Research Proposal:

"Are Shareholders Adequately Compensated for Investing in Restricted Voting Shares of a Family Firm?"

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Abstract

This research proposal presented is an outline for a study investigating how shareholders with non-voting status perceive the benefits of dual class corporate structures. The issue of dual class structures is germane to family businesses, which have typically favoured the use of two classes of shares, one with voting privileges and one without. However, recently, this mode of dual class structures has come under fire as being less than fair because it disallows all investors from having equal input into governance. The research proposal noted that family businesses with dual class structures have been successful historically. The proposal introduced a research design for exploring whether non-voting shareholders perceive there are any benefits to holding such a status. The proposed research design was for a mixed-methods approach that will utilise quantitative secondary data and gather primary qualitative data. The quantitative design was shown to indicate that dual class family businesses have tremendous success and assets in comparison with other companies. The qualitative approach framed a phenomenological interview method in which non-voting shareholders and financial experts are interviewed in order to allow them to express their motivations and justifications for perceiving advantages and disadvantages of non-voting shareholder status. Ultimately, the study would offer indications of the perceived benefits of non-voting shareholder status, as well as techniques and governance protocols that would allow all shareholders to receive equal votes, while maintaining some options for management to create space for pursuing value-added visions for company success.

Keywords: dual class corporate structures, non-voting status, voting privileges, family businesses

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1. Introduction

In 2005, one percent of U.S. Initial Public Offerings had dual class share structures with differently weighted voting rights. The most common structure amongst dual class family firms in the United States is for superior shares to carry ten votes while restricted shares carry one vote (Gompers et al., 2010). This can create a power struggle between the founders, who have majority voting rights, and shareholders, who do not. This distorts corporate decisions, resulting in increased agency costs (Ben-Amar, 2006) and may allow a manager to take part in non-value maximizing behaviour (Morck et al., 1988).

By 2015, the number of U.S. Initial Public Offerings with dual class share structures had increased to fifteen percent (Bloomberg., 2017). When firms decide to go through the process of making an Initial Public Offering (IPO), they have the decision of structuring multiple classes of shares with a single or multiple vote. If you are a private firm in the United States, The Securities and Exchange Commission (SEC) mandates through the Securities Exchange Act of 1934 that if a company has more than $10 million in assets whose securities are held by more than 500 owners, they must file annual and other periodic records (www.sec.gov). When this occurs, the founder(s) will separate cash flow rights from voting rights in order to entrench themselves to maintain effective control on any corporate decisions (Smart et al., 2008) by holding a greater ownership interest through superior voting shares as well as yielding net benefits (DeAngelo and DeAngelo, 1985).

In this paper, when a firm has structured dual class shares, a single vote share will be referred to as a Restricted Voting Share (RVS) and a multi vote share will be referred to as a Superior Voting Share (SVS). As enticing as having control over a firm may be, this could compromise a firm's access to capital from institutional investors, as discussed and evidenced in the study conducted by (Li et al., 2008).

The Former President of CalPERS Board of Administration, William D. Christ, opined on dual class structures in an article for *Business Wire*, April 21, 1999, titled "CalPERS Announces Investment Opinion on Nine of Corporate America's Poorest Financial and Economic Performers":

> A dual-class stock structure, which carries unequal voting rights, is antithetical to the fair and fundamental principle of a 'one-share, one-vote' system and has no place in today's marketplace. Control of a corporation should come from owning a majority of shares, not owning special rights with special shares. (Li et al., 2008)

In terms of agency theory, a real problem with dual class shares is that management is allowed to exercise power over the company with free reign to operate unhindered by shareholders. This may lead to abuses of power among management: "Dual Class Shares exacerbate problems associated with the separation of ownership and control inherent in the corporate organizational form" (Smart et al., 2008).

Financing corporations with dual class shares has been a controversial debate in the corporate governance space for many years (Amoako-Adu et al., 2011). This debate spans from absolutely banning dual class shares due to the asymmetry between voting and cash flow rights to continued issuance because there is no inherent problem with such securities (Pajuste, 2005).

This topic piqued my interest after I heard about how Frank Stronach, former founder of Magna International, created a chokehold on his board through his majority voting control of 66.1%, even though he owned 0.64% of the company's equity, a voting leverage that exceeded 100 (Amoako-Adu et al., 2011). This resulted in autocratic decisions and undermined all the board members. The only option the board had was to buy him out in order to unify Magna's dual class share structure. In exchange for his Class B SVS, Stronach made a handsome $983 million which equalled a 1,933% return higher than what outside shareholders earned (Amoako-Adu et al., 2011).

It is not unreasonable for the dual class structure to have emerged as a favourite of family businesses. It is fairly straightforward to understand that there are certain basics to ensuring the continuation of the family business, which includes that its control continues in an unbroken fashion by the family group. This particularity justifies emergence of dual class structures for shareholders as a form of governance that facilitates financing mechanisms while protecting the management's interests. Therefore, on one hand, the dual class structure seems to allow a family business to maintain its integrity as a family-owned and operated entity. On the other hand, the bigger the company becomes, the more unfair the dual class structure appears from the standpoint of governance.

For this reason, in 2017, the existence of companies allowing two classes of shares came under scrutiny and erupted into a veritable social issue. This project does not seek to elaborate on all of the many details surrounding the governance structure of dual class companies. There may, for example, be a dual class structure in which Class A shareholders have one vote and Class B shareholders may have 100 votes—or, there may be a structure in which one class has a vote and another has no vote at all. For example, within these stipulations there may arise sunset provisions, which allow for certain statuses of shares, votes, and management privileges to be exercised for a predetermined amount of time, and then they may be rescinded. It is possible for a dual class structure to have provisions allowing for non-voting shareholders to cast votes in special circumstances, and so on.

Defining the Research Question

The purpose of this study is to better understand whether family controlled firms are adding additional shareholder value compared to their equivalent non-family controlled counterparts. Using a mixed-methods approach, the results will inform shareholders on the dynamics of giving up value by purchasing restricted voting shares of such firms.

Currently, the research question is: "Are shareholders adequately compensated for giving up their right to vote as a result of investing in restricted voting shares of a Family Firm?"

Conclusion

Although the definition of a family business quickly becomes multi-dimensional, it is generally understood that the family business is one in which management power is held totally by a family—which at the same time owns the majority of the capital—and in which its members are part of the management of the company and make decisions that are relevant and important to the growth of that business. From AT&T to Nestle, from Berkshire Hathaway to Facebook, some of the world's most successful corporations have been family-owned enterprises.

This paper proposes to investigate the dual class structure, which privileges one class of shareholders with greater voting privileges over another. This issue is being brought under scrutiny in our society at this time, and this research will contribute to the literature by exploring the perceived benefits for non-voting shareholders from their perspective.

This paper is a pilot study for a proposed doctoral-level research topic whereby the intent is to better understand if there is additional value (discount) to common shareholders who hold restricted voting shares of a publicly listed Canadian Family controlled firm.

The next section of this proposal summarizes the literature relating to the benefit and/or detriment of outside shareholders who decide to invest in closely-held businesses that are managed or controlled by families that decide to institute a dual class share structure. After that, the proposal addresses methods and research design, and presents a quantitative pilot study framing the overall research. The paper ends with a summary and conclusion of the proposal and ideas.

2. Literature review

Identifying Sources

This research proposal is written using the framework provided by (Easterby-Smith, 2015) as exemplified in their chapter "Reviewing the Literature" in the 5th edition of their book *Management & Business Research*. Moreover, upon reading "Doing a Literature Review" by (Hart, 1998) I used Toulmin's method of argumentation analysis and Fisher's method of critical reading in order to analyse and evaluate arguments within the literature intelligently and impartially. Finally, I used explanatory and integrative research synthesis methods as exemplified in the paper written by (Briner and Denyer, 2012).

The following resources have been used: Henley Business School—ARC Online—special databases for journal articles search (ProQuest, Emerald, EBSCO), University of Toronto library online, Elsevier, Google and Google Scholar, and the websites of: Family Business Index from the University of St. Gallen, The Bank of Canada, Statistics Canada, The World Bank, The Organization for Economic Co-Operation of Development (OECD), and The International Monetary Fund (The IMF).

A personal database of search phrases was maintained in order to ensure no overlap. These phrases are: "Canada," "Dual Class Shares," "Family Controlled Firms," "Share Performance," "Multi Vote Shares," "Financial Performance," "Shareholder Value," "Corporate Governance," "Governance Rankings," "Board of Directors," "Family Firms," "Firm Performance," "Board of Directors," "Ownership Structure," "Restricted Voting Shares," "Subordinate Shares," and "Superior Voting Shares."

When identifying papers relevant to my topic I selected thirty-four articles, which include contradictory findings in order to maintain objectivity. These articles met at least one or all of the following designated criteria: The journal and its ranking based on the 2015 Academic Journal Guide published by the Association of Business Schools, the number of citations, the author's contribution to the research, and the university or institution with which it is associated.

Literature Defining the Family Firm

There are many definitions of a family firm and none are universally accepted (Miller et al., 2007). This is emphasized with the statement "that there is no single definition of a family business that is widely acceptable" (Westhead and Cowling, 1998). Westhead and Cowling (1998) identified a more rendered version of these definitions within the context of the UK to measure the scale of family business activity. Using four elements that were frequently used by researchers when defining family firms, they identified several definitions. Table 1 (see Appendix A) summarizes these findings. Westhead and Cowling (1998) identify definition number 3 (i.e. The Company was perceived by the Chief Executive, Managing Director or Chairman to be a family business and more than 50% of ordinary voting shares were owned by members of the largest single-family group related by blood or marriage) as most appropriate to be used by researchers due to its reasonably broad family firm definition.

To the extent that it is possible to measure all seven definitions listed in Table 1, one wonders how any analysis would vary—that is, how important are the variations in the definitions? If, for example, one's analysis came to the same conclusions regardless of the definition used, how would those results be interpreted?

Miller et al. (2007) sought to review many top tier finance and management journals between 1996 and 2006 with study timelines ranging from 1962 to 2003, which led them to identify twenty-eight definitions of a family firm; see Table 2 (Appendix A) for a comprehensive list of the definitions. The definitions range from very simplistic to complex. A simplistic one can be found in the Denmark Study conducted by (Bennedsen et al., 2006), wherein a family firm is defined as occurring "whenever an incoming CEO is related by blood or marriage to the outgoing CEO." A more complex definition can be seen in the U.S study conducted by (Villalonga and Amit, 2006), wherein a family firm is considered as such "if the founder or a member of the family is an officer, director or owns greater than 5% of the firm's equity." This is then expanded upon by including multiple conditions in the broader definition.

The above emphasizes the non-universality of defining a family firm and as such an extensive amount of work could be done to reach a definition that is universally acceptable within particular parts of the region.

A recent study conducted by the Centre for Family Business at the University of St. Gallen in Switzerland compiled data for the top 500 Family-owned firms globally for 2014 to 2017 from data available online in the family business index[1] (see Table 3, Appendix A). It illustrates the economic power and relevance these family firms have on the global stage. Interestingly, 391 of the firms are owned in countries that are members of the Organization for Economic Co-Operation and Development (OECD). Canada is one of thirty-four members and has thirteen firms in the top 500 (2017) globally which represents 2.6%. Canada as an economic player on the world stage creates approximately $1.529 trillion USD in Gross Domestic Product (GDP) or 2.47% of the world's GDP. This disproportion makes Canada an intriguing case to research and analyse. Of the thirteen Canadian firms listed, ten are publicly listed and combine for a total market capitalization of approximately USD $148.469 billion.[2]

Firms that were included in the study had to have met one of the two following definitions: For a privately held firm, a firm is classified as a family firm where the family controls more than 50% of the voting rights.

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[1] See http://familybusinessindex.com.

[2] See www.finance.yahoo.com; exchange rate as of November 4th, 2017.

For publicly listed firms, a firm is classified as a family firm if the family holds at least 32% of the voting rights. This cut off is utilized by the fact that on average for publicly listed companies in the OECD, 30% of the votes are sufficient to control the general assembly where 60% of the votes are usually present.

The Nature of Dual Class Corporate Structures

Dual class corporate structures allow management to receive external financing for commercial companies, without affecting the control that management has over the company (Gompers et al., 2010). This mechanism, though not necessarily widespread in general, has traditionally favoured the family business. The objective of this research project is to analyse and determine the degree of utility and service implied by non-voting shares for the family business, which often prefers to utilize dual class structures as a tool to facilitate its strategy for financing and tax avoidance (McGuire, Wang & Wilson, 2014).

In a sense, the family business is the basis of the productive and economic system, and family businesses have long been recognized as a key element in the creation of employment, wealth, and regional development (Anderson, Ottolenghi, & Reeb, 2017; Basco, 2015). This statement is reinforced by a series of data and studies that will be reviewed briefly in this section.

Dual class companies have maintained that their structure is not purposively designed to be unfair, but rather it allows for practical contingencies in the exercise of management (Hamermesh, 2014). For example, a dual class structure frees the management from having to contend with shareholder absenteeism when it is time to vote. In fact, it streamlines the management process by not making management beholden to all shareholders for every major decision to be made and favours long-term planning (Jordan, Kim & Liu, 2016).

Another benefit of the dual class structure for the management of such a corporation is that it allows the corporation to pursue funding without putting the political control of management at risk (Howell, 2014). In this case, the management may raise funding without having to answer to the shareholders who have provided the funding, and this is perceived as a great advantage to the management.

The dual class structure highlights the distinction between capital-control and capital-savings: it is one thing to accumulate cash and assets, and it is another thing to control these (Howell, 2014). Because of this mechanism for raising funds, the dual class entity will tend to offer healthy dividends on its non-voting shares. This is one of the trade-offs: the retail investor may not have any say in the performance of management, but they are probably going to earn as good a return on their investment from such a company as from any other. In this sense, the dual class structure serves as a mechanism aimed at the self-financing of the company, and it works because investors are rewarded for giving up input into management by having a vote in exchange for solid returns on their investments, enough to make the investment of the shareholder attractive (Banerjee & Masulis, 2017).

There are, in fact, many possible permutations and variations of governance structures allowing dual classes of shareholders. For example, it may be observed that while investors or shareholders without a vote may be third parties outside the family, they may also be family members who, although they do not hold any position of oversight or supervision in the company, may enjoy the benefits obtained by it without interfering with its development. In fact, dual class structures have been overwhelmingly favoured by family businesses historically (Anderson, Ottolenghi & Reeb, 2017). Therefore, the existence of dual class governance structures has many advantages for both management and shareholders or, presumably, it would not exist in the first place. At the same time, there is a move on in the enterprise at this time to even the playing field and allot votes to all shareholders in an effort to structure the fairest forms of corporate governance possible.

Sometimes there may be sunset provisions in a corporation's charter allowing, for instance, for non-voting shareholders to receive reimbursements for shares first, in the event of a liquidation of the company (Banerjee & Masulis, 2017). Yet, in reality, this privilege rarely reaches application in practice, since before paying the settlement fee to the shareholders, all debts owed by the company must be satisfied. On the other hand, although this class of shareholders is deprived of the right to vote, they may be given provisions in which a special vote is called, and they do have a vote on a company issue. In other words, the non-voting shareholders may still be allowed privileges and input in certain circumstances that are aligned with voting shareholders. These points are made in order to underline the tremendous flexibility that is inherent in the corporate enterprise and it is these forms of flexibility that may hold the promise for resolving the tensions and debates surrounding dual class companies at this time (Anderson, Ottolenghi & Reeb, 2017).

In fact, every country has its own legal structure stipulating the finer points of dual class governance. From Spain to Italy, from Germany to France and Switzerland, some countries prefer dual class structures and favour their implementation, and some do not (Nüesch, 2016). However, what is interesting is that at this time there is a generalized debate surfacing throughout the advanced Western nations regarding the virtues and vicissitudes of dual class structures.

Not only have dual class, family-owned businesses been extremely successful, they have benefited greatly from the fact that the family or family group, which is in control of the family business financed through non-voting shares, will never see their dominant position in jeopardy, while at the same time providing a benefit to its shareholders who can count on funds to continue developing its activities and thus continue to grow (DeAngelo & DeAngelo, 1985).

It is for these reasons that the present research project seeks to frame a contemporary, twenty-first century vision of the ways and means of dual class structures as they are beneficial to non-voting shareholders. This project seeks to understand the literature on dual class structures and the current arguments regarding the social justice and corporate social responsibility of corporations preferring to exercise management control without interference from shareholders. Overall, there is a trend in our society toward discovering ways to allow management to create spaces in which it can perform unhindered by shareholder obstacles, as well as allotting fair and proportional voting schemas to all shareholders.

Theoretical and Practical Contribution

The focus of my research will be from the perspective of the shareholder. As such my contribution to theory and practice should not only benefit researchers and academics in the field but the retail and institutional investors.

Currently there is not much literature surrounding the notion of a "Share Premium" for investors who seek to take part in holding Restricted Voting Stock. A study conducted on 39 U.S. firms and 96 Italian firms whereby they were able to quantify the market value of the right to vote based on events such as meetings with a high-ranking agenda, merger and acquisition events and periods of hedge fund activism. This "right to vote" value of the underlying stock price was estimated to be 1.58% annualized (Kalay et al., 2014). A question that stems from this is: What about firms that have low to no activity of events that could impact the future value of the firm? As such, a "Voting Premium Equation" could be theorized to compensate investors who seek to invest in firms and not take part in any of their voting decisions. This may also lead to the managers of these dual class firms to evaluate the benefits, if any, of maintaining a dual class share structure for the short and long term.

There is also the notion that the regulators may seek to evaluate and hence propose a share unification of all dual class firms such as the ones implemented by the regulators in certain European countries as well as China. There are limited cross country studies that support the share unification process due to the fact that dual class shares have a neutral or negative impact on corporate value (Smith et al., 2009). One study that was conducted on 18 countries identified as emerging markets and their companies found lower firm values where cash flow rights were smaller than voting/control rights (Lins, 2003)

To practice, a framework or model should be created and implemented by family controlled firms to increase their corporate governance standards which may lead to share value maximization for the firm.

Agency Theory

I would like to preface this next section by quoting an excerpt from the *Wealth of Nations*, written by the father of modern economics Adam Smith:

> *The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, there-fore, must always prevail, more or Iess, in the management of the affairs of such a company (p.700). (Smith, 1776)*

In almost all of the papers that look into this area there is a dominant view that it is preferred that all classes of shares have equal voting rights because concentrated control leads to agency and entrenchment problems (Adams and Ferreira, 2008). Controlling minority shareholder (CMS) structures distort many decisions because agency costs increase sharply as the size of cash flow rights decreases (Bebchuk et al., 2000). These consequences are furthermore emphasized by Morck et al (2005) whereby they identify two key points. First, agency and entrenchment problems emerge simultaneously at the firm level which results in misallocated resources, a reduction in the rate of innovation and an overall retardation of economic growth. Secondly, there emerges a theme of *economic entrenchment* whereby their political influence is created from the fact of how much they control and not how much they own and hence they shape public policy.

One way of reducing agency costs may be through the introduction of dividend payouts (Easterbrook, 1984).

Inside Shareholder Compensation

Owners have the choice of controlling a company using single class or dual class share structures. Using dual class shares, one's equity commitment to the firm is much smaller and hence are able to extract private benefits and expropriate wealth from outside shareholders (Smith et al., 2009) (Morck et al., 1988) (Bebchuk et al., 2000). This voting leverage increases entrenchment and agency costs as well as widens the gap between manager and shareholder interests (Smith et al., 2009). At times firms are presented with the opportunity to unify their shares as a result of some sort of takeover or due to a newly introduced regulatory requirement. During this share unification process there is empirical research that shows that shareholders with disproportionately higher voting rights are highly compensated through dividends or additional shares (Bigelli et al., 2011) (Hauser and Lauterbach, 2004) (Ang and Megginson, 1989). The firm taking over this dual class company has to seek out additional value when moving forward with such a transaction because of the additional costs needed in order to ensure control.

Outside Shareholder Compensation

When a firm declares a dividend, it is usually because it cannot find positive net present value projects to invest in and hence a portion of the retained earnings are passed onto the shareholders because they can make better use of the money (Easterbrook, 1984). It has been suggested that in order to attract investors to hold RVS, managers of dual class firms will have a high dividend rate policy in order to offset the discounted value of the family firm (Amoako-Adu et al., 2014). In order to fulfil this policy, capital needs to be raised frequently, increasing the expense for underwriting and hence leads to more scrutiny from investment banks, capital markets and the like (Easterbrook, 1984)

This begs the question; does a lower firm value and higher cost of capital compensate for the value Superior Voting Shares carry? The majority of public firms are not structured in a dual class manner and are able to take advantage of the many egalitarian benefits out there: equal voting rights with their shareholders, generally speaking a lower cost of capital, lower agency costs, along with a larger pool of investors including institutional. If there are sound governance practices along with qualified individuals managing the firm there should be no negative effect on firm performance or firm value (Smith et al., 2009).

Cost of Capital

Capital structure financing follows the pecking order theory which suggests that a firm will prioritize their financing according to the lowest cost of financing to the highest. Internal financing is used first; once depleted they will resort to debt financing and once that is no longer feasible to continue issuing the firm will resort to equity financing (Myers and Majluf, 1984). If managers are increasing their dividend rate in order to attract investors as mentioned above, they will have to resort to debt and/or equity financing sooner rather than later and hence will have a higher cost of capital. This statement can be confirmed by the empirical study conducted by (Zellweger, 2006) which demonstrates that family firms have a cost of capital averaging 32.9 basis points higher than that of non-family firms. A large source of capital can be accessed through institutional investors, however Li et al., (2008) found that institutional ownership in dual class firms is significantly lower than it is in single class firms especially among those who rank fiduciary responsibility highly

Recent Research in Dual Class Corporate Structures

Modesto (2017) evaluated twenty-four dual class Canadian corporations in order to determine how the dividends of these companies compared with the TSX in general. The results are graphically portrayed here in Fig. 1, and a listing of the companies reviewed is presented in Appendix A (see Fig. 2).

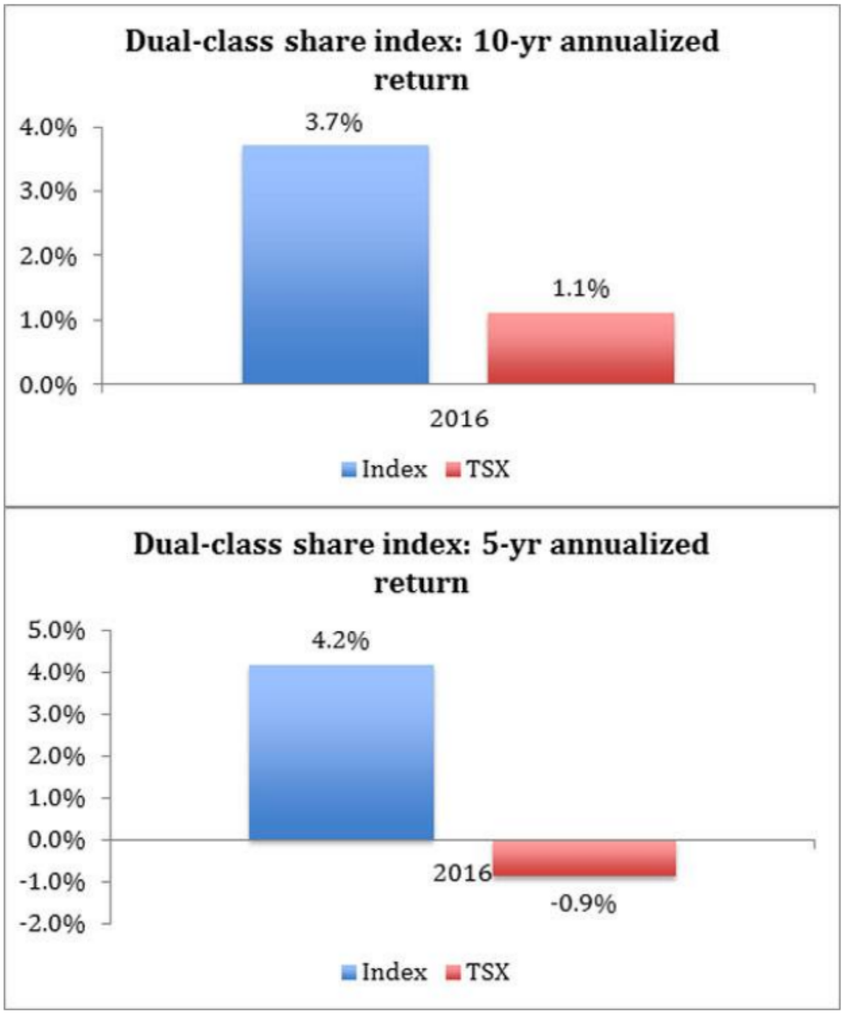

Figure 1. Dual Class Returns against TSX

According to Modesto, there is no question that dual class companies have been outperforming other companies all along. These data are especially remarkable given that they are chiefly derived from the post-recession era, from the last five and ten years, and therefore they demonstrate what is arguably a strongpoint for dual class management systems: these dual class corporations are capable of maintaining large assets and weathering the storms that destroy other companies over the long-term.

Another recent piece of research is presented by Anderson, Ottolenghi and Reeb (2017), writing in “The Dual Class Premium: A Family Affair,” who note the historical trends in dual class family businesses:

> Striking, we find a very strong association between founding family ownership and dual-class firms. Founders or their descendants control nearly 89% of dual class firms but only about 28% of single class firms. We find that a buy-and-hold strategy of dual class family firms earns excess returns of about 350 basis points [3.5%] more per year relative to our benchmark (single class nonfamily firms). Results from the matched sample suggest an even greater excess return – about 430 basis points more per year versus the reference firms. After controlling for time, industry, and a wide variety of firm-specific factors, our analysis does not lend support to the notion that dual class structures harm outside investors. (p. 2).

It is therefore surprising that recently, in July 2017, the Dow Jones Index just announced it has decided to eliminate dual class companies from its indices, particularly, the S&P 500 Index. At the same time, however, it grandfathered in the existing dual class structured companies, including notables such as Alphabet (Google), Facebook, and Berkshire Hathaway. Therefore, although it claims to be representing the voices of shareholders and the need to eradicate power asymmetries in the corporate enterprise, it is difficult to ignore the fact that some of the most successful companies in the world are dual class companies.

In July 2017, the Dow Jones Index announced it will no longer allow dual class companies into its indices (Allaire 2017). At the same time, it grandfathered in notables such as Google and Berkshire Hathaway. Therefore, it seems there is an issue of fairness at play in the governance of dual class companies, but it also seems that these companies have done well in the markets. From the standpoint of governance, the main issue is one of justice and fairness, given that some investors are allowed to vote on the directions of the company and some are not. At the same time, this has been pointed out to be a questionable dubious distinction given the notion that mutual funds represent similar opportunities for retail investors who remain absent of input into the management of their investments (Allaire 2017). In other words, the idea of shareholders or investors not being given a vote regarding the management of companies in which they have invested is not germane to dual class entities. There are, in fact, many forms of investment in the markets in which shareholders do not have a vote in the activities of management, and the so-called retail investor may be qualified as a person who favours no frills, no fuss, and no bother when it comes to investments. This stands as opposed to the active or institutional investor who prefers hands on, meticulous management of their investments.

Therefore, the issue is not so much one of scandalous inefficacy as it is an issue of optimal governance of corporate structures in the twenty-first century. According to Allaire (2017) “it would have been far wiser for Dow Jones to use its leverage to get dual-class companies to abide by some simple rules in order to be included in their indices, such as was proposed by the Canadian Coalition for Good Governance and the Institute for Governance of Private and Public Organizations” (p. 1).

Furthermore, recent work by Winden (2017) notes that “The actual terms of dual-class stock structures, however, have been remarkably understudied, so the debate between proponents of prohibition and private ordering is often ill-informed” (p. 1). Winden presents the first study of the sunset provisions of dual class companies in an effort to review the many possible deep levels of governance at play when a dual class company is initially chartered. Winden suggests the creative and appropriate development of such sunset clauses may allow for management to pursue special visions for value creation within allotted time frames, thus achieving the desired ends of dual class structures without compromising the sense of fairness allotted to all shareholders.

Gaps in the Literature

Despite being the dominant business form, family firms are often overlooked in finance studies and absent in theory development (Allaire, 2017; Astrachan, 2010; Porta et al., 1999).

Adams and Ferreira (Adams and Ferreira, 2008) surveyed the empirical literature on the causes and consequences of disproportional ownership. They state and review the gaps in this literature by addressing many of the important questions asked in the area: What are the causes of disproportional ownership? What is the impact of disproportional ownership on the value of shares held by non-controlling shareholders? Do controlling shareholders use disproportional ownership to entrench themselves? Do deviations from one share-one vote affect economic and financial development?

Advantages and Disadvantages of Dual Class Corporate Structures

It is apparent that non-voting shares can be very useful in our economy with an abundance of small and medium-sized family businesses, in need of liquidity, with restrictions in the financial sector and taking into account the current context of financial crisis in which we find ourselves. The execution of actions without a vote, can be an interesting resource without the family business management losing decision-making control, and without the need to increase the risk of such companies operating in the financial markets.

In this way, it is evident that there can be listed a set of advantages and risks for shareholders of restricted voting shares (RVS) associated with dual class family-owned businesses (DCFF):

Historical Advantages for Shareholders of RVS in DCFF

- DCFF have been top performers in the market
- DCFF often boast top-flight management teams
- DCFF allow expert management to exercise agency without challenge or dilution by non-experts
- DCFF inherently favour a long-term view of company success
- DCFF favour retail investors, not active or institutional investors
- DCFF favour healthy dividends for RVS shareholders since they are important mechanisms for funding

Historical Risks for Shareholders of RVS in DCFF

- DCFF supports nepotism
- DCFF supports management agency with possible myopic focus
- DCFF supports management agency and interests of only a few shareholders
- DCFF gives virtually no voice to RVS shareholders

Given the advantages and disadvantages, the issue is whether dual class structures are inherently fair and just, and the debate surrounding the issue represents an attempt to establish universal forms of corporate governance that are not inherently unfair or unjust.

Conclusion

Recent research into dual class companies has highlighted the manner in which such companies were outmoded for many years, but have recently seen a surge in interest, especially among new media and social media internet companies, e.g. Facebook and Shopify. However, historically there have also been many notable examples of extremely successful family businesses with dual class structures. Therefore, that the most recent literature highlights the disparity and power asymmetries perceived in the dual class structure versus the more innately fair governance by one shareholder-one vote structures. Currently, there is a debate regarding the possibility of establishing universal forms of corporate governance without the inherent biases and unfairness of dual class structures. This research project proposes to investigate the worth and value of non-voting shares in a family business from the perspective of those shareholders who have non-voting status, and whether they perceive this status to be fair and just.

3. Proposed Mixed-Methods Research

Philosophy of Ontological and Epistemological Approaches

If one can clearly articulate the different philosophical assumptions 'hidden' beneath management research, one can appreciate the strengths and weaknesses of each (Easterby-Smith, 2015). The key debates surrounding Ontology has realism and nominalism on opposite ends of the spectrum with internal realism and relativism between them. These ontologies make up the viewpoints among natural scientists.

Epistemology is defined as a viewpoint about the most appropriate ways of enquiring in the nature of the world, specifically the study of theories of knowledge (Easterby-Smith, 2015). The core of my research will be grounded by empirical studies and hence a positivist, verification based approach along with a relativist philosophical approach would be the most appropriate approach to better understand whether shareholders are adequately compensated for investing in Restricted Voting Shares of a Family Firm.

Quantitative Methodology

Over the course of the program there has been a continual emphasis on using the appropriate methodologies to filter and screen the quantitative dataset collected. The quantitative methodologies proposed include a multi-variate regression analysis using the matching firm principle as well as the Heckman type procedure which received a Nobel Prize in economics in 2000. Since the sample size is non-randomly selected we need to correct for selection bias, endogeneity, and other control variables in the regressions. In most financial studies, these control firms are selected by matching the industry and size of the sample firms. Since two firms in the same industry are likely to be subject to the same industry conditions, matching industry can isolate any industry-specific factors that affect stock returns of sample firms. Matching firm size also attempts to isolate any factors that can affect companies of certain size.

My pilot quantitative study has two parts: the first is selecting family controlled firms from many industries in Canada. Control firms will be selected using the matching firm principle as introduced in the discussion paper by (Lasfer, 2006) to mitigate endogeneity by matching for Company Size, Industry, and Market – to – book ratio along with others. She also discussed using the Heckman Type Procedure to correct for non-randomly selected samples. Once these results have been analyzed, the second part of this study will be to compare and contrast them with companies in a country who have mandated the one share one vote rule. The focus will be on a country with similar industries and companies with similar market capitalization as in the study that will be conducted.

Tobin's Q with Independent and Dependent Variables

It has been determined that the dependent variable to address the research question is share price. The independent variables are to be determined and can be derived from a very wide range of inputs and proxies. A sample of independent variables based on doctoral research includes SVS & RVS, Market Cap, Age of Firm including which generation currently controls the firm, Industry & Sector, firm cash flow, number of shareholders, level of family influence, decisions made based on events (i.e. M&A) and board composition.

In the majority of the empirical studies conducted on the value of family firms including studies conducted by (Conheady et al., 2015) (Miller et al., 2007) (Amoako-Adu et al., 2014) (Shleifer and Vishny, 1997) (Klein et al., 2005) along with many others, Tobin's Q ratio is applied as the standard method to measure firm value. It is also a well-accepted proxy for the quality of corporate governance (Morck et al., 2004). As such, this study will follow through with this empirical method as well as any other appropriate methods that have been applied by researchers in the past.

As this study is only a pilot of what is expected to be pursued in the formal stages of the DBA. A sample regression analysis will be conducted to show approach and how the research can be expanded upon given more resources in time and human capital.

Sample Size: Constraints and Issues

The dataset created includes the full count of firms with dual class share structures listed on the Toronto Stock Exchange (TSX). Multiple resources were used to aggregate this data. Share price and outstanding share data was sourced from the Canadian Financial Markets Research Center database (CFMRC) which provides TSX-listed company data for research. Secondly, accounting data was sourced from Compustat (also known as S&P Capital IQ) which provides historical financial data for global financial markets. Finally, company-specific reports including annual reports and securities filings were sourced from www.sedar.com (System for Electronic Document Analysis and Retrieval) which is operated by a consortium of Canadian provincial securities commissions.

This dataset includes a maximum of 2,964 companies listed on the TSX. The sample spans from 1999 to 2014 and includes over 21,200 lines of data. As this is an initial analysis the objective was not to exclude any lines of data to keep the data set free from any human intervention and have results that can be compared against in the future. Further potential studies would exclude companies from certain industry types such as the chartered banks in the financial industry due to regulatory rules as there would be no comparable firms within that same industry to control for.

In the below Table 4 (Appendix A), I have provided descriptive statistics based on the asset size, market cap, and corporate governance structure by industry type for a sample of 1,443 firms for the year 2014 (most recent data). The first big take away is how small the non-family control and non-dual class firms are relative to firms that are either family control and/or have dual class share structures. The former has an average asset size of less than $5B, where the other groups are more than five times larger (over $20Bn). A second big take away is among companies that have dual class structures, the largest among the family controlled group ($377Bn) is more than twice the size than the non-family ($150Bn). This is also reflected in the market cap although the family controlled is only about 20% larger. Clearly, in addition to governance, industry classification must play an important role. For example, some industries that are protected will have much higher market caps given asset size because, for example, the licenses that comes with operating.

Table 4 (Appendix A) provides the industry distribution of firms by Family-owned/dual class share structure. As you can see from the last row in the table, there are 54 firms that are family-owned, 25 of which have dual class share structures. There are 9 publicly traded firms that are not family controlled that have dual class share structures. Most firms in the sample, 1389, are non-family controlled and non-dual class structured, which is the most common form.

The two industries that have the largest share of family-owned firms would be Mining & Resources followed by Media, Real estate and then Food and Staples Retailing. Several industries have no family-owned firms. The industries where there is the largest share with family-owned firms and dual class structures would be Media followed by Food & Staples Retailing along with Diversified Financials. In the next category, non-family controlled, and dual class structures industries have 0, 1 or 2 firms which indicate there is no industry concentration – one possible explanation, to be addressed in future research, is how these governance structures may relate to legacy.

Multivariate Panel Regression Analysis

To demonstrate measuring the proposed dependent variable, a statistical approach with multivariate regression analysis will be conducted.

Dependent and Independent Variables: for purposes of modelling the research topic, the dependent variable is the firm's market capitalization. The independent variables for this pilot study include a range of inputs controlling for many variables which includes but is not limited to:

- Family Control
- Family Control with Dual Class Shares
- Non-Family Control with Dual Class Shares
- Non-Family Control with Non-Dual Class Shares
- 24 Industry Groups
- EBITDA (earnings before interest, taxes, depreciation, and amortization)
- Generation of family control
- Stock Price Returns (Currently not included in dataset)

A multivariate Panel regression analysis was conducted to identify if there was any merit in the research and the findings are as follows:

$\textbf{MarketCap}_{it} = \beta_0 + \beta_1\, SIZE_{it} + \beta_2(\text{Family Control}_{it}) + \beta_3(\text{Family Control with Dual Class Shares}_{it}) + \beta_4(\text{Non-Family with Dual Class Share}_{it}) + \delta_1(\text{Energy}_i) + \delta_2(\text{Capital Goods}_i) + \delta_3(\text{Commercial \& Professional Services}_i) + \delta_4(\text{Transportation}_i) + \delta_5(\text{Automobiles \& Components}_i) + \delta_6(\text{Consumer Durables \& Apparel}_i) + \delta_7(\text{Consumer Services}_i) + \delta_8(\text{Media}_i) + \delta_9(\text{Retailing}_i) + \delta_{10}(\text{Food \& Staples Retailing}_i) + \delta_{11}(\text{Food, Beverage \& Tobacco}_i) + \delta_{12}(\text{Household \& Personal Products}_i) + \delta_{13}(\text{Health Care Equipment \& Services}_i) + \delta_{14}(\text{Pharmaceuticals, Biotech \& Life Sciences}_i) + \delta_{15}(\text{Banks}_i) + \delta_{16}(\text{Diversified Financials}_i)$

$+ \delta_{17}$(*Insurance*$_i$)+ δ_{18}(*Real Estate*$_i$) $+ \delta_{19}$(*Software & Services*$_i$) $+ \delta_{20}$(*Technology, Hardware & Equipment*$_i$) $+ \delta_{21}$(*Semi-conductors & Equipment*$_i$) $+ \delta_{22}$(*Telecommunication Services*$_i$) $+ \delta_{23}$(*Utilities*$_i$) $+ e_{it}$

Note that i = 1… 2,964 firms and t = years 1999…2014.

The hypotheses to be tested in this pilot are as follows. First, the larger a firm's total assets, the higher will be the firm's market capitalizations. That is, $\beta_1 > 0$. The δs capture industry fixed effects, where the hypothesized values would be a function of industry specific characteristics. After controlling for firm size captured by the SIZE variable and industry fixed effects, there are hypothesized values for governance variables.

From the detailed review of the literature (Miller et al., 2007, Spizzirri and Fullbrook, 2013), the following three hypotheses will be tested related to the governance structures. As discussed above we have a sample of 2964 firms, some are family-owned, some are not, some are dual class, and some are not. The first hypothesis we will test is whether a family controlled firm (β_2) has a higher market cap relative to non-family controlled firms, after controlling for firm size, industry and dual class share structure. The second hypothesis we will test is whether firms that have a dual class structure (β_3), controlling for other factors will have a higher market cap relative to those that don't. The intersection of these two is most interesting, in that we test to see, whether firms that are both family controlled and have a dual class structure (β_4) demand a premium relative to those that are not. These hypotheses are listed below:

β_2: Controlling for firm size and industry, family controlled firms without dual class shares will have a larger market capitalization

β_3: Controlling for firm size and industry, family controlled with dual class shares firms will have a smaller market capitalization.

β_4: Controlling for firm size and industry, non-family controlled firms with dual class shares will have a smaller market capitalization.

Note that the left-out category is non-family controlled and non-dual class firms.

The results of this regression are produced in Table 5 (Appendix A) that presents the output created by SPSS.

There are several results to highlight from these regression results. First, there is a very strong and positive relationship between a firm's total assets and market capitalization, which is expected and consistent with the hypothesis above. Second, there are systematic differences in market capitalization across industries, even after controlling for total asset. Specifically, firms in the Telecommunication Services industries have the highest market capitalization, followed by Food & Staples Retailing, Transportation, Energy, Insurance, and Utilities. These industries dummies were positive and statistically significant. The only industry for which the industry dummy was negative and statistically significant was Diversified Financials.

However, variables of interest are the governance structure. That is, after controlling for firm size (total assets) and industry, will there be a systematic difference in market capitalization linked to governance structure? For this, we consider the coefficients on the family control and the dual class structure variables (B_3). The results indicate that these firms have a lower market capitalization by -937.141 (millions) than their counterparts which was statistically significant. Undertaking further research to understand the patterns of market cap across the governance categories will form the basis of the research I will undertake during the DBA phase.

The results of the quantitative pilot study indicate that family-owned businesses are capable of achieving great success, they are amply represented among Canada's greatest corporations, and there are indications that this form of dual-class structure is experiencing a revival of popularity, for example, among new media and social media internet companies in Canada e.g. Shopify. At the same time, the fact that this form of dual-class structure is not perceived as legitimate among many organizations, such as The Canadian Pension Plan, is reason enough to investigate why shareholders continue to pursue this avenue of investment. In the following section, the qualitative methodology will be presented for complementing the quantitative pilot study of this paper. This in-depth qualitative inquiry will allow for the gathering of data that attests to shareholders motivations and justifications for participating as shareholders in a dual-class corporation in which they have no effective say in the management of the organization.

Qualitative Methodology

It has been discussed and proposed that there will be a qualitative approach to be conducted in the form of semi-structured open-ended interviews with investors who own non-voting shares of a family business, or with experts in dual class corporate structures. It would be ideal to gain an interview with at least two shareholders of non-voting shares in a family business, and also two interviews with experts in dual class structures. Ideally, these experts will be from financial services firms that have institutional management arms that work with family firms.

In their research on family firms, Wright and Kellerman (2011) thoroughly discuss the framework that is required for family firm research to be published in leading family firm, entrepreneurship, or management journals. They clearly state that "As family firm data are extremely difficult to obtain, we need to remind ourselves that we cannot set impossible standards on primary data collection" (Wright and Kellermanns, 2011)p. 191). As such, the sample of this research pilot will be restricted to publicly traded firms.

The interview process was ultimately favoured for this project because it will allow two investors owning non-voting shares in a family business, and two experts in dual class corporate structures, to be interviewed using a semi-structured open-ended interview instrument. This will allow for the participants to freely express their views on the benefits of dual class structures. More than showing the power of dual class family businesses in the quantitative portion of the study, the qualitative portion will reveal the motivations and justifications of investors for perceiving their non-voting status in a positive or negative light.

The phenomenological interview method carries the advantage of focusing the data gathering on the perceptions of the non-voting shareholders and the financial experts and allowing the data to speak for itself. These interviews will be recorded, transcribed, and coded for meaningful patterns using analytical interpretation (Shank, 2008). This is a constructionist epistemological approach that will reveal a consistency of meanings expressed regarding the benefits of non-voting according to the context created for the interviews (Madill, Jordan & Shirley, 2000).

While there is no way to ensure bias free research, the researcher must attempt to at least minimise researcher bias to the extent possible. This will be accomplished by utilizing the same semi-structured open-ended interview instrument for all participants, and executing the interviews in the same context as much as possible (Yin, 2009).

Applebaum (2012) describes as the phenomenological interview method as epoch. This indicates a researcher may gather data in a systematic approach. At least part of the value of semi-structured open-ended interviews is to have the participants receive the same interview questions in the same way. Each participant will be treated with respect, and in the same style of interviewing to gather the natural responses expressed during the interviews. This method may help to create an epoch comprehension of how non-voting shareholders and financial experts understand the benefits of non-voting shareholder status.

According to Applebaum (2012), Yin (2009), and Mitchell and Jolly (2010) I must engage in planning the interview process to assure accuracy. This may include a professional and systematic process for meeting the participants and informing them of the nature of the study. This requires me to establish communication with the participants, receive their permission to conduct interviews. In this process, I will also explain my research and my commitments, obtain their permission, and consent, and make sure they understand the nature of the research (Applebaum, 2012; Mitchell & Jolley, 2010). For this interview design, Yin (2009) suggests running a test of the questions first with non-participants.

The non-voting shareholders themselves are the focus of this study, so it makes sense to interview them and discover how they perceive the benefits of non-voting shares. The financial experts in dual class structures will be able to inform the research regarding benefits and future trends that are moving away from dual class structures. This will allow me to gather data that will provide insights into the perceived benefits of non-voting shares in a dual class family business that might not be available in a purely quantitative research design.

Resource Engagement

As part of this researcher's ongoing commitment to delve into the research area in order to be looked upon as a subject matter expert in the near future the following engagements have been created in order leverage the relationships and networks being forged.

This research associate has been a member of the Institute of Corporate Directors (ICD) since 2016. The ICD is the not-for-profit, member based association and the only globally recognized director organization in Canada. The ICD offers highly regarded professional development programs including their industry recognized ICD.D designation offered to graduates of the ICD-Rotman Directors Education Program. There is intention to enrol in the ICD-Rotman DEP to further enhance my knowledge & expertise in the field as well as to continue to build on my networks of directors.

Furthermore, the International Corporate Governance Network is an additional association that I have been enrolled in. The ICGN is an investor-led organization established in 1995 and its mandate is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

Lastly, The Clarkson Centre for Business Ethics and Board Effectiveness is a research based organization within the Rotman School of Management that monitors Canadian corporate governance trends and provides guidance to firms looking to improve their board effectiveness and disclosure. Although this is not a member based organization, through discussions with the chairman and director, David Beatty, he has appointed me a fellow of the institution due to the similarities in the research work I am conducting. Mr. Beatty has an extensive background in the space and has been very helpful in my pursuit of my research. He has also connected me with various contacts within the industry and has unofficially sought to mentor me along my journey. He has recommended my application for the DEP which is managed and led by his centre. He also notifies me of lecture and conferences that are being conducted and I have participated in many of them including one that was conducted by Alissa Amico who is the managing director at Govern. We have engaged in many discussions to collaborate on research that would be mutually beneficial and could potentially be published.

As such, all these obligations should demonstrate the continual and never-ending commitment to improve my position in corporate governance.

Improvements, Limitations

When assessing the adequacy of this pilot there is room for improvement and further development. The first limitation is regarding the potential additional data required to further the study. For example, stock price returns are not part of the dataset used here as there is a cost involved in obtaining these data. With such data, the analysis can go well beyond looking at market capitalization and assets and into the realm of performance which is equally, if not more important. Furthermore, in addition to enhanced and detailed quantitative analysis, the DBA research will involve a significant qualitative dimension which will involve interviewing financial experts that have practices that deal with family controlled business.

Additionally, family controlled firms are a small percentage of the overall total firms listed on the TSX, that is, family firms that are publicly listed. There are many privately held family firms where data is completely inaccessible. Much work will be needed to reach out to such firms whereby potential quantitative and qualitative data could be collected and used to help strengthen the hypothesis at hand. To the extent data can be obtained on privately held firms, it will be both important and a significant contribution to document systematic differences between these privately held family-owned firms and publicly traded ones.

Conclusion

This research proposal has defined a project investigating whether shareholders of non-voting shares perceive they are receiving extra value for their lack of input into the management decisions. The dual class structures that have created shareholders without a vote have been a useful means of financing for family businesses. This is primarily because they allow for management to receive funding without being beholden to the shareholders and without suffering interference in the execution of their management practices. On the other hand, a debate is stirring among the advanced western nations regarding the social justice of a dual class structure. We have witnessed, in July of 2017, the Dow Jones Index in the US expressly forbidding the entry of any dual class corporations into any of its indices.

There is a notable conflict between the power asymmetries of dual class companies and those with one shareholder-one vote structures. Yet, disallowing new companies to go public if they are dual class structures while allowing some of the world's most successful companies to remain dual class structures is questionable, and also seemingly less than fair. Perhaps, ultimately, the resolution to the debate over dual class versus one shareholder-one vote may be found in a series of compromises that might be invoked on the level of governance.

In addition to addressing a gap in the literature concerning family businesses, and the role of dual class structures in corporate governance, the current research project may ultimately lend credibility to the notion that at least some of the following recommendations for governance may alleviate perceived conflicts among dual class companies:

- Consider banning any class of shares without voting rights.
- Consider capping the ratio of multiple to single vote shares such that multiple vote shareholders must maintain equity interest proportional to their shareholding power
- Consider the use of sunset provisions to create spaces for management to pursue entrepreneurial visions of value creation without interference from shareholders

The proposed study may also suggest promising areas of future research such as: Identifying the circumstances where ownership disproportionality may create or destroy the value of outside equity. Another topic where further research is needed due to the fact that the literature on this issue is miniscule is the determinants of ownership proportionality. Furthermore, they suggest that more work can be done to answer the question of whether ownership disproportionality leads to a higher cost of capital and hence lower investment (Adams and Ferreira, 2008).

Ultimately, the literature reflects a sensibility that acknowledges the need for special management spaces to pursue special value creation opportunities, and historically such provisions have been enormously successful. At the same time, there is a feeling that non-voting shares are too unfair and imbalanced from the standpoint of governance. Therefore, this research proposal has presented a feasible project that could represent a timely contribution to this historical issue of the corporate enterprise that has been understudied and yet holds great importance for the future of family businesses.

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Appendix A: Tables and Figures

Figure 1:

The following are the twenty-four dual-class corporations studied by Modesto (2017).

THE BASKET OF 24 DUAL CLASS SECURITIES

COMPANY	TICKER
AGF Management	AGF.B-T
Alimentation Couche-Tard	ATD.B-T
Atco Ltd.	ACO.X-T
Bombardier	BBD.B-T
Canadian Tire	CTC.A-T
Canadian Utilities	CU-T
CCL Industries	CCL.B-T
Celestica	CLS-T
CGI Group	GIB.A-T
Cogeco Communications	CCA-T
Corus Entertainment	CJR.B-T
Dorel Industries	DII.B-T
Empire Company	EMP.A-T
Fairfax Financial Holdings	FFH-T
Transcontinental Inc.	TCL.A-T
Jean Coutu Group	PJC.A-T
Onex Group	OCX-T
Power Financial	POW-T
Quebecor Inc.	QBR.B-T
Rogers Communications	RCI.B-T
Shaw Communications	SJR.B-T
Teck Resources	TCK.B-T
Torstar	TS.B-T
TVA Group	TVA.B-T

Figure 2. Dual Class Returns against TSX

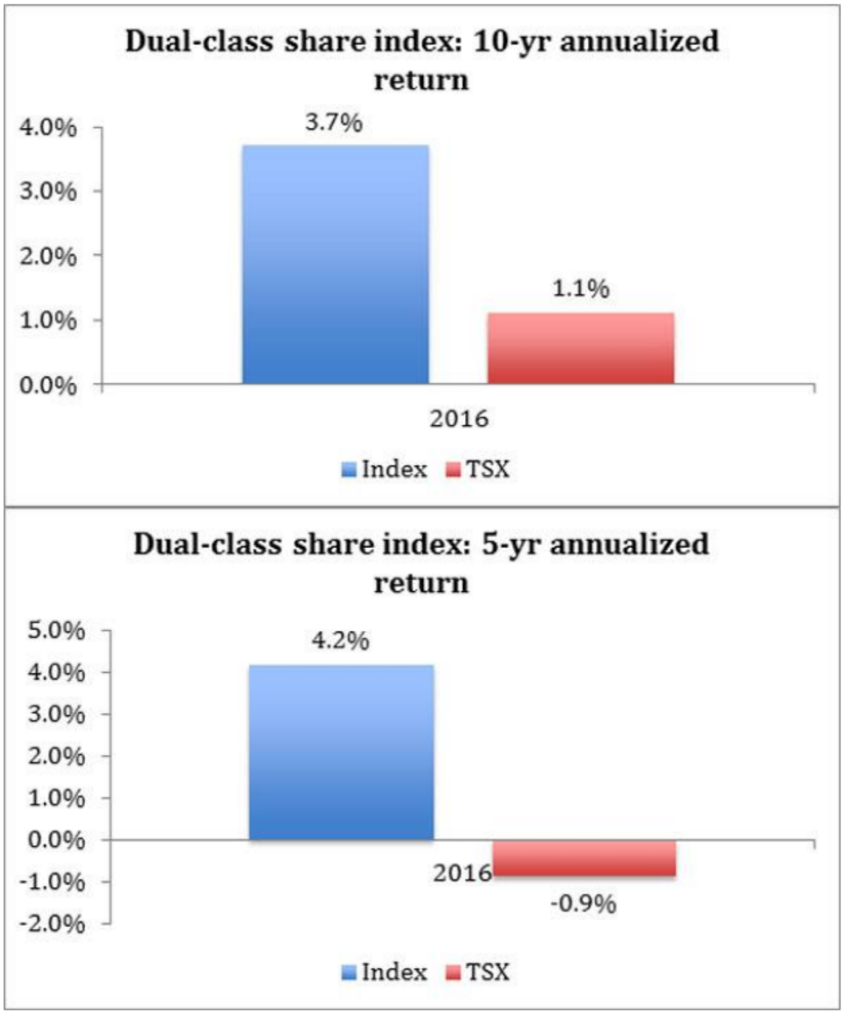

Table 1. The Seven Family Firm Definitions Used to Measure the Scale of Unquoted Family Company Activity

	1	**2**	**3**	**4**	**5**	**6**	**7**
Definition	The Company was perceived by the Chief Executive, Managing Director or Chairman to be a family business	More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage	**Combined Definition of 1 and 2**	**Definition 3 as well as** one or more of the management team was drawn from the largest family group who owned the company	**Definition 3** as well as 51% or more of the management team were drawn from the largest family group who owned the company	**Definition 4** as well as the company was owned by second generation or more family member(s)	**Definition 5** as well as the company was owned by second generation or more family member(s)
a)	✓	✓	✓	✓	✓		
b)	✓	✓	✓	✓	✓	✓	✓
c)	✓	✓	✓	✓			
d)	✓	✓	✓	✓		✓	
e)	✓	✓	✓				
f)	✓	✓	✓				
g)		✓					
h)	✓						

Source: (Westhead and Cowling, 1998)

Table 2. Family Firms as Defined in the Literature

#	Author(s)	Study Time Line	Data Source	Data Location	Family Firm Definition(s) employed
1	*Allen and Panian (1982)*	1971 – 1980	250 largest firms in terms of sales for 1974 or 1975	U.S.	Family firm whenever the members of a descendent group and their affines owned or controlled at least 5 percent of the voting stock in a corporation and were represented on board of directors. Other definitions employed: Direct family control when the CEO is a member of the controlling family
2	Anderson and Reeb (2003)	1992 – 1999	1992 S&P 500	U.S.	Family firm if there exists fractional equity ownership of the founding family and /or the presence of family members serving on the board of directors. Other definitions employed: Ratio of board seats held by family members to board seats held by independent directors / CEO founder indicates a founding family firm when the CEO is the founder of the firm / CEO descendent indicates a founding family firm when the CEO is a descendent of the founder during the past decade
3	Anderson and Reeb (2004)	1992 – 1999	1992 S&P 500	U.S.	Family firm if there exists fractional equity ownership of the founding family and/or the presence of family members serving on the board of directors. Other definitions employed: Ratio of board seats held by family members to board seats held by independent directors/If family board control exceeds independent director control
4	Anderson, Mansi, and Reeb (2003)	1993 – 1998	Firms in both Lehman Brothers Bond Database and the S&P 500	U.S.	Family firm if there exists fractional equity ownership of the founder and his/her immediate family. Other definitions employed: Fractional equity ownership of the founder and his/her immediate family & board of directors membership/Fractional equity ownership of the founder and his/her immediate family and size of the family's ownership stake relative to other block holders/Fractional equity ownership of the founder and his/her immediate family and family equity holdings as a fraction of outstanding shares
5	Ang, Cole, and Lin (2000)	1992	Firms in both Lehman Brothers Bond Database and the S&P 500	U.S.	Family firm when a single family controls more than 50% of the firms shares
6	Barontini and Caprio (2005)	1999	Large publicly traded firms greater than 300 million euros in assets. 675 firms	Continental Europe (11 countries)	Family firm if the largest shareholder owns at least 10% of ownership rights and either family or largest shareholder controls more than 51% of direct voting rights or control more than the double of the direct voting rights of the second largest shareholder. Other definitions employed: Firm run by family COO/Firm run by non-family COO but one family member is on board/Family firm when founder or descendent of founder runs firm
7	*Barth et al. (2005)*	1996	Survey of firms associated with the Confederation of Norwegian business and Industry	Norway	Family firm if at least 33% of the shares of the firm are owned by one person or one family
8	Bennedsen et al. (in press)	1994 – 2002	Limited liability public and private firms which underwent a CEO succession	Denmark	Family firm whenever an incoming CEO is related by blood or marriage to the outgoing CEO

9	Claessens et al (2000)	1996	WorldScope	9 East Asian Countries	Family groups are those that control more than 5% of the company's votes. Family group is identified through published family trees in each country and may consist of one family or a group of families.
10	Claessens et al (2000)	1996	WorldScope	8 East Asian Countries	Family firm when there is the presence of a group of people related by blood or marriage with large ownership stakes.
11	Cronqvist and Nilsson (2003)	1991 – 1997	Stockholm Stock Exchange	Sweden	Founder families may include only a single individual or a closely knit group of individuals who do not belong to the same family. Other definitions employed: Founder family ownership is ownership by the founder or descendants of the founder and families/individuals affiliated with the founder
12	Denis and Denis (1994)	1985	Value Line Investment Survey	U.S.	Family firm if 2 or more family members are present as officers/directors or if founders are officers
13	Faccio and Lang (2002)	1996 – 1999	WorldScope plus various country specific reference data bases	13 Western European countries	Family firm if a family or an individual or unlisted firm on any stock exchange is considered as the ultimate owner (greater than 20% of either cash flow or control rights)
14	Fahlenbrach (2006)	1992 – 2002	2327 publicly traded firms listed in IRCC for all years, firms drawn from S&P 500, Fortune, Forbes, Business Week	U.S.	Family firm if the CEO is the founder or co-founder
15	Gomez-Mejia et al. (2003)	1944 – 1998	Spanish government registry	Spain	Family firm if the company is owned and operated by the founding family. Other definitions employed: Owned and operated by non-founding extended family/Owned and operated by non-founding extended family members but managed by hired professionals
16	Gomez-mejia et al. (2003)	1995 – 1998	Random sample culled from Compustat	U.S.	Family controlled firm under two conditions: two or more directors had a family relationship, and family members owned or controlled at least 5% of the voting stock. Family relationship included father, mother, sister, brother, son, daughter, spouse, in-laws, aunt, uncle, niece, nephew, cousin. Other definitions employed: Family controlled and CEO is family member/Percentage of family equity ownership/Family controlled and family member(s) are on the compensation committee.
17	Gomez-Mejia et al. (2001)	1966 – 1993	Registry of Newspapers, Media Guide of Spain, Oficina de Justificacion de la Difusion – All daily newspapers	Spain	Family firm if in this newspaper sample there were family ties between the newspaper's CEO and editor.
18	Holderness and Sheehan (1988)	1980 – 1984	114 randomly chosen publicly traded firms – data source Spectrum 5	U.S.	Family firm if an individual majority shareholder or entity owns at least 50.1% of the stock: may include trusts and foundations
19	La Porta et al. (1999)	1995 – 1997	World Scope – 27 countries represented	Worldwide	Family firm if a person is the controlling shareholder (ultimate owner) whose direct and indirect voting rights exceed 20%
20	Luo and Chung (2005)	1973 – 1996	Directory business groups in Taiwan	Taiwan	Firm created by entrepreneurs. Other definitions employed: Firm's key leader has inner circle members who are immediate family members/Firm's key leader has inner circle members with prior social relationships – distant relatives, in-laws, friends, classmates, colleagues, business partners
21	Maury (2006)	1996 – 2003	Faccio and Lang, 2002 data plus WorldScope 2003	13 Western European countries	Family firm if the largest controlling shareholder who holds at least 10% of the voting rights is a family, an individual, or an unlisted firm (unlisted firms are often closely held and therefore considered under family control). Other

22	McConaughy et al. (1998)	1987	Business Week CEO 1000	U.S.	Family founder controlled firm – A public corporation whose CEO is either the founder or a member of the founder's family.
23	Morck et al. (1988)	1980	Fortune 500	U.S.	Family firm if a member of the founding family is among the top two officers.
24	Perez-Gonzalez (2006)	1980 – 2001	Compustat	U.S.	Sample firms met the following requirements: (1) founded prior to 1971; (2) exhibited at least one of the following (a) two or more individuals related by blood were directors, officers, or shareholders (b) an individual had at least 5% ownership (c) a founder was an executive or director, and (3) a CEO change occurred during the time window. Further a family succession was coded within (1) the departing CEO, (2) the founder, or (3) a large shareholder.
25	Schulze et al. (2001)	1995	Survey of America family businesses conducted by the Arthur Anderson Centre for Family Business	U.S.	Family firm if privately held, greater than $5M annual sales, and listed by Arthur Anderson as a family business
26	Schulze et al. (2003)	1995	Survey of America family businesses conducted by the Arthur Anderson Centre for Family Business	U.S.	Family firm if privately held, greater than $5M annual sales, and listed by Arthur Anderson as a family business
27	Smith and Amoako-Adu (1999)	1962 – 1996	Toronto Stock Exchange companies	Canada	Family firm if a person or a group related by family ties holds the largest voting block at least 10% of the total votes.
28	Villalonga and Amit (2006b)	1994 – 2000	Fortune 500	U.S.	Family firm if the founder or a member of the family is officer, director or owns >5% of the firm's equity. Other definitions employed: 1 or more family members are officers directors or block holders/At least 1 family officer and 1 family director/Family is largest vote holder/Family is largest shareholder/1 or more family members from 2nd generation or later officers, directors, or block holders / family is largest vote holder and has at least one family officer and 1 family director/Family is largest shareholder and has at least 20% of the votes/1 or more family members are directors or block holders but there are no family officers/Family is largest vote holder, has at least 20% of votes, one faily officer and 1 family director and is in 2nd or later generation.

This table represents studies identified by searching top tier finance and management journals between 1996 – 2006 (*e.g.Academy of Management Journal – Administrative Science Quarterly – Journal of Corporate Finance – Journal of Financial Economics – Quarterly Journal of Economics – Review of Financial Economics – The Journal of Finance)* for titles or abstracts that used the term "family firm". Using the ancestral approach, we were able to identify other sources. The list above is intended to be representative of the major contributions to the field of empirical family business research published in the last decade.

* This table was duplicated from the study conducted by (Miller et al., 2007) p. 832 – 836.

Table 3. University of St. Gallen Study

RANK	COMPANY	ESTABLISHED	PUBLIC	REVENUE (Bn's)	EMPLOYEES	COUNTRY	SECTOR	FAMILY	SHARE
36	George Weston Ltd. Company	1882	Public	33.8	196,000	Canada	Consumer Products & Retail	Weston family	63,0
46	Power Corp. of Canada	1925	Public	27.6	26,500	Canada	Insurance	Desmaris family	80,1
80	Bombardier, Inc.	1942	Public	18.2	59,650	Canada	Diversified Industrial Product	Bombardier family	53,2*
88	Empire Co Ltd	1963	Public	17.2	65,000	Canada	Consumer Products & Retail	Sobey family	92,4
130	Husky Energy	1938	Public	11.8	5,552	Canada	Oil & Gas	Li family	69,5
155	Rogers Communications	1960	Public	9.7	26,000	Canada	Media & Entertainment	Roger family	90,9
166	Fairfax Financial Holdings Ltd	1951	Public	9.3	23,576	Canada	Insurance	Watsa family	42,6
178	Canadian Tire Corp Ltd	1922	Public	8.8	27,772	Canada	Consumer Products & Retail	Billes family	61,4
206	Saputo, Inc.	1954	Public	7.7	11,700	Canada	Consumer Products & Retail	Saputo family	44,0
243	Jim Pattison Group Inc	1961	Private	6.5	41,000	Canada	Diversified Industrial Product	Pattison family	100,0
345	Mccain Foods Group Inc	1957	Private	4.4	20,000	Canada	Consumer Products & Retail	McCain family	100,0
403	Samuel, Son & Co. Limited	1855	Private	3.8	5,700	Canada	Unknown	Samuel family	100,0
472	Shaw Communications Inc.	1966	Public	3.2	14,000	Canada	Media & Entertainment	Shaw family	79,3

* = Voting rights

The University of St. Gallen defined a family business as follows: For a privately held firm, a firm is classified as a family firm in case a family controls more than 50% of the voting rights. For a publicly listed firm, a firm is classified as a family firm in case the family holds at least 32% of the voting rights. The 32% cut-off is motivated by the observation that in OECD countries on average 30% of the votes are sufficient to dominate the general assembly of a publicly listed company. This is because on average only roughly 60% of the votes are present in the general assembly. To be more conservative in their classification they decided to use the 32% cut-off, which is also more conservative than most academic studies who often use a 25% or 20% cut-off. The assessments in this index are based on data for June 2017. Companies for which no complete and reliable data for 2017 was available were skipped from the index.

Table 4. Descriptive Statistics for Pilot Study Data Set

SAMPLE SIZE	FAMILY CONTROL (54) – (in millions $)	FAMILY CONTROL & DUAL CLASS (25) – (in millions $)	NON-FAMILY CONTROL & DUAL CLASS (9) – (in millions $)	NON-FAMILY CONTROL & NON-DUAL CLASS (1,389) – (in millions $)
Asset Size Average	$23,266.99	$25,440.45	$20,453.90	$4,694.00
Asset Size Min	$188.70	$286.99	$329.39	$0.003
Asset Size Max	$377,781.00	$377,781.00	$150,210.00	$944,742
Market Cap Average	$6,745.30	$6,484.65	$6,131.22	$991.50
Market Cap Min	$251.50	$214.71	$333.51	$0.03
Market Cap Max	$26,313.43	$42,422.33	$36,027.58	$115,464.43
BY INDUSTRY FOR MOST RECENT YEAR (2014)				
ENERGY	4 (7.40%)	0 (0%)	0 (0%)	281 (20.38%)
CAPITAL GOODS	2 (3.70%)	1 (4%)	0 (0%)	71 (5.11%)
COMMERCIAL & PROFESSIONAL SERVICES	0 (0%)	0 (0%)	0 (0%)	21 (1.51%)
TRANSPORTATION	1 (1.85%)	1 (4%)	1 (11.11%)	16 (1.16%)
AUTOMOBILES & COMPONENTS	0 (0%)	0 (0%)	0 (0%)	5 (0.036%)
CONSUMER DURABLES & APPARELS	0 (0%)	0(0%)	0 (0%)	5 (0.036%)
CONSUMER SERVICES	2 (3.70%)	1 (4%)	1 (11.11%)	28 (2.01%)
MEDIA	6 (11.11%)	6 (24%)	2 (22.22%)	23 (1.65%)
RETAILING	2 (3.70%)	1 (4%)	0 (0%)	17 (0.12%)
FOOD & STAPLES RETAILING	5 (9.26%)	3 (12%)	0 (0%)	6 (0.04%)
FOOD, BEVERAGE & TOBACCO	4 (7.40%)	1 (4%)	1 (11.11%)	20 (1.43%)
HOUSEHOLD & PERSONAL PRODUCTS	0 (0%)	0 (0%)	0 (0%)	5 (0.04%)
HEALTH CARE EQUIPMENT & SERVICES	0 (0%)	0 (0%)	0 (0%)	27 (1.94%)
PHARMACEUTICALS, BIOTECH, & LIFE SCIENCES	0 (0%)	0 (0%)	0 (0%)	41 (2.95%)
BANKS	1 (1.85%)	0 (0%)	0 (0%)	23 (1.65%)
DIVERSIFIED FINANCIALS	5 (9.26%)	3 (12%)	1 (11.11%)	56 (4.03%)
INSURANCE	4 (7.40%)	2 (8%)	0 (0%)	8 (0.06%)
REAL ESTATE	6 (11.11%)	1 (4%)	2 (22.22%)	21 (1.51%)

SOFTWARE & SERVICES	0 (0%)	0 (0%)	1 (11.11%)	59 (4.24%)
TECHNOLOGY HARDWARE & EQUIPMENT	1 (1.85%)	0 (0%)	0 (0%)	26 (0.19%)
SEMICONDUCTORS & EQUIPMENT	0 (0%)	0 (0%)	0 (0%)	3 (0.02%)
TELECOMMUNICATION SERVICES	1 (1.85%)	1 (4%)	0 (0%)	7 (0.05%)
UTILITIES	3 (5.55%)	2 (8%)	0 (0%)	31 (2.23%)
MINING & RESOURCES	7 (12.96%)	2 (8%)	0 (0%)	589 (42.40%)
TOTALS (1443)	**54**	**25**	**9**	**1389**

Table 5. SPSS Regression Output for Pilot Study

Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	149.820	35.157		4.261	.000
	Assets – Total	.095	.001	.736	137.473	.000
	Family Control	3213.058	151.381	.139	21.225	.000
	Family Control and Dual-Class Share Structure	-937.141	219.199	-.028	-4.275	.000
	Non-Family and Dual-Class Share Structure	2267.127	288.911	.037	7.847	.000
	Energy	1063.925	57.272	.098	18.577	.000
	Capital Goods	159.250	92.640	.008	1.719	.086
	Commercial & Professional Services	56.980	153.968	.002	.370	.711
	Transportation	2223.006	185.869	.057	11.960	.000
	Automobiles & Components	48.790	218.895	.001	.223	.824
	Consumer Durables & Apparel	-36.468	220.176	-.001	-.166	.868
	Consumer Services	-75.279	156.726	-.002	-.480	.631
	Media	-9.994	143.479	.000	-.070	.944
	Retailing	189.256	152.121	.006	1.244	.213
	Food & Staples Retailing	2617.824	220.808	.057	11.856	.000
	Food, Beverage & Tobacco	-112.419	138.853	-.004	-.810	.418
	Household & Personal Products	-53.170	379.235	-.001	-.140	.888
	Health Care Equipment & Services	-36.676	142.373	-.001	-.258	.797
	Pharmaceuticals, Biotechnology, & Life Sciences	1.746	109.447	.000	.016	.987
	Banks	-83.285	201.093	-.002	-.414	.679
	Diversified Financials	-380.052	108.257	-.017	-3.511	.000
	Insurance	649.660	228.124	.014	2.848	.004
	Real Estate	-228.368	142.882	-.008	-1.598	.110
	Software & Services	-1.481	101.309	.000	-.015	.988

	Technology, Hardware & Equipment	-94.643	120.336	-.004	-.786	.432
	Semiconductors & Semiconductor Equipment	102.349	331.894	.001	.308	.758
	Telecommunication Services	5485.748	226.089	.114	24.264	.000
	Utilities	509.242	145.423	.017	3.502	.000

a. Dependent Variable: Market Value - Total - Fiscal

Appendix B: Consent Forms