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The Value of Control: A Study of Dual-Class Shares in European Listed Companies

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Abstract

In this paper we identify the levels of the value of a control block vote and thus the lower bound of the value of control as well as private benefits attached to it. The identification is done for companies listed in the European Union's stock exchanges where dual class stock with differentiated cash flow and voting rights is allowed. The values of control block votes are then compared on yearly basis for a period 2003 to 2007 and are found statistically larger than zero for all the years. In particular we look at the levels of the first and the ultimate year of the period and find that the value has decreased significantly from what it was in 2003. The average values are 4.48% of the company market capitalization for year 2003 down to 2.88% of the company market capitalization for year 2007. The biggest change is noted in Italy, whereas the other stock markets seem to follow the trend at a much slower pace or the levels stay practically the same. The country level of corporate governance is attributed to matter most for this change.