Votes, Power, and Pay: Unraveling the Impact of Dual-Class Structures on Executive Compensation

Abstract

This study explores how different voting arrangements in dual-class firms influence executive compensation. Analyzing 2,497 publicly traded U.S. firms, specifically 239 dual-class and 2,258 single-class firms. Our findings confirm that dual-class structures generally correlate with higher executive pay. However, firms issuing shares with more than 10 voting rights per share do not follow this pattern, suggesting that the concentration of voting power plays a crucial role. Differences in compensation structures arise from the balance between agency and principal costs, where higher voting control can either entrench management or align incentives with long-term performance. Thus, dual-class structures do not uniformly impact executive pay; instead, their specific voting design significantly influences governance and compensation outcomes.

JEL classification: G32, G34

Keywords: Executive compensation, Agency costs, Dual-class shares, Voting arrangements

1. INTRODUCTION

The increasing prevalence of dual-class share structures in initial public offerings (IPOs) has sparked significant debate in corporate governance research. Despite concerns about weaker governance mechanisms, such as lower transparency, entrenched control, and reduced shareholder rights, firms with dual-class share structures continue to account for an increasing share of IPO activity (Aggarwal et al., 2022), especially IPOs in the tech industry (Ritter, 2024). This trend presents a fundamental paradox: why do investors continue to favor firms with governance inefficiencies despite the risks associated with weaker accountability?

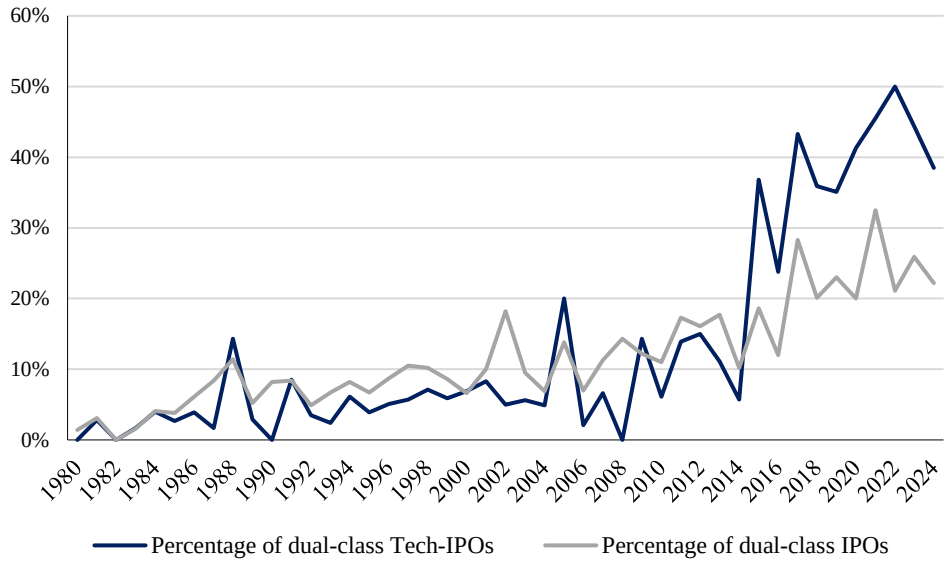

Figure 1: Dual-class IPOs in American markets (adapted from Ritter, 2024).

One explanation is that dual-class share structures provide founders and key insiders with strategic flexibility, allowing them to make long-term investment decisions without being constrained by short-term market and shareholder pressures, which could be seen as principal costs to be avoided (Goshen & Squire, 2017). Particularly in high-growth industries, such as the tech industry, retaining control is often viewed as essential for fostering disruptive innovation and long-term strategic decision-making (Cowden et al., 2020). Empirical studies suggest that companies with dual-class structures often receive higher valuations at the time of their IPOs, as investors are willing to trade off governance quality for higher innovation potential and growth expectations (Cremers et al., 2024). However, this premium tends to diminish over time, as the agency costs

associated with the separation of ownership and control become more pronounced (Bebchuk & Kastiel, 2017).

One of the most significant agency concerns in firms with dual-class share structures is executive compensation. While optimal compensation structures are intended to align managerial incentives with shareholder value (Jensen & Meckling, 1976), prior research suggests that firms with dual-class share structures tend to exhibit higher executive compensation levels compared to firms with a traditional one-share-one-vote structure (Masulis et al., 2009; Amoako-Adu et al., 2011). The weaker governance discipline in these firms enables entrenched executives to extract higher compensation, and some studies show that such firms rely less on market-based performance metrics when structuring stock compensation (Li & Hwang, 2018). Furthermore, the lower levels of executive compensation disclosure in firms with these structures suggest weaker transparency and accountability (Tinaikar, 2014; Tinaikar, 2017; Cieślak et al., 2021).

Given these governance concerns, mechanisms that adjust control rights over time have gained prominence. One widely discussed approach are sunset clauses, which gradually phase out enhanced control rights after a predetermined period or once specific performance benchmarks are met (Bebchuk & Kastiel, 2017). The rationale behind these provisions is that while founder control may be beneficial in the early stages of a company's lifecycle, governance risks tend to increase as firms mature. Institutional investors, recognizing this dynamic, have shown a growing preference for companies that incorporate time-based or event-driven sunset clauses (Burson & Jensen, 2021).

Beyond sunset provisions, another way to regulate the balance of power between controlling insiders and external shareholders is through variations in voting right arrangements, which determine the degree of control that insiders retain relative to their equity ownership. While some firms implement moderate voting ratios, such as three votes per share, others adopt highly concentrated structures, with twenty, twenty-five or even fifty votes per share. The extent of voting concentration plays a central role in shaping governance outcomes, particularly in terms of executive compensation policies.

Higher voting power concentration can create an environment where controlling shareholders and top executives face weaker external oversight, leading to greater agency risks. Empirical studies suggest that firms with highly concentrated voting structures are more likely to exhibit higher levels of executive compensation, as entrenched managers face fewer constraints in setting pay levels (Masulis et al., 2009; Amoako-Adu et al., 2011). Our investigation, however, focuses on the different arrangements of voting rights, rather than the distribution of cash flow and voting rights

itself. We argue that the choice of voting ratio can be seen as an indication of managerial commitment to maximizing shareholder value. Depending on whether managerial control is primarily used to extract private benefits or to reinforce long-term strategic commitments, different voting arrangements may lead to distinct executive compensation outcomes. If entrenched managers exploit weak oversight, firms with concentrated voting rights should exhibit inflated pay levels. Conversely, if controlling shareholders use their influence to foster credibility and stability, extreme voting ratios may be associated with more restrained compensation structures.

The effect of voting right arrangements on executive compensation can be explained through two competing theories. Agency cost theory (Jensen & Meckling, 1976) argues that higher managerial control weakens shareholder oversight, leading to excessive executive compensation and weaker pay-performance sensitivity. Under this view, firms with more concentrated voting rights should exhibit higher agency costs as controlling shareholders extract private benefits. Aligned with this view, we propose the following hypothesis:

H1a: Firms with low voting ratios present similar levels of executive compensation relative to firms with a traditional one-share-one-vote structure.

In contrast, principal cost theory (Goshen & Squire, 2017) suggests that stronger control rights can act as a commitment mechanism, reducing governance frictions. If controlling shareholders seek to maintain credibility with investors, they may self-impose compensation discipline to signal long-term value commitment. This perspective predicts that firms with extreme voting right arrangements may show more conservative executive pay structures, whereas firms with disproportional, albeit moderate, voting ratios might lack such constraints. Aligned with this theory, we propose the contradicting hypothesis:

H1b: Firms with high voting ratios present similar levels of executive compensation relative to firms with a traditional one-share-one-vote structure.

This study empirically tests these conflicting predictions, examining whether voting right arrangements in dual-class firms signal differences in managerial actions. To test these hypotheses, we conduct an empirical analysis using a large dataset of publicly traded firms with different dual-class voting arrangements. We categorize firms based on their voting power concentration, distinguishing between three classes of voting right arrangements. Using regression analyses, we

assess how different voting ratios influence executive compensation levels and pay-performance sensitivity.

Our findings reveal that firms with more extreme voting right arrangements exhibit more disciplined compensation structures, contrary to conventional agency theory. Specifically, we observe that companies with higher voting power concentration tend to have lower excess executive pay and stronger alignment between compensation and firm performance. In contrast, firms with moderate voting ratios show weaker governance discipline, suggesting that stronger voting rights may serve as a self-imposed constraint rather than a tool for entrenchment.

This study contributes to the corporate governance literature by distinguishing between different dual-class voting arrangements, which have previously been analyzed only descriptively (Gompers et al., 2010). While prior research often treats dual-class firms as a homogeneous group, the degree of voting power concentration can significantly influence governance outcomes. Existing studies suggest that firms with higher voting power concentration may experience greater agency costs (Masulis et al., 2009), but our findings challenge this notion by demonstrating that firms with more extreme voting arrangements may be less inclined to partake in value-diminishing activities. By investigating the relationship between dual-class voting structures and executive compensation, this study provides new insights into whether specific voting ratios serve as a governance signal or simply a mechanism for entrenchment. The findings have important implications for investors, policymakers, and corporate governance scholars, offering a deeper understanding of how voting right arrangements shape executive pay and governance outcomes in firms with dual-class shares.

The remainder of this paper is structured as follows. Section 2 outlines the research design, data selection, and empirical methodology. Section 3 presents the main results and robustness tests. Finally, Section 4 summarizes and concludes this paper.

2. SAMPLE CONSTRUCTION AND METHODOLOGY

2.1 Sample description

We construct our sample from the universe of public firms provided by the LSEG Workspace database. It includes firms with both one-share-one-vote and dual-class share structures currently listed on the NYSE and Nasdaq. The selection criteria ensured that only firms providing executive compensation data for the fiscal year 2022 were included. Additionally, firms with a market capitalization below 10 million USD were excluded to focus on larger, more established

companies. This approach provides a robust dataset for analyzing the relationship between share structure and executive compensation practices. In total, 3,041 firms are identified, including 266 with a dual-class structure. If taken the rise of dual-class IPOs into consideration (Aggarwal, 2022), a proportion close to 9% of dual-class firms in our sample is aligned to the 6% previously reported by Gompers et al. (2010). Firm-year observations are then collected for each firm over the period from 2018 to 2023. After excluding observations with missing data on executive compensation and control variables, a total amount of 12,205 firm-year observations from 2,497 firms (239 of them with a dual-class share structure) is available for further analysis. Table 1 provides an overview of the mean and median values for the available firm-year observations of both single-class and dual-class firms in our sample. The univariate tests to control for the difference in means and medians provide further evidence that firms with a dual-class share structure are fundamentally different than firms with a single-class share structure.

Table 1: Descriptive statistics of dual-class and single-class firm-year observations.

	Dual Class (N = 1,086)		Single Class (N = 11,119)		Difference in Mean	Difference in Median
	Mean	Median	Mean	Median		
Total Executive Compensation (in mil. USD)	32.647	14.619	19.460	13.523	13.187***	1.096***
Market Capitalization (in mil. USD)	30,525.103	2,968.629	16,342.377	2,510.156	14,182.726***	458.472**
Total Assets (in mil. USD)	18,191.901	2,427.020	13,567.610	2,413.730	4,624.291*	13.290
Tobin's Q	3.202	1.157	1.948	1.225	1.254***	-0.068
ROA	2.082	3.973	0.967	3.850	1.116**	0.123
Leverage	2.364	1.113	3.850	1.220	-1.489	-0.103
Cash Holdings Margin	0.161	0.075	3.313	0.066	-3.152**	0.009***
Capex Margin	0.095	0.037	0.421	0.037	-0.326***	0.000*
Annualized Volatility	0.477	0.426	0.472	0.404	0.005	0.022***
One Year CAR	0.023	0.004	0.033	0.007	-0.009	-0.003
Years Listed	18.080	12.000	23.590	21.000	-5.508***	-9.000***
Strategic Entities Ownership	11.702	4.631	10.970	3.215	0.732	1.415***
Board Size	9.145	9.000	9.080	9.000	0.066	0.000
Board Tenure	9.640	8.643	8.379	7.944	1.260***	0.698***
Board Skills	57.260	57.140	59.070	58.330	-1.816***	-1.190***
Total Board Compensation (in mil. USD)	2.170	1.545	2.046	1.768	0.124	-0.223***
Non-executive Board	78.190	80.000	83.290	85.710	-5.107***	-5.714***
Female Executives	17.190	16.670	16.490	16.670	0.701	0.000*

This table shows the mean and median values of the variables for firm-years of firms with a dual-class structure and firms with the one-share-one-vote principle. Further definition of variables can be found in the Appendix. The test of difference in mean is the t-test and the test for difference in median is the Wilcoxon signed-rank test. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Moreover, as previously done so by Gompers et al. (2010), we divide the subsample of dual-class firms into further three groups based on the voting power of their secondary shares: (1) firms where secondary shares have less than ten votes per share, (2) firms where secondary shares have exactly ten votes per share, and (3) firms where secondary shares have more than ten votes per share. In the first group, we include firms with a dual-class structure consisting of voting and non-voting shares, where the voting shares are classified as secondary and hold the entirety of the firm's voting rights. The distribution and individual characteristics of the subsamples can be found in Table 2. In total, there are 54 firms with secondary shares offering less than ten votes per share, 145 firms offering secondary shares with exactly ten votes per share and 40 firms offering secondary shares with more than ten votes per share.

Table 2: Descriptive statistics of dual-class by voting rights per share.

	Less than 10 votes per share (N = 266)		Equal 10 votes per share (N = 675)		More than 10 votes per share (N = 145)	
	Mean	Median	Mean	Median	Mean	Median
Percentage of voting rights	84.240	100.000	66.310	68.000	52.080	54.100
Total Executive Compensation (in mil. USD)	32.715	13.296	29.716	14.585	46.168	17.846
Market Capitalization (in mil. USD)	36,497.114	2,395.757	29,970.160	3,096.171	22,152.911	2,787.094
Total Assets (in mil. USD)	29,851.687	3,064.750	10,602.830	2,025.020	32,130.660	3,931.834
Tobin's Q	1.708	1.012	4.072	1.322	1.893	1.122
ROA	3.527	5.554	2.150	3.810	-0.880	1.877
Leverage	2.127	1.384	2.490	1.019	2.206	0.819
Cash Holdings Margin	0.117	0.051	0.174	0.083	0.182	0.082
Capex Margin	0.113	0.037	0.081	0.035	0.129	0.046
Annualized Volatility	0.425	0.373	0.485	0.436	0.535	0.483
One Year CAR	0.022	0.019	0.032	0.009	-0.015	-0.033
Years Listed	21.140	21.000	17.370	10.000	15.830	7.000
Strategic Entities Ownership	14.566	5.924	11.087	4.468	9.313	4.036
Board Size	9.331	9.000	9.136	9.000	8.848	9.000
Board Tenure	9.918	9.517	9.886	8.703	7.981	7.000
Board Skills	58.110	58.330	58.090	60.000	51.816	50.000
Total Board Compensation (in mil. USD)	1.845	1.377	2.254	1.521	2.375	1.810
Non-executive Board	80.290	81.820	77.140	78.570	79.220	80.000
Female Executives	17.780	18.180	16.780	16.670	18.010	16.670

This table shows the mean and median values of the variables for firm-years of firms with a dual-class structure, further divided by the amount of voting rights per share of the secondary share class. Companies with a dual-class structure with a voting share and a non-voting share fall under the "Less than 10" category. Percentage of voting rights is defined as the share of voting rights of the class containing the highest amount of voting rights per share inside the individual firm. Further definition of variables can be found in the Appendix.

Table 2 also presents the mean and median percentages of voting rights held by the secondary shares in each firm. Interestingly, secondary shares with more than the traditional ten votes per share hold a lower overall proportion of voting power compared to other shares with multiple voting rights.

A mean percentage of voting rights barely exceeding 50% suggests that firms with secondary shares carrying increased voting power typically issue just enough of these shares to retain control of the firm while holding even lower cash flow rights compared to firms with other dual-class share structures. Consequently, firms with secondary shares offering more than ten votes per share have issued significantly fewer such shares compared to other dual-class structures.

Now, comparing the other two subsamples, firms issuing secondary shares with fewer than ten votes per share retain a higher proportion of voting rights than those with secondary shares carrying exactly ten votes per share. After excluding firms with non-voting stock, however, the subsample with less than ten votes per share exhibits a mean voting right percentage of 66.72% and a median of 68.10%, which is comparable to the values observed in firms with secondary shares having ten votes per share.

2.2 Methodology

To investigate the relationship between dual-class structures and total executive compensation, we conducted multivariate OLS regression analyses. The dependent variable in all models is the natural logarithm of total executive compensation, or *Log(Total executive compensation)*. The independent variables include: (1) the overall presence of a dual-class structure, and additional variables capturing the number of votes associated with secondary shares, classified into three categories: (2) less than ten votes per share, (3) exactly ten votes per share, and (4) more than ten votes per share. Lastly, we include a model (5) that focuses exclusively on dual-class firms, excluding dual-class firms with only a voting and non-voting share structure, and examines the percentage of voting rights held by secondary shares as the independent variable.

The regression equation is specified as follows:

$$Log(Total\ executive\ compensation)_{i,j,t} = \alpha + \beta\, Votes_{i,j,t} + \gamma\, X_{i,t} + \delta\, Y_{i,t} + \vartheta\, Z_{i,t} + \varepsilon_{i,j,t} \quad (1)$$

where *i* stands for the investigated firm, *t* for the respective year, and *j* for the model applied to measure the impact of different voting arrangements. The vector *Votes* englobes the independent variables for the voting arrangements, *X* represents firm-level financial and performance variables based on previous research (Masulis et al., 2009; Adu-Ameyaw et al., 2021). *Y* includes governance related variables also based on previous literature on executive compensation (Amoako-Adu et al., 2011; Chhaochharia & Grinstein, 2009; Elkinawy & Stater, 2011; Guthrie et al., 2012). *Z* represents industry and year fixed effects. β, γ and δ are the respective coefficients for the individual variables. Lastly, α and ε stand for the intercept and error term, respectively. A detailed description of the applied variables can be found in Table A1 on the Appendix.

In order to control for fundamental differences between single-class and dual-class firm, we also utilize Propensity Score Matching (PSM) methods. To avoid repeated control firms and to ensure a fair comparison across the analyzed period, we calculate the mean outcome for all variables of the firms over the entire investigation period and consider only the average of the firms as an observation, instead of the individual firm-years. This method ensures that each control firm is represented only once in the matching process, providing a consistent set of control firms for all treated firms. Once the firms are matched, the respective firm-years of the available firms are then included in the individual subsamples.

In our analysis of the Average Treatment Effect on the Treated (ATT) using Propensity Score Matching (PSM), we apply three different matching methods: a full optimal matching, and the greedy methods nearest neighbor with a 1:1 and 1:5 ratio. The general formula for ATT according to Becker and Ichino (2002) is as follows:

$$ATT = \frac{1}{N_T} \sum_{i \in T} \left[Y_i^T - \frac{1}{|C_i|} \sum_{j \in C_i} Y_j^C \right] \quad (2)$$

where N_T stands for the number of treated firms, so 239 dual-class firms, and for each treated firm $i \in T$, we compute the difference between its outcome Y_i^T, so *Log(Total executive compensation)*, and the average outcome of its matched control firms C_i, denoted by $\frac{1}{|C_i|} \sum_{j \in C_i} Y_j^C$. The size of the matching set $|C_i|$ varies depending on the matching method. Table 3 summarizes the matching estimators and ultimately the sample sizes of each the new matched samples.

After the construction of the individual new matched samples, the OLS regressions based on equation (1) are performed for all three PSM methods. In total, we construct 12 new models, based

on three matching techniques. The original model (5) is not replicated for the new samples given, that it does not include single-class firms.

Table 3: Average treatment effects (matching estimators).

Matching:	Optimal	Nearest Neighbor (1:1)	Nearest Neighbor (1:5)
Nº treated	239	239	239
Nº control	239	239	1,195
ATT	0.141*	0.137	0.133*
Std. Error	0.082	0.083	0.069
T	1.724	1.648	1.919

ATT stands for average treatment effect on the treated. The following covariates are included in all models: log(Market Cap), log(Assets), Tobin's Q, ROA, Leverage, Cash Holdings, Capex Margin, FCF Margin, Board Size, Board Tenure, Board Skills, log(Board Compensation), Non-executive Board in %, Female Executives in %, Annualized Volatility, Yearly Cumulative Abnormal Return, Years Listed and 9 sub-industry categories. The standard error used to compute the t-statistics is the standard deviation of the ATT after 100 bootstrap replications. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

3. RESULTS

In the following section our empirical results are presented and discussed. Table 4 presents the results of the OLS regressions using the samples without matching methods.

Model 1 supports previous findings indicating a general overcompensation of executives in firms issuing dual-class shares (Masulis et al., 2009). The results for the control variables also show similar significance to previous literature, e.g. the significance of size, assets, performance, volatility, cash and institutional ownership (Amoako-Adu et al., 2011; Masulis et al., 2009). Similarly, we find insignificant impacts of leverage and capital expenditure, previously reported by Amoako-Adu et al. (2011) and Masulis et al. (2009), respectively.

Table 4: OLS Regression Analysis of Total Executive Compensation

	(1)	(2)	(3)	(4)	(5)
DUAL	0.128***	-	-	-	-
	(6.332)				
Less than 10 votes per share	-	0.167***	-	-	-
		(4.525)			
Equal 10 votes per share	-	-	0.135***	-	-
			(5.427)		
More than 10 votes per share	-	-	-	0.030	-
				(0.603)	
Percentage of voting rights	-	-	-	-	-0.000
					(-0.202)
Log(Market Cap)	0.186***	0.184***	0.180***	0.182***	0.286***
	(28.038)	(24.295)	(26.881)	(23.894)	(8.214)
Log(Assets)	0.168***	0.172***	0.173***	0.170***	0.086**
	(24.066)	(21.859)	(24.473)	(21.487)	(2.419)
Tobin's Q	-0.005***	-0.007***	-0.005***	-0.006**	-0.005*
	(-4.055)	(-2.497)	(-3.965)	(-2.077)	(-1.705)
ROA	-0.002***	-0.002***	-0.002***	-0.002***	-0.006**
	(-7.763)	(-7.238)	(-7.542)	(-7.569)	(-2.480)
Leverage	-0.000	-0.000	-0.000	-0.000	-0.000
	(-0.652)	(-0.703)	(-0.671)	(-0.690)	(-0.022)
Cash Holdings Margin	0.000***	0.000***	0.000***	0.000***	0.152
	(5.213)	(5.312)	(5.117)	(5.245)	(0.901)
Lagged Cash Holdings Margin	0.000**	0.000**	0.000**	0.000**	-0.128
	(2.240)	(2.279)	(2.144)	(2.230)	(-1.099)
Capex Margin	0.000	0.000	0.000	0.000	-0.210
	(0.239)	(0.247)	(0.278)	(0.259)	(-1.350)
Lagged Capex Margin	-0.001*	-0.001*	-0.001*	-0.001*	-0.134
	(-1.684)	(-1.744)	(-1.682)	(-1.731)	(-1.469)
Annualized Volatility	0.281***	0.294***	0.274***	0.284***	0.139
	(9.187)	(9.604)	(8.980)	(9.260)	(0.815)
One Year CAR	-0.139***	-0.131***	-0.134***	-0.135***	-0.224***

	(-10.859)	(-10.141)	(-10.442)	(-10.455)	(-3.419)
Years Listed	-0.002***	-0.002***	-0.002***	-0.002***	-0.001
	(-6.657)	(-6.663)	(-6.607)	(-6.588)	(-0.315)
Strategic Entities Ownership	-0.003***	-0.003***	-0.003***	-0.003***	-0.002
	(-7.778)	(-7.831)	(-7.992)	(-7.497)	(-1.270)
Board Size	0.002	0.000	0.002	-0.000	0.007
	(0.646)	(0.187)	(0.748)	(-0.040)	(0.873)
Board Tenure	-0.009***	-0.010***	-0.009***	-0.009***	0.003
	(-6.047)	(-6.786)	(-5.847)	(-5.995)	(0.496)
Board Skills	0.002***	0.002***	0.002***	0.002***	0.003**
	(6.923)	(6.524)	(6.948)	(6.653)	(2.095)
Log(Board Compensation)	0.398***	0.394***	0.389***	0.403***	0.415***
	(40.514)	(38.619)	(38.665)	(38.869)	(12.697)
Non-Executive Board	-0.004***	-0.005***	-0.004***	-0.004***	-0.002
	(-6.069)	(-6.441)	(-5.647)	(-5.866)	(-0.762)
Female Executives	0.000	0.000	0.000	0.000	0.002
	(0.665)	(0.561)	(1.199)	(1.119)	(1.159)
Intercept	2.894***	2.971***	3.033***	2.891***	1.844***
	(21.656)	(21.639)	(22.437)	(20.930)	(3.162)
Industry and year fixed effects	YES	YES	YES	YES	YES
Adj. R^2	0.652	0.663	0.652	0.663	0.585
N	12,205	11,385	11,794	11,264	946

This table shows the results for the multivariate OLS regressions. The intercept denotes the log value of the total executive compensation. Model (5) considers only dual-class firm years of firms with a share class containing multiple voting rights, thus excluding firms with a one share one vote structure or dual-class firms issuing voting and non-voting shares. The remaining models differentiate themselves by the amount of votes entitled to the secondary share. The values in parenthesis stand for the respective t-statistics. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Nonetheless, our results appear to have some inconsistencies with previous literature, specifically the variables *Tobin's Q*, *Board Size* and *Female Executives.* Previous findings indicate a negative, albeit insignificant impact of the valuation metric on the overcompensation of executives (Masulis et al, 2009). We, on the other, report a significant negative impact of valuation on executive compensation. Differently, Amoako-Adu et al. (2011) report a positive significant impact of board size on executive compensation, while we find no evidence of this phenomena. We argue that with the inclusion of board compensation, the effect of board disappears, indicating not an impact of the quantity of members but of the compensation they receive. Lastly, Elkinawy and Stater (2011) find evidence of a different compensation of executives based on their gender, which we could not find in our overall sample.

Focusing on the subsamples of different voting right arrangements, we see similar results as the overall sample. This is unsurprising, given that the vast majority of observations come from single-class firms and are present in all models from (1) to (4). When looking at the main independent variables, however, it is evident that only the dummy variable for firms with voting rights higher than ten voting rights per share does not significantly impact executive compensation.

Looking at model (5), which considers solely dual-class firms, also excluding firms with a binary voting arrangement of voting and non-voting shares, we find no evidence of the previously documented positive significant impact of excess control rights on CEO total compensation (Masulis et al., 2009).

To further investigate the impact of voting rights percentage of the secondary share class on executive compensation, we analyze individual subsamples regarding voting arrangements in dual-class firms and additionally control for non-linear effects. The findings of the robustness tests are reported in Table 5.

The analysis of the nonlinear effect of percentage of voting rights on executive compensation revealed no significant impact, indicating that the relationship does not deviate from a linear pattern.

While the samples containing solely firms-year observations from dual-class firms with voting arrangements equal or less than ten votes per share exhibit similar insignificant results as the previously reported effects of voting rights percentage on total executive compensation, the subsample containing solely firms-year observations from dual-class firms with voting arrangements more than ten votes per share show a positive significant impact on executive compensation.

Table 5: Robustness tests regarding percentage of voting rights.

	(1) Non-linear Effect	(2) Less than ten sample	(3) Ten Sample	(4) More than ten sample
Percentage of voting rights ^ 2	-0.000 (-0.305)	-	-	-
Percentage of voting rights	-	-0.006 (-1.170)	-0.002 (-1.002)	0.006* (1.943)
Intercept	1.849*** (3.207)	4.234** (1.997)	3.804*** (5.823)	-1.520 (-0.830)
X variables	YES	YES	YES	YES
Y variables	YES	YES	YES	YES
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.582	0.816	0.538	0.742
N	946	126	675	145

This table shows the results for the multivariate OLS regressions. The intercept denotes the log value of the total executive compensation. *X* denotes the firm-level financial and performance control variables while *Y* denotes the firm-level governance control variables. The values in parenthesis stand for the respective t-statistics. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

We argue that firms with an arrangement of more than 10 votes per share tend to retain just enough voting power to maintain control, often focusing on value-enhancing actions for both the firm and shareholders. However, those that retain voting rights above the minimum required for control may engage in value-damaging actions, such as increasing executive compensation. This subsample appears to be heterogeneous in terms of strategic intentions, with firms exhibiting varying governance approaches.

In contrast, firms with an arrangement of fewer or equal to 10 votes per share appear to be generally more inclined to pursue actions that are less aligned with shareholder value. The results of the models (2) to (4) in Table 4 support this argumentation.

To further ensure the robustness of the results and mitigate the potential over-representation of single-class share firms, which constitute the majority of the full sample available in Table 4, Propensity Score Matching (PSM) models are employed. These models allow for a more balanced comparison by matching firms with dual-class share structures to similar firms with single-class share structures based on a range of covariates. This approach helps to isolate the effect of dual-class structures on executive compensation, controlling for confounding factors and minimizing the influence of single-class share firms that could otherwise dominate the analysis. By using PSM,

the analysis offers a more precise understanding of the relationship between governance structures and executive pay, addressing the evident concerns regarding sample composition.

The results of the OLS regressions using the matched samples are condensed in Table 6. Panel A shows the results of the optimal matching sample, Panel B presents the nearest neighbor matching with a 1:1 ratio, and Panel C displays the nearest neighbor matching with a 1:5 ratio. The coefficients for the control variables can be found in the Appendix, specifically in Table A2, A3, and A4 for the optimal matching, nearest neighbor (1:1 ratio), and nearest neighbor (1:5 ratio), respectively.

The results presented in Table 6 are consistent with the previous findings using the entire sample. The coefficient for the dummy *DUAL* remains significantly positive across all matched samples, indicating that dual-class share structures in general continue to have a positive impact on executive compensation. Additionally, firms with less than 10 votes per share and exactly 10 votes per share for their secondary class of shares show a significant positive relationship with executive compensation. Firms with more than 10 votes per share still do not exhibit a significant effect, suggesting that the impact of dual-class structures on executive compensation remains insignificant in this subsample.

Overall, there seems to be a heterogeneity within the dual-class sample. Firms issuing shares with ten or less votes per share appear to generally overpay their respective executives, a sign of increased agency problems within the firm. On the other hand, firms issuing shares granting more than the typical ten votes per share do not appear to suffer from said agency problems the same way. However, our findings show that, while firms with high voting ratios for their secondary share classes present similar levels of executive compensation relative to firms with a traditional one-share-one-vote structure, as proposed in hypothesis *H1b*, the same dual-class voting arrangement is influenced by the absolute amount of voting rights retained by the secondary share class. That being said, firms with the mentioned voting arrangement are more sensitive to the amount of secondary shares issued, once the proportion of voting rights in this subsample is seen to directly positively impact the amount of compensation paid to executives.

Table 6: OLS Regression Analysis of Total Executive Compensation: Sample Matched by Propensity Score

	(1)	(2)	(3)	(4)
Panel A: Full optimal matching				
DUAL	0.109*** (3.654)	-	-	-
Less than 10 votes per share	-	0.138*** (3.195)	-	-
Equal 10 votes per share	-	-	0.121*** (3.584)	-
More than 10 votes per share	-	-	-	0.031 (0.535)
Intercept	1.948*** (5.876)	1.986*** (5.407)	2.414*** (5.546)	1.647*** (3.647)
X variables	YES	YES	YES	YES
Y variables	YES	YES	YES	YES
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.637	0.707	0.625	0.697
N	2,222	1,402	1,811	1,281
Panel B: Nearest Neighbor (1:1)				
DUAL	0.141*** (4.430)	-	-	-
Less than 10 votes per share	-	0.204*** (4.128)	-	-
Equal 10 votes per share	-	-	0.143*** (3.933)	-
More than 10 votes per share	-	-	-	0.035 (0.550)
Intercept	2.580*** (7.334)	2.731*** (6.802)	3.711*** (10.516)	2.970*** (7.354)
X variables	YES	YES	YES	YES
Y variables	YES	YES	YES	YES
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.614	0.657	0.595	0.649
N	2,188	1,368	1,777	1,247
Panel C: Nearest Neighbor (1:5)				
DUAL	0.134*** (6.052)	-	-	-
Less than 10 votes per share	-	0.194*** (4.865)	-	-
Equal 10 votes per share	-	-	0.129*** (4.737)	-
More than 10 votes per share	-	-	-	0.042 (0.773)
Intercept	3.014*** (15.651)	3.183*** (15.813)	3.253*** (16.207)	3.096*** (14.930)
X variables	YES	YES	YES	YES
Y variables	YES	YES	YES	YES
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.618	0.632	0.612	0.630
N	6,998	6,178	6,587	6,057

This table shows the results for the multivariate OLS regressions for the matched samples. The intercept denotes the log value of the total executive compensation. *X* denotes the firm-level financial and performance control variables while *Y* denotes the firm-level governance control variables. The values in parenthesis stand for the respective t-statistics. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

The creation of a share class with more than the typical ten votes per share can, therefore, indicate that managers are focused on maximizing shareholder value rather than profiting from increased firm control. In this scenario, the notion that firms benefit from minimizing the so-called principal costs arising from high shareholder influence (Goshen & Squire, 2017) appears to hold. However, the balance between principal and agency costs in firms issuing shares with an unusually high number of voting rights seems to be influenced by the total amount of control retained by these shares.

4. CONCLUSION

This study examines the relationship between voting arrangements and executive compensation in dual-class firms, providing evidence of significant differences across various voting structures. Our findings suggest that firms with voting arrangements of fewer than ten votes per share or exactly ten votes per share exhibit a consistent tendency to adopt governance practices that may harm shareholder value, such as higher executive compensation. These effects are well-documented in existing literature (Amoako-Adu et al., 2011; Masulis et al., 2009).

In contrast, firms with share classes granting more than ten votes per share appear to be more heterogeneous in their governance intentions. All in all, such firms do not appear to systematically overpay their executives. Instead, the observed increases in executive compensation within this subsample seem to be driven by the absolute amount of firm control retained by the holders of shares with elevated voting rights. This highlights the importance of considering the context and motivations behind the implementation of such voting structures, as their governance implications appear to be shaped by the interplay between retained control and the strategic objectives of the firm.

Overall, our investigation sheds light on the differentiation of voting arrangements in dual-class firms and how this might influence managerial decisions such as executive compensation, a topic yet discussed in current literature. By demonstrating that firms with voting arrangements granting more than ten votes per share do not generally overpay their executives, this study highlights the limitations of restricting the number of votes per share as a mechanism to mitigate agency problems in dual-class firms. Our findings suggest that such restrictions do not necessarily address the underlying governance challenges. Instead, firms that may require significant capital while

retaining control, thus increasing the discrepancy between voting and cash flow rights, risk losing opportunities to enhance shareholder value. This misalignment points to the potential inefficiency of regulatory approaches that focus solely on limiting voting rights per share. For instance, the recent laws in Germany and Italy, which cap voting rights at ten votes per share (Fiesenig & Schiereck, 2024), may be unnecessarily restrictive. Our study provides evidence that, in such cases, a more effective regulatory approach would be to focus on limiting the overall control wielded by shareholders with high-voting shares, ensuring governance practices prioritize shareholder value without overly constraining firms' ability to pursue strategic objectives.

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APPENDIX

Table A1: Description of variables

Variables	Description
Voting arrangement variables	
DUAL	Dummy variable that equals 1 for firms with a dual class structure, 0 otherwise.
Less than ten	Dummy variable that equals 1 for firms issuing shares with less than ten voting rights per shares, 0 otherwise.
Ten	Dummy variable that equals 1 for firms issuing shares with ten voting rights per shares, 0 otherwise.
More than ten	Dummy variable that equals 1 for firms issuing shares with more than ten voting rights per shares, 0 otherwise.
Percentage of voting rights	Share of voting rights of the class containing the highest amount of voting rights per share inside the individual firm
Financial and performance variables	
Log(Market Cap)	(Log) market capitalization of the firm at year's end of the investigated firm year.
Log(Assets)	(Log) total assets of the firm at year's end of the investigated firm year.
Tobin's Q	Ratio between the market value and the book value of the firm's total assets at year's end of the investigated firm year.
ROA	Return on assets of the firm at year's end of the investigated firm year.
Leverage	Ratio between the firm's debt and total assets at year's end of the investigated firm year.
Cash Holdings Margin	Ratio between the firm's cash position and the market capitalization at year's end of the investigated firm year.
Lagged Cash Holdings Margin	One year lagged ratio between the firm's cash position and the market capitalization at year's end of the investigated firm year.
Capex Margin	Ratio between the firm's capital expenditures and revenue at year's end of the investigated firm year.
Lagged Capex Margin	One year lagged ratio between the firm's capital expenditures and revenue at year's end of the investigated firm year.
Annualized Volatility	Annual volatility of the stock in the investigated firm year.
One Year CAR	One-year cumulative abnormal returns of the stock in the investigated firm year with S&P500 as the benchmark.
Years Listed	Difference between firm year and the year of initial public offering.
Governance variables	
Strategic Entities Ownership	Percentage of shares held by strategic investors (Corporations, Holding Companies, Individuals, Government Agencies, Private Equity Firms and Other Insider Investors).
Board Size	The total number of board members at the end of the firm year.
Board Tenure	Average number of years each board member has been on the board.
Board Skills	Percentage of board members who have either an industry specific background or a strong financial background.
Log(Board Compensation)	(Log) of total compensation of the board members.
Non-Executive Board	Percentage of non-executive board members.
Female Executives	Percentage of female executive members.

Table A2: OLS Regression Analysis of CEO Total Compensation: Sample Matched by Propensity Score (Optimal)

	(1)	(2)	(3)	(4)
DUAL	0.109***			
	(3.654)	-	-	-
Less than 10 votes per share		0.138***		
	-	(3.195)	-	-
Equal 10 votes per share			0.121***	
	-	-	(3.584)	-
More than 10 votes per share				0.031
	-	-	-	(0.535)
Log(Market Cap)	0.253***	0.313***	0.230***	0.324***
	(13.414)	(12.945)	(11.097)	(11.886)
Log(Assets)	0.127***	0.083***	0.147***	0.061**
	(6.611)	(3.409)	(6.845)	(2.258)
Tobin's Q	-0.008***	-0.027***	-0.006***	-0.026***
	(-4.020)	(-5.652)	(-2.703)	(-5.078)
ROA	-0.004***	-0.002***	-0.003***	-0.003***
	(-3.632)	(-1.558)	(-2.957)	(-2.754)
Leverage	-0.002***	-0.002***	-0.002***	-0.002***
	(-3.767)	(-4.897)	(-3.751)	(-4.700)
Cash Holdings Margin	0.134**	0.162**	0.114*	0.179**
	(1.995)	(2.442)	(1.673)	(2.529)
Lagged Cash Holdings Margin	-0.178***	-0.207***	-0.171***	-0.226***
	(-3.103)	(-3.404)	(-2.958)	(-3.546)
Capex Margin	-0.089	-0.003	-0.190*	-0.138
	(-1.374)	(-0.043)	(-1.833)	(-1.052)
Lagged Capex Margin	0.043**	0.054***	0.049**	0.056***
	(2.083)	(2.937)	(2.341)	(2.781)
Annualized Volatility	0.327***	0.568***	0.327***	0.474***
	(3.533)	(5.512)	(3.365)	(4.399)
One Year CAR	-0.161***	-0.103**	-0.137***	-0.151***
	(-4.309)	(-2.415)	(-3.423)	(-3.348)
Years Listed	-0.002*	-0.003*	-0.002*	-0.001

	(-1.681)	(-1.959)	(-1.663)	(-0.756)
Strategic Entities Ownership	0.000	0.002*	0.000	0.003**
	(0.348)	(1.727)	(0.266)	(2.275)
Board Size	0.000	-0.003	0.002	-0.003
	(0.063)	(-0.677)	(0.578)	(-0.657)
Board Tenure	-0.002	-0.008*	-0.002	-0.002
	(-0.532)	(-1.894)	(-0.474)	(-0.473)
Board Skills	0.004***	0.003***	0.004***	0.004***
	(4.125)	(2.863)	(4.413)	(3.548)
Log(Board Compensation)	0.407***	0.406***	0.377***	0.439***
	(19.752)	(17.096)	(16.207)	(16.575)
Non-Executive Board	-0.004***	-0.007***	-0.003	-0.005**
	(-2.587)	(-3.923)	(-1.543)	(-2.342)
Female Executives	-0.001	-0.002**	-0.000	-0.001
	(-0.737)	(-2.188)	(-0.212)	(-0.996)
Intercept	1.948***	1.986***	2.414***	1.647***
	(5.876)	(5.407)	(5.546)	(3.647)
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.637	0.707	0.625	0.697
N	2,222	1,402	1,811	1,281

This table shows the results for the multivariate OLS regressions. The intercept denotes the log value of the total executive compensation. The values in parenthesis stand for the respective t-statistics. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A3: OLS Regression Analysis of CEO Total Compensation: Sample Matched by Propensity Score (1:1 Nearest Neighbor)

	(1)	(2)	(3)	(4)
DUAL	0.141***			
	(4.430)	-	-	-
Less than 10 votes per share	-	0.204***	-	-
		(4.128)		
Equal 10 votes per share	-	-	0.143***	-
			(3.933)	
More than 10 votes per share	-	-	-	0.035
				(0.550)
Log(Market Cap)	0.201***	0.228***	0.172***	0.222***
	(10.042)	(8.687)	(7.856)	(7.501)
Log(Assets)	0.159***	0.144***	0.180***	0.137***
	(7.744)	(5.384)	(7.839)	(4.640)
Tobin's Q	-0.005***	-0.016***	-0.003	-0.013**
	(-2.688)	(-2.916)	(-1.489)	(-2.297)
ROA	-0.003***	-0.001	-0.002**	-0.003**
	(-3.104)	(-1.395)	(-2.310)	(-2.485)
Leverage	-0.002***	-0.002***	-0.002***	-0.002***
	(-3.286)	(-3.871)	(-3.206)	(-3.841)
Cash Holdings Margin	-0.034	-0.057	-0.055	-0.061
	(-0.393)	(-0.600)	(-0.613)	(-0.598)
Lagged Cash Holdings Margin	-0.240***	-0.300***	-0.230***	-0.323***
	(-3.827)	(-4.163)	(-3.594)	(-4.290)
Capex Margin	-0.137**	-0.083	-0.246***	-0.167*
	(-2.322)	(-1.363)	(-3.061)	(-1.843)
Lagged Capex Margin	0.041*	0.052***	0.048**	0.055**
	(1.953)	(2.619)	(2.212)	(2.579)
Annualized Volatility	0.358***	0.526***	0.371***	0.441***
	(4.006)	(5.232)	(3.951)	(4.183)
One Year CAR	-0.137***	-0.105**	-0.118***	-0.141***
	(-3.803)	(-2.550)	(-3.039)	(-3.242)
Years Listed	-0.004***	-0.007***	-0.004***	-0.005**

	(-2.761)	(-3.790)	(-2.755)	(-2.451)
Strategic Entities Ownership	-0.004***	-0.004***	-0.004***	-0.004***
	(-3.488)	(-2.860)	(-3.707)	(-2.794)
Board Size	0.003	-0.002	0.004	-0.001
	(0.705)	(-0.362)	(0.981)	(-0.176)
Board Tenure	-0.006	-0.012**	-0.007*	-0.007
	(-1.542)	(-2.462)	(-1.650)	(-1.359)
Board Skills	0.003***	0.002	0.003***	0.002**
	(2.811)	(1.473)	(3.062)	(1.992)
Log(Board Compensation)	0.408***	0.401***	0.376***	0.440***
	(19.035)	(15.523)	(15.464)	(15.431)
Non-Executive Board	-0.006***	-0.009***	-0.006***	-0.008***
	(-3.853)	(-4.751)	(-3.220)	(-3.914)
Female Executives	-0.001	-0.004***	-0.001	-0.003**
	(-1.327)	(-3.081)	(-0.926)	(-2.035)
Intercept	2.580***	2.731***	3.711***	2.970***
	(7.334)	(6.802)	(10.516)	(7.354)
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.614	0.657	0.595	0.649
N	2,188	1,368	1,777	1,247

This table shows the results for the multivariate OLS regressions. The intercept denotes the log value of the total executive compensation. The values in parenthesis stand for the respective t-statistics. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A4: OLS Regression Analysis of CEO Total Compensation: Sample Matched by Propensity Score (1:5 Nearest Neighbor)

	(1)	(2)	(3)	(4)
DUAL	0.134***	-	-	-
	(6.052)			
Less than 10 votes per share	-	0.194***	-	-
		(4.865)		
Equal 10 votes per share	-	-	0.129***	-
			(4.737)	
More than 10 votes per share	-	-	-	0.042
				(0.773)
Log(Market Cap)	0.253***	0.286***	0.247***	0.283***
	(24.027)	(22.667)	(22.916)	(21.973)
Log(Assets)	0.108***	0.081***	0.113***	0.079***
	(10.142)	(6.397)	(10.316)	(6.131)
Tobin's Q	-0.008***	-0.023***	-0.008***	-0.021***
	(-5.436)	(-6.475)	(-5.232)	(-5.914)
ROA	-0.003***	-0.002***	-0.003***	-0.003***
	(-5.548)	(-4.342)	(-5.222)	(-4.992)
Leverage	-0.000*	-0.000**	-0.000*	-0.000**
	(-1.955)	(-2.164)	(-1.929)	(-2.083)
Cash Holdings Margin	0.060	0.090**	0.069*	0.079**
	(1.620)	(2.405)	(1.846)	(2.085)
Lagged Cash Holdings Margin	-0.002	-0.002	-0.002	-0.002
	(-0.667)	(-0.638)	(-0.632)	(-0.646)
Capex Margin	-0.074**	-0.069**	-0.083***	-0.077**
	(-2.557)	(-2.407)	(-2.685)	(-2.484)
Lagged Capex Margin	0.025*	0.030**	0.025*	0.031**
	(1.899)	(2.362)	(1.917)	(2.325)
Annualized Volatility	0.298***	0.355***	0.293***	0.328***
	(6.221)	(7.226)	(6.059)	(6.634)
One Year CAR	-0.159***	-0.144***	-0.150***	-0.154***
	(-8.165)	(-7.171)	(-7.601)	(-7.626)

Years Listed	-0.003***	-0.003***	-0.003***	-0.003***
	(-3.839)	(-4.168)	(-3.717)	(-3.525)
Strategic Entities Ownership	-0.002***	-0.002***	-0.002***	-0.002***
	(-4.272)	(-4.214)	(-4.449)	(-3.795)
Board Size	0.004	0.003	0.004	0.003
	(1.174)	(0.924)	(1.392)	(0.816)
Board Tenure	-0.009***	-0.012***	-0.010***	-0.011***
	(-4.288)	(-5.198)	(-4.235)	(-4.581)
Board Skills	0.002***	0.002***	0.002***	0.002***
	(4.229)	(3.515)	(4.286)	(3.775)
Log(Board Compensation)	0.372***	0.359***	0.358***	0.371***
	(28.802)	(26.062)	(26.498)	(26.207)
Non-Executive Board	-0.005***	-0.005***	-0.004***	-0.005***
	(-5.060)	(-5.511)	(-4.630)	(-4.850)
Female Executives	-0.000	-0.000	0.000	0.000
	(-0.164)	(-0.343)	(0.390)	(0.250)
Intercept	3.014***	3.183***	3.253***	3.096***
	(15.651)	(15.813)	(16.207)	(14.930)
Industry and year fixed effects	YES	YES	YES	YES
Adj. R^2	0.618	0.632	0.612	0.630
N	6,998	6,178	6,587	6,057

This table shows the results for the multivariate OLS regressions. The intercept denotes the log value of the total executive compensation. The values in parenthesis stand for the respective t-statistics. *, **, *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.