	2.41%	10.53%	38	16.75%
The Vanguard Group, Inc.	Traditional Investment Manager	United States	11.8	0.60%	0.00%	138	6.54%
Franklin Resources, Inc.	Traditional Investment Manager	United States	9.62	1.44%	6.67%	45	20.49%
Massachusetts Financial Services Company	Traditional Investment Manager	United States	7.66	1.13%	7.89%	38	13.64%
FMR LLC	Traditional Investment Manager	United States	6.4	1.57%	11.25%	80	16.21%
Northern Cross, LLC	Traditional Investment Manager	United States	5.53	2.29%	0.00%	12	0.01%
State Street Global Advisors, Inc.	Traditional Investment Manager	United States	4.84	0.24%	0.00%	132	9.16%
FIL Limited	Traditional Investment Manager	Bermuda	4.66	0.56%	0.00%	64	15.67%
Aviva Investors Global Services Limited	Traditional Investment Manager	United Kingdom	4.53	0.52%	0.00%	145	24.76%
Teachers Insurance and Annuity Association of America	Traditional Investment Manager	United States	3.67	0.23%	0.00%	135	15.08%
J.P. Morgan Asset Management, Inc.	Traditional Investment Manager	United States	3.62	0.51%	2.02%	99	16.07%
UBS Asset Management	Traditional Investment Manager	Switzerland	3.38	0.25%	0.00%	163	12.37%
First Eagle Investment Management, LLC	Traditional Investment Manager	United States	3.31	2.69%	23.08%	13	0.51%
Harris Associates L.P.	Traditional Investment Manager	United States	3.14	2.81%	20.00%	10	5.13%
Grantham, Mayo, Van Otterloo Co. LLC	Hedge Fund Manager	United States	3.05	0.25%	0.00%	63	24.60%
Invesco Ltd.	Traditional Investment Manager	United States	2.73	0.28%	0.00%	94	25.62%
OppenheimerFunds, Inc.	Traditional Investment Manager	United States	2.71	0.77%	0.00%	31	10.15%
Allianz Asset Management AG	Traditional Investment Manager	Germany	2.57	0.58%	0.00%	76	23.65%
Schroder Investment Management Limited	Traditional Investment Manager	United Kingdom	2.52	0.51%	2.41%	83	16.78%

Table 2: Summary Statistics for the Full Sample

This table reports summary statistics for our sample of French listed companies belonging to the CAC All Tradable universe over the 2012-2016 period. Our sample selection is detailed in Appendix A. The uni of observation is a firm-year. Continuous variables are winsorized at the 1st and 99th percentiles. Please refer to Appendix E for variable definitions.

Variable	**Obs.**	**Mean**	**S.D.**	**P25**	**P50**	**P75**
Pct Foreign Ownership	1,290	0.20	0.20	0.05	0.14	0.30
Decrease Foreign Ownership	1,290	0.45	0.50	0.00	0.00	1.00
Pct French Gov Ownership 1	1,290	0.02	0.09	0.00	0.00	0.00
Pct French Gov Ownership 2	1,290	0.01	0.07	0.00	0.00	0.00
DVR Prior Florange	1,290	0.67	0.47	0.00	1.00	1.00
DVR After Florange	1,290	0.10	0.29	0.00	0.00	0.00
Ln Total Assets	1,290	13.33	2.42	8.66	11.41	13.17
Ln Market Cap	1,290	6.30	2.37	4.41	5.96	8.32
Market to Book	1,290	1.80	1.87	0.86	1.36	2.19
Profitability	1,290	0.10	0.24	0.07	0.13	0.20
Dividend Dummy	1,290	0.70	0.46	0.00	1.00	1.00
CAC Dummy	1,290	0.14	0.34	0.00	0.00	0.00
Illiquidity	1,290	4.30	9.11	0.05	0.57	4.08
Momemtum	1,290	0.16	0.37	-0.06	0.10	0.32
ICC GB	962	0.06	0.05	0.03	0.05	0.08
Risk	962	1.05	0.42	0.76	0.95	1.25
Analyst Coverage	962	10.94	9.30	2.00	8.00	19.00
Forecast Dispersion	819	0.10	0.32	0.04	0.07	0.13
Bid Ask Spread	759	0.01	0.01	0.00	0.00	0.01
Long-term growth	756	0.14	0.20	0.05	0.10	0.16

Table 3: Univariate Comparisons before the Florange Act

Panel A: Comparing Voluntary Adopters and Firms Affected by the Regulation

This table compares the characteristics of the firms in our sample in the two years (2012-2013) before the adoption of the Florange Act in 2014. We compare the group of early adopters that had double-voting rights (DVR= 1, composed of 172 unique firms) with the group of non-voluntary adopters (both forced adopters and voluntary rejecters) (DVR= 0, composed of 86 unique firms). We report the p-value of the differences in mean for the two groups. Continuous variables are winsorized at the 1st and 99th percentiles. Please refer to the Appendix E for the variable definitions.

Variable	**Mean (86 firms)** $DVR = 0$	**Mean (172 firms)** $DVR = 1$	**Difference**	**P-Value** (one-sided)
Pct Foreign Ownership	0.24	0.17	0.07***	0.00
Pct French Gov Ownership 1	0.05	0.01	0.04***	0.00
Pct French Gov Ownership 2	0.02	0.00	0.02**	0.01
Ln Total Assets	13.91	12.92	0.99***	0.00
Ln Market Cap	6.74	5.82	0.93***	0.00
Market to Book	1.66	1.68	-0.02	0.45
Profitability	0.09	0.14	-0.05**	0.02
Dividend Dummy	0.73	0.68	0.06	0.10
CAC Dummy	0.15	0.13	0.02	0.24
Illiquidity	3.39	5.53	-2.13**	0.01
Momemtum	0.20	0.20	0.00	0.45

Panel B: Comparing Voluntary Rejecters and Forced Adopters

This table compares the characteristics of the firms in our sample in the two years (2012-2013) before the adoption of the Florange Act in 2014. We compare the sub-sample of firms that were affected by the Florange law. Specifically, we compare firms that rejected the adoption of double-voting rights (59 unique firms) with firms that eventually adopted double-voting rights in response to the Florange Act (27 unique firms). We report the p-value of the differences in mean for the two groups. Continuous variables are winsorized at the 1st and 99th percentiles. Please refer to the Appendix E for the variable definitions.

Variable	**Mean (59 firms)** Voluntary Rejecters	**Mean (27 obs)** Forced Adopters	**Difference**	**P-Value** (one-sided)
Pct Foreign Ownership	0.25	0.21	0.04*	0.09
Pct French Gov Ownership 1	0.02	0.11	-0.09***	0.00
Pct French Gov Ownership 2	0.00	0.08	-0.08***	0.00
Ln Total Assets	13.62	14.54	-0.91**	0.03
Ln Market Cap	6.49	7.30	-0.82**	0.02
Market to Book	1.69	1.59	0.10	0.34
Profitability	0.06	0.15	-0.08**	0.01
Dividend Dummy	0.71	0.78	-0.07	0.18
CAC Dummy	0.12	0.22	-0.10*	0.06
Illiquidity	3.07	4.10	-1.03	0.28
Momemtum	0.18	0.23	-0.05	0.22

Table 4: Foreign Ownership and the Presence of Double-Voting Rights

This table presents estimates of the effect of the adoption of DVR as stipulated by the Florange Act on foreign institutional ownership in French listed firms. The dependent variable *Pct Foreign Ownership* is the percentage of the total common shares outstanding owned by foreign investors. *Post* is a dummy variable that takes the value 1 in the two years following the year of the issuance of the Florange Act (2015 and 2016) and 0 the two prior years (2013 and 2012). *Post*Forced Adopter* is a dummy variable that takes the value 1 for firms not rejecting the implementation of the double-voting rights in the post-rejection period and 0 otherwise. In columns 2 and 4, we control for size, market-to-book, profitability, liquidity, momentum, and year fixed effects. In columns 3 and 4, we add firm fixed effects. Constants are omitted from the table for brevity. See Appendix E for variable definitions. Standard errors robust to heteroscedasticity and clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

Pct Foreign Ownership	(1)	(2)	(3)	(4)
Forced Adopter	0.017	-0.00	-	-
	(0.039)	(0.041)		
Post X Forced Adopter	-0.025**	-0.028**	-0.025**	-0.022**
	(0.012)	(0.013)	(0.012)	(0.010)
Ln Total Assets	-	0.031***	-	0.018
		(0.006)		(0.017)
Market to Book	-	0.011*	-	0.001
		(0.006)		(0.002)
Profitability	-	0.044	-	-0.023
		(0.045)		(0.021)
Dividend Dummy	-	0.003	-	-0.008
		(0.025)		(0.009)
Illiquidity	-	-0.002	-	0.002*
		(0.001)		(0.001)
Momemtum	-	-0.023	-	0.010
		(0.019)		(0.006)
Pct French Gov Ownership 2	-	-0.266***	-	0.153
		(0.094)		(0.366)
Observations	1,032	1,032	1,032	1,032
Unique Firms	258	258	258	258
Year FE	Yes	Yes	Yes	Yes
Firm FE	No	No	Yes	Yes
R-squared	0.02	0.19	0.89	0.92

Table 5: The Role of Blockholders

This table presents estimates of the effect of the adoption of DVR as stipulated by the Florange Act on foreign institutional ownership in French listed firms. The dependent variable *Pct Foreign Ownership* is the percentage of the total common shares outstanding owned by foreign investors. *Post* is a dummy variable that takes the value 1 in the two years following the year of the issuance of the Florange Act (2015 and 2016) and 0 the two prior years (2013 and 2012). *Post*Forced Adopter* is a dummy variable that takes the value 1 for firms not rejecting the implementation of the double-voting rights in the post-rejection period and 0 otherwise. In all the specifications, we control for size, market-to-book, profitability, liquidity, momentum, year and firm fixed effects. In Columns 3 and 4, we split the sample used in column 1 in two groups, a group of firms where the largest investor owns less than 20% of the shares (2) and a group of firms where the largest investor owns more than 20% of the shares (3). Constants are omitted from the table for brevity. See Appendix E for variable definitions. Standard errors robust to heteroscedasticity and clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

	(1)	(2)	(3)	(4)
Pct Foreign Ownership	$< 20\%$	$\geqslant 20\%$	$< 20\%$	$\geqslant 20\%$
Forced Adopter	0.030	-0.036	-	-
	(0.068)	(0.025)		
Post*Forced Adopter	-0.031	-0.034*	-0.008	-0.029*
	(0.022)	(0.017)	(0.012)	(0.016)
Ln Total Assets	0.023**	0.033***	-0.016	0.034
	(0.010)	(0.007)	(0.031)	(0.023)
Market to Book	0.029**	-0.003	0.006	0.001
	(0.013)	(0.007)	(0.005)	(0.004)
Profitability	-0.004	0.010	-0.067**	-0.010
	(0.080)	(0.028)	(0.029)	(0.029)
Dividend Dummy	0.005	0.033	-0.001	-0.037*
	(0.031)	(0.043)	(0.009)	(0.022)
Illiquidity	-0.001	-0.001	0.003**	-0.002
	(0.001)	(0.002)	(0.001)	(0.002)
Momemtum	-0.059**	0.045**	-0.000	0.028**
	(0.026)	(0.021)	(0.006)	(0.013)
Pct French Gov Ownership 2	-0.285***	0.142	-0.136	0.241
	(0.104)	(0.240)	(0.187)	(0.457)
Observations	360	672	360	672
Year FE	Yes	Yes	Yes	Yes
Firm FE	No	No	Yes	Yes
R-squared	0.40	0.12	0.89	0.94

Table 6: Implied Cost of Equity and the Adoption of Double-Voting Rights

This table presents estimates of the effect of the adoption of DVR as stipulated by the Florange Act on the cost of equity capital in French listed firms. The dependent variable *ICC GB* is the implied cost of equity computed following Gebhardt et al. (2001). *Post* is a dummy variable that takes the value 1 in the two years following the year of the introduction of the Florange Act (2015 - 2016) and 0 in the two prior years (2012 -2013). The main independent variable is *Post*Forced Adopter*, which is a dummy variable that takes the value 1 for firms not rejecting the implementation of the double-voting rights in the post-rejection period and 0 otherwise. *Decrease Foreign Ownership* is a dummy variable that takes the value 1 if the post-Florange foreign ownership is less than the pre-Florange foreign ownership and 0 otherwise. We control for size, market-to-book, return volatility and analyst coverage in all tests, and for analyst forecast dispersion, long-term growth and the bid-ask spread in columns 2 and 4. All regressions include year and firm fixed effects. Constants are omitted from the table for brevity. See Appendix E for variable definitions. Standard errors robust to heteroscedasticity and clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

ICC GB	(1)	(2)	(3)	(4)
Post x Forced Adopter	0.011**	0.011**	-0.009	-0.015
	(0.004)	(0.005)	(0.008)	(0.015)
Post x Forced Adopter x Decrease Foreign Ownership	-	-	0.014**	0.011*
			(0.007)	(0.006)
Ln Total Assets	-0.002	-0.007	-0.002	-0.007*
	(0.007)	(0.004)	(0.007)	(0.004)
Market to Book	-0.001	-0.005**	-0.000	-0.005**
	(0.001)	(0.002)	(0.000)	(0.002)
Risk	0.005	0.048**	0.004	0.048*
	(0.019)	(0.024)	(0.019)	(0.026)
Ln Analyst Coverage	0.003	-0.010**	0.004	-0.010**
	(0.007)	(0.005)	(0.007)	(0.005)
Forecast Dispersion	-	0.004	-	0.004
		(0.007)		(0.007)
Long-term Growth	-	-0.010	-	-0.011
		(0.008)		(0.008)
Bid-Ask Spread	-	-0.271	-	-0.304
		(0.981)		(0.974)
Observations	731	391	731	391
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Firm clusters	Yes	Yes	Yes	Yes
Within R-squared	0.121	0.364	0.123	0.365

Table 7: Market Reaction to the Rejection of Double-Voting Rights

This table reports mean stock returns around resolutions rejecting the implementation of double-voting rights as stipulated by the Florange Act. Returns are measured on the day of the rejection (or the next trading day if not applicable). We exclude observations for which we cannot determine accurately the date on which the resolution is voted upon. The sample consists of 55 shareholder votes rejecting the implementation of double-voting rights as stipulated by the Florange Act. We measure the market reaction in four different ways. Market Reaction Raw is the raw stock return. Market Reaction CAC40 is the raw stock return in excess of the CAC 40 index return. Market Reaction CACAll is the stock return in excess of the CAC All Tradable index return. Market Reaction CAPM is the stock return in excess of the return predicted by the CAPM market model. Column 3 reports the average market reaction and column 4 reports the p-value of a one-sided test of whether the average market reaction is equal to 0 (the alternative hypothesis is that market reaction is greater than 0). We winsorize at the 5 and 95 percentiles. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level.

Market Reaction	Observations	Mean (%)	P-Value (> 0)
Market Reaction Raw	55	0.51	0.044**
Market Reaction CAC40	55	0.45	0.046**
Market Reaction CACAll	55	0.41	0.033**
Market Reaction CAPM	55	0.52	0.035**

Appendix A: Sample Selection

This appendix lists each step in the construction of our sample and the corresponding number of unique French listed firm available after each step.

Restrictions	**Unique Firms**
CAC All Tradable universe	377
Headquartered in France	371
Information on double-voting rights in the company by-laws	370
Listed over the entire 2012-2016 period	311
Ownership data from Capital IQ	262
Accounting and financial data from Datastream & WorldScope	258

Appendix B: List of Forced Adopters & Voluntary Rejecters

This appendix lists the names of the French listed companies in our sample that had not already adopted double-voting rights conditioned on stock holding duration in their by-laws prior to the introduction of the Florange Act (04/2014). We subsequently label firms that do not reject double-voting rights as *Forced Adopters*. We label firms that reject double-voting rights as *Voluntary Rejecters*.

Company Name	Double-voting Rights	Company Name	Double-voting Rights
ABCARBITRAGE	0	INNATEPHARMA	0
ACANTHEDEVELOPPEMEN	0	INSIDE	0
AEROPORTSDEPARIS	1	JCDECAUX	0
AIRBUS	1	KLEPIERRE	0
AIRFRANCE-KLM	1	KORIAN	0
AIRLIQUIDE	0	LEBELIER	1
ALBIOMA	0	LECTRA	0
ALSTOM	1	MAISONSFRANCE	0
ALTAMIR	0	MANITOUBF	0
ALTURINVESTISSE	1	MERCIALYS	0
ARCHOS	1	MERSEN	1
ARGAN	0	METROPOLETELEVISION	0
ATOS	0	MGICOUTIERPOULLAIN	1
AXWAYSOFTWARE	1	NANOB	0
BNPPARIBAS	0	NATIXIS	0
BOLLORE	1	NEOPOST	0
BOURBONCORPORATION	1	NEXANS	0
BOURSEDIRECT	0	NEXITY	0
CAPGEMINI	0	NICOX	0
CIBOXINTER@CTIVE	1	OENEO	1
CLARANOVA	0	ONXEO	0
CNPASSURANCES	1	ORANGE	1
COMPAGNIEDESALPES	0	OREAL	0
CREDITAGRICOLE	0	PARROT	0
DASSAULTAVIATION	1	PHARMAGESTINTER	0
DBVTECH	0	RENAULT	1
EIFFAGE	1	REXEL	0
ELECTRICITDEFRANCE	1	RIBER	0
ENGIE	1	RUBIS	0
EOSIMAGING	0	SCOR	0
ESSO	0	SES-IMAGOTAG	0
EULERHERMESGROUP	0	SMTPC	0
EURODISNEY	0	SOCCENTRALEBOIS	0
EUROPACORPPROMESSES	0	SOPRASTERIA	1
EUROSSOURCES	1	STENTYS	1
EUTELSATCOMM	0	SUEZ	0
FONCIEREDEPARIS	0	TECHNICOLOR	0
FONCIEREDESGIONS	0	TF1	0
FONCIERPARISNORD	0	TONNELLFRANCOISFR	0
GECINA	0	UNIONFINCFRANC	0
HAVAS	1	VEOLIAENVIRONNEMENT	1
HUBWOO	0	VINCI	0
ICADEIT	0	VIVENDI	1

Appendix C: CAPITAL IQ Shareholders' Detailed Information

The following are the Institution Types and their definitions.

Traditional Investment Manager: Traditional Investment Managers are firms managing "traditional" portfolios of stocks and bonds on behalf of either their individual investors or large "asset owners" such as pension funds, foundations, or endowments. These firms manage assets either through mutual funds or through separately managed investment accounts or a combination of both category excludes Hedge Fund managers, Private Equity/Venture Capital managers, and other "non-traditional" portfolios managers, such as commodities, currencies etc.

Banks / Investment Banks: When a Bank/Investment Bank makes non-strategic investments in its own capacity and has no legal Investment Firm subsidiary, SP Capital IQ creates an 'Asset Management Arm' record as an Investment Firm to its investment criteria and investment activities.

Government Pension Plan Sponsor: A Government Pension Plan Sponsor is an investment manager that designs, negotiates, and normally helps to administer an occupational pension plan to pay the pension benefits to its retired/ existing workers/general public. This includes firms managing their investments for the said objective, regulated under public sector law, with a structure as above wherein the parent is a Government Institution or has the sponsorship of a government institution.

Hedge Fund Manager: A hedge fund manager is an entity that manages hedge fund(s). The investment manager, which will have organized the establishment of the hedge fund, raises funds from qualified investors (high net worth individuals/entities) with a common financial goal. Hedge funds invest in various securities such as stocks, bonds, commodities, currencies, and derivatives. Hedge funds (as compared to mutual funds) have more flexibility to incorporate different strategies and techniques that may include: short selling, arbitrage, hedging, and leverage.

Family Office/ Family Trust: Family Offices are wealth management firms that serve ultra-high net worth investors. They provide personal services and access to alternative investments. In addition to wealth management services, they also assist in tax planning, estate planning, charitable giving, foundation, and budget issues.

Insurance Company: When an Insurance Company makes non-strategic investments in its own capacity and has no legal Investment Firm subsidiary, SP Capital IQ creates an 'Asset Management Arm' record as an Investment Firm to capture its investment criteria and investment activities.

Corporate Pension Plan Sponsor: A Corporate Pension Plan Sponsor is an investment manager that designs, negotiates, and normally helps to administer an occupational pension plan to pay the pension benefits to its retired/ existing workers/ management. These firms include ESOPs, Employee benefit Trusts, 401 K plans, Profit Sharing Plans, Retirement plans, etc.

Sovereign Wealth Fund: A government investment vehicle that manages investment funds and assets separately from the official reserves of the monetary authorities. Sovereign funds can be divided in Stabilization Funds, Savings Funds and Reserve Investment Corporations. Because savings funds have longer investment horizons than pure stabilization funds, they invest in a broader range of assets, including bonds and equities, as well as other forms of alternative investments, such as real estate, private equity, hedge funds, and commodities. Finally, Reserve Investment Corporations are funds established to reduce the opportunity cost of holding excess foreign reserves or to pursue investment policies with higher returns. Reserve Investment Corporations adapt more aggressive investment strategies, including taking direct equity stakes. These funds typically seek higher returns than other SWFs and use leverage (i.e., debt) in their investments. Historically, these vehicles tend to be more secretive than other SWFs that are primarily portfolio investors.

Charitable Foundation: Foundation Fund Sponsors are institutions that manage investments for charitable institutions or grant/humanitarian organizations. This also includes legal firms managed by a charitable institution to fund the charitable and humanitarian activities of a company. The institutions set up foundation funds in which regular withdrawals from the invested capital are used for ongoing operations or other specified purposes. Foundation funds are funded by donations.

Union Pension Plan Sponsor: A Union Pension Plan Sponsor is an investment manager that designs, negotiates, and normally helps to administer an occupational pension plan to pay the pension benefits to its members. This includes firms managing their investments with a structure as above wherein the parent is a Labor Union or Trade Association.

Educational / Cultural Endowment: Endowment Fund Sponsors are institutions that manage investments for foundations such as Universities, Educational Institutions, Religious Institutions, Art Institutions, etc. The institutions set up endowment funds, are used to fund ongoing operations or other specified purposes. Endowment funds are funded by donations.

Private Equity/Venture Capital Firm: A Venture Capital firm invests new money for growth investments in companies ranging from Incubation to Growth Capital stages. A Private Equity firm acquires or purchases companies through a variety of investment strategies including leveraged buyouts, recapitalization, industry consolidation, mezzanine/sub debt, turnaround, PIPES etc.

REITs: This category is for Equity REITs, as SP Capital IQ is only going to have holdings for these firms. Equity REITs are operating companies that engage in a wide range of real estate activities, including leasing, development of real property, and tenant services. One major distinction between REITs and other real estate companies is that a REIT must acquire and develop its properties primarily to operate them as part of its own portfolio rather than to resell them once they are developed.

Unclassified: Unclassified firms are firms where no information exists to properly select one of the above types.

Corporations (Public): Public Company ownership in the target company. This specifically excludes Public Investment Firms, and is reserved for strategic positions.

Corporations (Private): Private Company ownership in the target company. This specifically excludes Private Investment Firms, and is reserved for strategic private companies' ownership. Many times, information is scarce on whether an entity is a private firm or private company. We tend to assume company so that the position is float affecting, unless other information counters that assumption.

Individuals/Insiders: Includes Officer and Director Ownership as well as non-Officer/Director 'people' (which may include former directors or wealthy private individuals who do not have an investment vehicle).

Company Controlled Foundation: This entity is normally designated as a "Foundation/Endowment (Internally Managed)" Institution type. In cases where this entity holds the target stock, and the target stock is also the parent of the foundation, the holder changes to this type. In other words, a foundation's holdings are not strategic, except for the case where it holds its parent company's stock.

ESOP: This entity is normally designated as a "Pension Fund (Internally Managed)" Institution type. In cases where this entity holds the target stock, and the target stock is also the parent of this entity, the holder changes to this type. Almost all ESOPs hold one stock, and it will be the parent of the ESOP firm - so this definition is just for clarity. State Owned Shares: Shares owned by a Government Institution directly. This doesn't not include Government Pension plans, or general Sovereign Wealth Fund ownership.

VC/PE Firms (>5% Stake): The same logic is used for VC/PE Firms as for Hedge Fund Managers.

Appendix D - Cost of Capital

We follow Gebhardt et al. (2001) to compute the implied cost of equity capital for our sample of French listed firms. Specifically, we rely on the residual income model of Ohlson (1995) to equate the price of a stock to the stream of expected abnormal earnings and solve the following equation for the cost of equity k:

$$P_t = BPS_t + \frac{FROE_{t+1} - k}{1+k} * BPS_t + \frac{FROE_{t+2} - k}{(1+k)^2} * BPS_{t+1} + \frac{FROE_{t+3} - k}{(1+k)^3} * BPS_{t+2} + \frac{FROE_{t+4} - k}{(1+k)^4} * BPS_{t+3} + \frac{FROE_{t+5} - k}{(1+k)^5} * BPS_{t+4} + TV$$

where

- P_t is the share price at year t (at the end of April to ensure that all the accounting information is known to analysts). For instance, we match the accounting book value for the year 2014 (released between January and April 2014) with the monthly I/B/E/S consensus EPS forecasts of April 2014.
- BPS_t is the book value per share from the most recent financial statements.
- $FROE_{t+i}$ is the forecasted return on equity (ROE) for the period $t+i$. We compute this variable as $\frac{FPES_{t+i}}{FBPS_{t+i-1}}$. For the first five years, we use the I/B/E/S consensus EPS forecasts for $FPES_{t+i}$. When a consensus EPS forecast is missing for year $t+3$, $t+4$ or $t+5$, we extrapolate it based on the last known EPS consensus forecast and the I/B/E/S consensus median long-term growth rate. Beyond the fifth year, we forecast ROE using a linear interpolation of the industry median ROE. As in Gebhardt et al. (2001), we assume that, starting from year five, it takes seven years for FROE to converge to the industry median ROE at a constant yearly rate. To compute the industry median ROE, we use the ICB primary industries (please refer to Table 1 Panel 2 for a distribution of firms across ICB industries). We use five years of past data to compute the industry median.
- BPS_{t+i} is equal to BPS_t plus the sum of the I/B/E/S consensus forecasts of expected earnings per share ($FPES$) minus the sum of the I/B/E/S consensus forecasts of expected dividend per share ($FDPS$) at the horizon $t+i$. When DPS consensus forecast is missing for year $t+3$, $t+4$ or $t+5$, we extrapolate it based on the last know DPS consensus forecast and the I/B/E/S consensus median long-term growth rate. Beyond the fifth year, we assume that $FPES_{t+i}$ and $FPDS_{t+i}$ grow at the same rate than $FROE_{t+i}$.
- TV is the terminal value. It is calculated as:

$$TV = \Sigma_{t=5}^{t=12} \frac{FROE_{t+1} - k}{(1+k)^i} * BPS_{t+k-1} + \frac{FROE_{t+13} - k}{k * (1+k)^1 2} * BPS_{t+12}$$

We solve equation (1) for k only for firm-years for which I/B/E/S consensus forecasts for current book value, expected EPS, expected DPS, expected BPS for years $t+1$ and $t+2$ and a long-term growth rate are available. We do not solve the equation if the expected earnings are negative or if the long-term growth rate is negative. Since k appears in both the numerator and denominator of the terms on the right-hand side of the equation, the resulting equation is a polynomial in k with many possible roots. We search manually for the value of k that satisfies the relation each year. We start the iteration at $k = 0$ and stop at $k = 1$, we only keep observations for which we find a solution. The implied cost of equity capital, $ICCGB$, is equal to k–rf. Where rf if the annual yield on 10-year French treasury bonds obtained from Datastream.

Appendix E: Variable Definitions

Variable Name	Variable Definition
DVR Prior Florange	Dummy variable indicating whether a company already has double-voting rights conditioned on stock holding duration in its by-laws prior to the introduction of the Florange Act
DVR Post Florange	Dummy variable indicating whether a company adopted double-voting rights as a response to the Florange Act
Pct Foreign Ownership	Percentage of foreign ownership (ownership by investors not considered as French by Capital IQ) It is equal to the amount of shares owned by foreign investors divided by total common shares outstanding
Pct French Gov Ownership 1	It is equal to the amount of shares owned by the"French Republic" as defined by Capital IQ divided by the total of common shares outstanding
Pct French Gov Ownership 2	It is equal to the amount of shares owned by the "French Republic", BPI France Investissement, BPI France Participations SA, Fonds de Réserve pour les Retraites, Caisse des dépôts et consignations, and "Caisse Nationale des Caisses" divided by the total common shares outstanding
Ln Market Cap	Natural logarithm of market capitalization
Ln Total Assets	Natural logarithm of total assets
Market to Book	Market value of equity divided by book value of equity
Profitability	Earnings before interest and taxes divided by book value
Dividend Dummy	Dummy variable indicating whether a company pays dividend
CAC Dummy	Dummy variable indicating whether a company belongs to the CAC 40 index
Illiquidity	Amihud (2002)'s measure of stock liquidity
Momemtum	Momentum is defined as the buy-and-hold return over the last twelve months
ICC GB	Implied cost of equity computed following Gebhardt et al. (2001)
Risk	Annualized standard deviation of monthly returns over the last four years
Forecast Dispersion	I/B/E/S standard deviation of the one-year-ahead EPS forecast divided by the I/B/E/S consensus mean forecast
Bid Ask Spread	Monthly bid-ask spread scaled by stock price averaged over the last twelve months
Analyst Coverage	Number of I/B/E/S estimates for the one-year-ahead EPS forecast over the last twelve months
Ln Analyst Coverage	Natural logarithm of Analyst Coverage
Decrease Foreign Ownership	Dummy variable that takes the value 1 if the post-Florange foreign ownership is inferior to the pre-Florange foreign ownership and 0 otherwise