

# Dual-Class Share Structures in Finnish Practice

## Why do Finnish Publicly Listed Companies have Dual-Class Share Structures?

Finance  
Master's thesis  
Juha Nurminen  
2015

# Dual-Class Share Structures in Finnish Practice

Why do Finnish Publicly Listed Companies  
have Dual-Class Share Structures?

Master's Thesis  
Juha Nurminen  
Fall 2015  
Finance

Approved in the Department of Finance \_\_\_ / \_\_\_2015 and awarded the grade

---

---

**Author** Juha Nurminen

---

**Title of thesis** Dual-Class Share Structures in Finnish Practice – Why do Finnish Publicly Listed Companies have Dual-Class Share Structures?

---

**Degree** Master of Science

---

**Degree programme** Finance

---

**Thesis advisor** Vesa Puttonen

---

**Year of approval** 2015**Number of pages** 55**Language** English

---

**Abstract****OBJECTIVES OF THE STUDY:**

In this thesis, I analyze why some listed companies in Finland have recently chosen to carry out their IPOs with dual-class share structures and why some companies have chosen to unify their share classes into a single class. I also analyze the presence of common characteristics amongst companies that have chosen to retain a dual-class share structure.

Earlier research on dual-class share structures has concentrated mostly on the economic consequences of having such a structure. A few studies exist, however, in which the correlation between different company characteristics and the existence of dual-class share structures have been analyzed. In this paper, the findings from the existing body of research are utilized in framing assumptions for creating, retaining and discarding dual-class share structures. Most of the existing studies have been carried out with data gathered from the U.S. market. Dual-class share structures are relatively common in Finland, and there appears to be a gap in literature when it comes to understanding the reasons for why such structures exist in abundance in Finland.

**METHODOLOGY AND DATA:**

The research method is explanatory, aiming to understand whether a causal relationship exists between dual-class share structures and selected company characteristics using quantitative, statistical regression analysis. Additionally, qualitative analysis is used to support the analysis of reasons behind the creation and unification of dual-class share structures. The data consists of all publicly listed companies on Nasdaq Helsinki OMX, including companies traded on the alternative market, First North Helsinki. Furthermore, the data includes prospectuses, public announcements and corporate legal documents of selected companies.

**FINDINGS OF THE STUDY:**

Finnish companies that have recently chosen to carry out their IPOs with dual-class share structures have not given any justification for such a choice. The main reasons to unify share classes into a single class are clarification of ownership structure, increasing public interest towards the company's share and improving the liquidity of shares. Larger companies, companies with some other anti-takeover provisions in their Articles of Association and companies operating in the health care or consumer goods business tend to have dual-class share structures more often than other companies. Within technology companies, dual-class share structures are rare.

---

**Keywords** corporate governance, dual-class IPOs, dual-class shares, shareholder value

---

---

**Tekijä** Juha Nurminen

---

**Työn nimi** Kahden osakesarjan rakenteet suomalaisessa käytännössä – Miksi suomalaisilla listatuilla yhtiöillä on kaksi osakesarjaa?

---

**Tutkinto** Maisterin tutkinto

---

**Koulutusohjelma** Rahoitus

---

**Työn ohjaaja** Vesa Puttonen

---

**Hyväksymisvuosi** 2015**Sivumäärä** 55**Kieli** Englanti

---

## Tiivistelmä

### TUTKIMUKSEN TAVOITTEET

Analysoin tässä tutkimuksessa sitä, miksi jotkin suomalaiset listatut yhtiöt ovat viimeaikoina päättäneet toteuttaa listautumisensa käyttäen useampaa osakesarjaa sekä sitä, miksi jotkin yhtiöt ovat päättäneet yhdistää osakesarjansa yhdeksi osakesarjaksi. Analysoin lisäksi sellaisten yhtiöiden yhteisiä piirteitä, jotka ovat päättäneet säilyttää kaksi osakesarjaansa.

Aiempi tutkimus osakesarjoista on keskittynyt enimmäkseen osakesarjojen taloudellisiin vaikutuksiin. Muutamassa tutkimuksessa on kuitenkin tutkittu erilaisten yhtiöominaisuuksien sekä kahden osakesarjan olemassaolon korrelaatiota. Tässä tutkimuksessa aiemman tutkimuksen löydöksiä hyödynnetään muodostaessa taustaoletuksia osakesarjojen eriyttämisestä, säilyttämisestä ja yhdistämisestä. Suurin osa olemassa olevista tutkimuksista on tehty Yhdysvaltain markkinoilta kerätyllä aineistolla. Kahden osakesarjan rakenteet ovat melko yleisiä Suomessa, ja tutkimuksessa vaikuttaa olevan aukko sen osalta, miksi tällaisia rakenteita esiintyy runsaasti Suomessa.

### TUTKIMUSMETODI JA LÄHDEAINEISTO

Tutkimusmetodi on selittävä ja tarkoituksena on ymmärtää, onko kahden osakesarjan olemassaolon ja valikoitujen yhtiöominaisuuksien välillä syy-seuraus -suhdetta käyttäen hyväksi määrällistä tutkimusta, tilastollista regressioanalyysia. Lisäksi laadullista tutkimusta hyödynnetään analysoitaessa syitä osakesarjojen eriyttämiselle sekä yhdistämiselle. Lähdeaineisto koostuu kaikista Nasdaq Helsinki OMX:ssä listatuista yhtiöistä mukaan lukien yhtiöt, jotka ovat kaupankäynnin kohteena vaihtoehtoisella markkinapaikalla, Fisrt North Helsinki -markkinapaikalla. Lisäksi lähdeaineisto sisältää valikoitujen yhtiöiden listaeleottoesitteitä, julkisia tiedotteita sekä yhtiöoikeudellisia dokumentteja.

### TUTKIMUKSEN TULOKSET

Suomalaiset yhtiöt, jotka ovat viime vuosina päättäneet toteuttaa listautumisensa kahdella osakesarjalla, eivät ole antaneet perusteluja valinnoilleen. Pääasialliset syyt osakesarjojen yhdistämiselle ovat olleet omistusrakenteen selkeyttäminen, yleisön kiinnostuksen lisääminen osaketta kohtaan sekä osakkeen likviditeetin parantaminen. Isommilla yhtiöillä, yhtiöillä, joilla on yhtiöjärjestyksissään yritysvalatuksia torjuvia mekanismeja sekä yhtiöillä, jotka toimivat terveydenhuolto tai kuluttajatuote -toimialoilla on yleisimmin kaksi osakesarjaa. Teknologia yhtiöissä osakesarjat ovat harvinaisia.

---

**Avainsanat** corporate governance, kahden osakesarjan listautumiset, osakesarjat, omistaja-arvo

---

## TABLE OF CONTENTS

Table of Contents .....	4
1 Introduction .....	6
1.1 Background and Motivation .....	7
1.1.1 What is a Dual-Class Share Structure?.....	7
1.1.2 Why is the Topic Current?.....	8
1.2 Objective of the Study and Research Questions .....	9
1.3 Research Method .....	11
1.4 Structure of the Study .....	11
2 Advantages and Disadvantages of Dual-Class Share Structures – Literature Review	13
2.1 Advantages of Dual-Class Share Structures .....	13
2.1.1 Benefit of Insider Control.....	14
2.1.2 Benefit of Significant Abnormal Returns.....	15
2.1.3 Benefit of Board Stability.....	16
2.1.4 Non-Monetary Private Benefits.....	17
2.2 Disadvantages of Dual-Class Share Structures.....	18
2.2.1 Principal-Agent Problems and Private Benefits .....	18
2.2.2 Shareholder Value .....	18
2.2.3 Investor's View .....	20
2.3 Conclusions on Dual-Class Share Structures.....	20
3 Legal Framework in Finland regarding the Dual-Class Shares.....	22
3.1 Finnish Company Law and its Implications .....	22
3.1.1 Decision Making in a Finnish Limited Liability Company.....	22
3.1.2 Takeover and Squeeze-Out.....	24
3.2 13 <sup>th</sup> Company Law Directive.....	26

3.3	Conclusions on the Legal Framework of Dual-Class Share Structures.....	28
4	Why Do Dual-Class Share Structures Exist in Finland.....	29
4.1	Recent Dual-Class IPOs in Finland .....	29
4.2	Current Dual-Class Share Structures .....	30
4.2.1	Methodology and Variables.....	31
4.2.2	Data.....	34
4.2.3	Results .....	35
4.3	Unifications of Share Classes in Finland.....	37
4.3.1	How is Unification Carried Out?.....	38
4.3.2	Reasons for Unifications of Share Classes .....	39
5	Conclusions .....	42
5.1	Summary of Findings.....	42
5.2	Practical Implications .....	44
5.3	Limitations of the Study .....	45
5.4	Suggestions for Further Research .....	46
6	References .....	48

## 1 INTRODUCTION

*“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 shares with special rights.”*

-William D. Crist, former president of CalPERS Board of Administration<sup>1</sup>

The early 2000's were grey periods of corporate scandals, including Enron (2001), WorldCom (2002), Freddie Mac (2003) and American Insurance Group (2005), after which corporate governance has been a hot topic in the financial community (Bauer & al. 2004<sup>2</sup>). Even though a lot of steps have been taken to improve corporate governance regulation and practices worldwide, we are not yet in a completely regulated world and it is assumable that new regulation in the field of corporate governance will be introduced. In Europe, for instance, the MiFID II directive, including corporate governance elements such as new requirements for management bodies of investment firms, entered into force on 2 July 2014, and must be implemented by the member states by 3 January 2017 (MiFID II Directive).

This paper discusses dual-class share structures, which can be seen as a material part of the corporate governance discussion. As Crist strongly states above, dual-class share structures carry an inherent moral dilemma in terms of fair and equal ownership. Is he right or wrong? To what extent is the structure problematic, and why? To understand those questions, we must start from the beginning.

A dual-class share structure – what is it all about? Are mechanisms that separate voting rights from cash flow rights good or bad from the shareholders' and the company's perspective? Why are dual-class share structures created? Why have some companies chosen to abandon such structures? This paper seeks to answer these questions.

---

<sup>1</sup> Business Wire, Sacramento, CA, April 21, 1999, “CalPERS Announces Investment Opinion on Nine of Corporate America’s Poorest Financial and Economic Performers” (Li & al. 2008)

<sup>2</sup> Refers only to the previous incomplete sentence.

## 1.1 Background and Motivation

### 1.1.1 What is a Dual-Class Share Structure?

The term dual-class share structure means that a firm has more than one share class with different rights, usually voting rights, attached to them.<sup>3</sup> In a typical dual-class share structure, insiders hold shares with multiple votes per share when the public receives shares with only one vote per share (Seligman 1986). It is also possible that shares issued to the public do not have any voting power. A characteristic feature of dual-class share structures is that they allow shareholders to achieve a controlling position by investing disproportionately low share of capital (Pajuste 2005).

A dual-class share structure can be seen as a control enhancing mechanism that does not follow the proportionality principle (one share –one vote). A control enhancing mechanism is a way for a shareholder or group of shareholders to maintain control of a company, even though such a shareholder or group holds only a small proportion of the shares. Other such mechanisms available under Finnish law are

- (i) pyramid structures, where a shareholder gains control via indirect ownership in multiple company structures;
- (ii) voting right ceilings, where no shareholder can vote over a certain limit;
- (iii) super-majority provisions, allowing certain decisions to be made only with a consensus from a high number of votes;
- (iv) cross share holdings, that create control in companies via shared ownership structures between two firms; and
- (v) shareholder agreements, which allow the pooling of votes.

Compared to other European Union member states, the use of control enhancing mechanisms in Finland is on an average level. While on the European level a pyramid structure is the most common control enhancing mechanism, in Finland there are no

---

<sup>3</sup> For the sake of clarity, in this paper the term "dual-class" also includes multi-class structures where there are three or more share classes. However, among Finnish publicly listed companies there are no companies with multi-class structures, except First North companies Cleantech Invest and Fit Biotech, which have three and four share classes respectively.

identified pyramid structures and a dual-class share structure is the most common control enhancing mechanism. (ISS & al. 2006)

### 1.1.2 Why is the Topic Current?

Throughout the 1990s, the markets faced a trend where dual-class companies unified their share structures back into a single class (Amoako-Adu & Smith 2001). A similar trend can be seen in the Finnish market as well (see section 4.3 below). Researchers have identified that a major reason for the trend was an increased academic and public interest in corporate governance (Pajuste 2005).

However, in 2004, a new wave of dual-class share initial public offerings ("IPOs") began when Google adopted a dual-class share structure for its IPO. After Google's IPO, *inter alia*, the following companies have chosen to execute their IPOs with dual-class share structures: LinkedIn, Groupon, Yelp, Zynga and last but not least, Chinese online retailer Alibaba<sup>4</sup> with the largest IPO ever made.<sup>5</sup>

When it comes to Alibaba's IPO, which took place in March 2014, a noteworthy point is the choice of the stock exchange. Instead of a listing in Hong Kong, which representatives of Alibaba thought of as the natural first choice, Alibaba chose to enter on the New York stock exchange. The main reason for the choice of marketplace was that Alibaba has a dual-class equity structure under which the founding partners have a right to nominate the majority of the board members in perpetuity. Such dual-class share structures are not allowed on the Hong Kong stock exchange.<sup>6</sup>

Losing Alibaba's IPO was a huge setback for the Hong Kong stock exchange, and this incidence led to a lengthy debate over whether the stock exchange should allow dual-class shares and other weighted-voting structures. In this debate Hong Kong's regulator, the Securities and Futures Commission objected the proposed structures. During the debate,

---

<sup>4</sup> More specific, instead of normal dual-class share structure, Alibaba has a partnership which consists of founders of the company. The partnership elects the majority of board members. This structure can only be changed, if 95% of the shareholders votes to change it. (Alibaba's prospectus). For the sake of simplicity, in this paper, Alibaba's structure is considered as a dual-class share structure.

<sup>5</sup> *Forbes*. Alibaba Claims Title for Largest Global IPO Ever with Extra Share Sales, 22 September 2014. Electronically available at: <http://www.forbes.com/sites/ryanmac/2014/09/22/alibaba-claims-title-for-largest-global-ipo-ever-with-extra-share-sales/>, referred on 18 September 2015.

<sup>6</sup> *The Wall Street Journal*. How Hong Kong Lost the Alibaba IPO, 15 March 2014. Electronically available at: <http://www.wsj.com/articles/SB10001424052702303546204579440820673013810>, referred on 19 September 2015.

market consultations were carried out and large international investors, such as BlackRock and Fidelity, were also against the proposed disproportional structures. Just recently (5 October 2015), the Hong Kong stock exchange gave up on the idea of letting companies sell shares with different voting rights. As David Webb, an investor and governance activist based in Hong Kong pointed out, "*Corporate governance was already bad enough without making it even easier to abuse minority shareholders*".<sup>7</sup>

As huge international technology companies are adopting dual-class share structures one after another, and the world's sixth largest stock exchange<sup>8</sup> was considering amending its rules due to this recent dual-class trend, the topic can be deemed to be current. Also, an interesting, although to some extent speculative, question is whether this global trend could enter or has already entered the Finnish market as well.

## **1.2 Objective of the Study and Research Questions**

There is quite a lot of research in the field of dual-class share structures. However, most research papers focus on the economic performance of dual-class firms following their IPOs or the unification of share classes, answering the question of whether dual-class share structures are beneficial or not to the shareholders of dual-class firms. There are fewer studies focusing on reasons why companies choose to adopt dual-class share structures in the first place and retain such structures later.

To showcase a few examples of the latter mentioned, less common body of research, Amoako-Adu & Smith (2001) have studied IPOs of companies listed on the Toronto Stock Exchange in order to find company characteristics that indicate a tendency for preferring dual-class share structures. Pajuste (2005) and Maury & Pajuste (2011) researched the reasons why firms in continental Europe are unifying their shares into a single-class. Arugaslan & al. (2010) have studied why firms deviate from a one share – one vote

---

<sup>7</sup> *The Wall Street Journal*. Hong Kong Exchange Considers Rule Change on Dual-Class Shares, 19 June 2015. Electronically available at: <http://www.wsj.com/articles/hong-kong-exchange-considers-rule-change-on-dual-class-shares-1434714290>, referred on 19 September 2015. & *Financial Times*. Hong Kong exchange gives up on dual-class share plan, 5 October 2015. Electronically available at <http://www.ft.com/intl/cms/s/0/0bc597ee-6b42-11e5-aca9-d87542bf8673.html#axzz3oS4r5aJc>, referred on 10 October 2015.

<sup>8</sup> *Wikipedia*. List of Stock Exchanges. Electronically available at: [https://en.wikipedia.org/wiki/List\\_of\\_stock\\_exchanges](https://en.wikipedia.org/wiki/List_of_stock_exchanges), referred on 18 October 2015.

principle when going public. Furthermore, Chemmanur & Jiao (2012) analyzed the types of firms where dual-class share structures are prevalent.

In Finland, 35 companies out of 140 publicly listed companies<sup>9</sup> have dual-class share structures and nine of the companies that have such structures have listed both share classes. Even though dual-class share structures are relatively common in Finland, there appears to be a gap in literature when it comes to understanding the reasons for why such structures exist in Finnish companies. Consequently, this paper tries to fill the gap, and the key research questions of this paper are as follows:

- (i) Based on previous research, do dual-class share structures increase or destroy shareholder value?
- (ii) Under Finnish law, what are the practical consequences of having a dual-class share structure?
- (iii) Why have publicly listed companies in Finland chosen to create dual-class share structures?
- (iv) What common characteristics do publicly listed companies in Finland with dual-class share structures have?
- (v) Why have publicly listed companies in Finland chosen to unify their former dual-class share structures into a single-class?

In light of the research questions, the question of whether dual-class share structures enhance or destroy the shareholder value in publicly listed companies in Finland and if so, to what extent, is scoped out of this paper. However, taking into account the previous literature, introduced in section 2.2 below, it appears quite evident that dual-class share structures have a harmful effect on the shareholder value also in the Finnish market.

To answer the research questions, I analyze all publicly listed companies on Nasdaq Helsinki OMX and try to find common characteristics of dual-class firms. Additionally, I

---

<sup>9</sup> The status is as per 6 October 2015. In this paper, publicly listed companies also include companies traded on the First North alternative market. After the said date, Evli Bank Plc has announced its IPO on the main list which will be carried with two share classes, consequently, the current number of publicly listed companies is 141, out of which 36 have a dual-class share structure. Evli Bank Plc has not been taken into account in the data of this paper.

evaluate if the identified common characteristics are consistent with the frameworks formed in previous literature on dual-class shares. I also review relevant prospectuses in order to analyze reasons why dual-class share structures have been recently adopted. Furthermore, regulation plays a crucial role when evaluating practical consequences of disproportional structures. Therefore, I will conduct a limited legal research on developments and a current state of affairs of Finnish company and securities market laws.

### **1.3 Research Method**

The research method is empirical and explanatory<sup>10</sup>, meaning in this context that a framework for expected advantages and disadvantages of adopting dual-class shares is synthesized from existing literature and initially compared to public statements of dual-class companies to see whether they align. Additionally, a binary choice regression analysis is run on Finnish publicly listed companies to see whether further evidence of correlation exists.

In addition to data consisting of a complete sample of all Finnish publicly listed companies, I have reviewed prospectuses, other corporate documents and releases of companies that have recently chosen either to adopt a dual-class share structure or to unify their share classes into a single class. The research combines a quantitative analysis of statistical correlation behind advantages and disadvantages of dual-class share structures with a qualitative analysis of whether the found correlations align with public statements. The objective is to find reasons for dual-class share structures – not to analyze economical effects of disproportional ownership structures.

### **1.4 Structure of the Study**

The structure of the research begins with an introduction to the background and motivation of the research, followed by the research question and objectives of the study. The introduction is followed by a synthesis of existing literature in chapter 2, especially focusing on advantages and disadvantages of dual-class share structures and common characteristics of the companies that choose to have a dual-class share structure.

---

<sup>10</sup> *Wikipedia*. Causal research. Electronically available at: [https://en.wikipedia.org/wiki/Causal\\_research](https://en.wikipedia.org/wiki/Causal_research), referred on 18 October 2015.

As it is important to understand the Finnish legal framework when evaluating dual-class share structures in Finland, the third chapter introduces the said framework and its most important developments.

The fourth chapter goes on to analyze why some Finnish companies have recently chosen to carry out their IPOs with a dual-class share structure, common characteristics of the Finnish publicly listed companies that have chosen to retain a dual-class share structure, and why some Finnish publicly listed companies have chosen to unify their share structures into a single class. Also, the data used in analysis is presented in section 4. Finally, the conclusions of findings, as well as practical implications and suggestions for further research are presented in section 5.

## 2 ADVANTAGES AND DISADVANTAGES OF DUAL-CLASS SHARE STRUCTURES – LITERATURE REVIEW

In this chapter, different views on dual-class share structures are presented. The chapter begins with an introduction to the topic on a general level, after which more specific research findings concerning dual-class share structures is presented. Previous literature has concentrated extensively on research regarding possible advantages and disadvantages of disproportional structures and this chapter aims to summarize those findings.

### 2.1 Advantages of Dual-Class Share Structures

As discussed briefly above, dual-class share structures are quite common, especially in certain countries and dual-class IPOs can be deemed to have experienced a renaissance in global technology IPOs. Consequently, it can be assumed that creating dual-class share structures is expected to result in some benefits for the shareholders or the company.

The idea of a corporate structure is that it allows separation of ownership from management. However, this does not come without costs. As shareholders' agenda differs from the management's agenda, there are always agency costs involved in a corporate structure. (Monks & Minow 2004, pages 9 and 98) Furthermore, as Easterbrook and Fischel (1983) point out, deviating from the "one share – one vote" principle creates additional and unnecessary agency costs.

When it comes to corporate governance and increased agency costs derived from a dual-class share structure, the concept of private benefits needs to be introduced. One of the main premises in modern financial theory is that the ownership of listed companies is diversified and that shareholders should receive benefit *pro rata* to their shareholdings (Barclay & Holderness 1989). However, according to the data (section 4.2.2) in many Finnish publicly listed companies the ownership is actually centralized, and particularly, in dual-class companies the voting power is extremely concentrated on average. Such control structures may easily lead to monetary gains derived by controlling shareholders at the cost of minority shareholders, and such gains are called private benefits<sup>11</sup>.

---

<sup>11</sup> *BusinessDictionary.com*. Private Benefits. Electronically available at: <http://www.businessdictionary.com/definition/private-benefits.html>, referred on 25 October 2015.

To conclude, the holders of superior voting shares are able to gain private benefits by way of a dual-class share structure which can be monetary or non-monetary in nature. However, when considering benefits from the perspective of this paper, I define benefits as maximizing shareholder value, *i.e.*, creating a dual-class share structure needs to be beneficial so that the market capitalization of the company is maximized in the longer, or at least in the shorter, run.<sup>12</sup>

### 2.1.1 *Benefit of Insider Control*

Generally, supporters of dual-class and other disproportional structures claim that such structures enable the management to govern with minimal outside interference and focus on long-term growth which would ultimately enhance the shareholder value (IRRC Institute & ISS 2012). As Facebook CEO Mark Zuckerberg expressed it, when replying to Om Malik, the founder of Gigaom<sup>13</sup>:

*"The more power you have as a CEO, the easier it is for you to do what you think is right and ignore people pushing for shorter term interests. Similarly, if you have control of the company, then it is very difficult for investors to fire you. This means you don't need to worry about losing your job over a couple of bad quarters or controversial short term decisions, and that makes it easier for you to make the decisions you think are correct as well."*

The quote above crystallizes the idea that structures protecting management from outside threats are beneficial for all shareholders. However, as will be discussed below, this common benefit argument for dual-class shares may not hold.

According to DeAngelo & DeAngelo (1985), companies with a dual-class share structure can be viewed as compromises between dispersed owned public corporations and closely-held firms, as a dual-class share structure enables managers to hold majority voting rights when outside shareholders hold majority cash flow rights. Such dual-class share structures are most common in situations where there are certain benefits in managerial ownership

---

<sup>12</sup> More precisely, being economically well-grounded, a value of private benefits derived from a dual-class share structure should be more than the loss derived from such a structure. However, defining the private benefits, especially when they are non-monetary in their nature, is very complicated. Therefore, in this paper, only those benefits of dual-class share structures that enhance the shareholder value are taken into account.

<sup>13</sup> *Fortune*. Here's how Mark Zuckerberg keeps Facebook's investors in check, 2 July 2015. Electronically available at: <http://fortune.com/2015/07/02/mark-zuckerberg-investors/>, referred on 15 October 2015.

(e.g., by encouraging managerial investment in firm-specific human capital) and simultaneously external equity capital is needed in order to carry out attractive investments. The logic here appears to be that even though a dual-class share structure is not optimal, it may enable investments that would not be made, if an option to carry out the IPO with a dual-class share structure was not available.

Fischel (1987) points out that there are certain situations in which insider control may be beneficial for all of the shareholders. Namely, insiders may value control more than outsiders, which leads to a higher value for the company (also after a possible discount derived from a dual-class share structure, see section 2.2.2 below). Fischel (*ibid.*) also points out that insider control may lead to a higher price in a possible takeover process, as there is a strong counterparty to the offeror.

According to Fischel (1987), value of insider control itself is not an adequate reason for a dual-class share structure, as insiders could hold more than 50% of the outstanding equity and retain a single-share structure. Therefore, the value of insider control needs to be combined with circumstances in which insiders cannot hold the majority of the outstanding equity. Certainly, insiders may simply lack the personal wealth to hold a majority of the outstanding equity. It is also possible that outsiders, who are in a better position to diversify their entire risk, are able to bear the risk at lower cost than insiders who already have a large stake in their company (Fama & Jensen 1983).

### *2.1.2 Benefit of Significant Abnormal Returns*

When studying a sample of 178 firms that changed from a single-share structure into a dual-class share structure during 1979–1998, Dimitrov & Jain (2006) found that these dual-class recapitalizations were shareholder value enhancing actions, as shareholders earned significant abnormal returns following recapitalizations. On average, in the 4-year period following the announcements, the sample firms outperformed the matching portfolios by 23.11%.

However, Dimitrov & Jain (2006) also found that the increased shareholder value was based on the profitable growth of the sample firms, which suggests that the firms with anticipated valuable growth opportunities adopted dual-class share structures. Consequently, it appears that rather than a causal relationship between the dual-class recapitalizations and the increased shareholder value there has been another independent

variable (a lucrative investment opportunity) for these dependent variables (adopting a dual-class share structure and abnormal returns).

### *2.1.3 Benefit of Board Stability*

In order to take a closer look at recent dual-class share structure based IPO activity, I also reviewed prospectuses of Alibaba, Facebook, Google, LinkedIn, Groupon, Yelp and Zynga in order to find well-grounded reasons for why said companies chose dual-class share structures. Facebook, Groupon and Yelp gave no justifications, whatsoever, for their share structure choices in their prospectuses (Prospectuses of Facebook, Groupon and Yelp).

On the other front, LinkedIn and Zynga have word-for-word similar justifications, where they state that chosen structures are intended to improve the stability in the composition of Boards of Directors and their policies (Prospectuses of LinkedIn and Zynga). Alibaba has quite a complex partnership structure which elects the majority of board members. In its prospectus, Alibaba highlights that the partnership, unlike the normal dual-class share structure, is a dynamic body which ensures excellence, innovation and sustainability and has helped Alibaba to better manage their business (Prospectus of Alibaba). Aforementioned arguments can be considered to include, to some extent, statements that dual-class share structures are seen as enhancing shareholder value in these cases.

There may be an interesting connection between the additional need for board stability, subsequent dual-class share structures and current market trends. During recent years, at least in international practice, we have seen the number of activist investors rise. An activist investor is a shareholder or a group of shareholders using its (relatively small) equity stake in a public company to put public pressure on the company's management in order to enhance the shareholder value<sup>14</sup>. Such investors are criticized for emphasizing the company's short-term goals over long-term success. As Laurence Fink, chief executive of BlackRock Inc., the world's largest money manager, argued, in order to respond to requests of activist investors, companies are taking more and more measures that deliver immediate payouts for shareholders, such as dividend increases and buybacks. Simultaneously, companies compromise investments that would maximize the long-term

---

<sup>14</sup> *Wikipedia*. Activist Shareholder. Electronically available at: [https://en.wikipedia.org/wiki/Activist\\_shareholder](https://en.wikipedia.org/wiki/Activist_shareholder), referred on 14 November 2015.

shareholder value, such as R&D and investments in production facilities.<sup>15</sup> Scott Fisher, a U.S. lawyer and a partner in the New York office of Davies Ward Phillips & Vineberg LLP, pointed out that dual-class share structures have become more common again, as such structures are used to protect companies from activist investors.<sup>16</sup> A stable board is also at least theoretically able to make more stable, long-term decisions.

#### 2.1.4 Non-Monetary Private Benefits

Google has the most extensive and interesting justification for a dual-class share structure in which they highlight, in addition to corporate benefits, non-monetary private benefits (nature of the information as public good). Google has also explicitly stated that there is an indirect, causal effect between a dual-class share structure and increased value to the shareholders. Below is a quotation from Google's prospectus:

*"We have a world class management team impassioned by Google's mission and responsible for Google's success. We believe the stability afforded by the dual-class structure will enable us to retain our unique culture and continue to attract and retain talented people who are Google's life blood. Our colleagues will be able to trust that they themselves and their labors of hard work, love and creativity will be well cared for by a company focused on stability and the long term.*

---

*When Sergey and I founded Google, we hoped, but did not expect, it would reach its current size and influence. Our intense and enduring interest was to objectively help people find information efficiently. We also believed that searching and organizing all the world's information was an unusually important task that should be carried out by a company that is trustworthy and interested in the public good. We believe a well functioning society should have abundant, free and unbiased access to high quality information.*

---

<sup>15</sup> *The Wall Street Journal*. As Activism Rises, U.S. Firms Spend More on Buybacks Than Factories, 26 May 2015. Electronically available at: <http://www.wsj.com/articles/companies-send-more-cash-back-to-shareholders-1432693805>, referred on 2 November 2015.

<sup>16</sup> *Financial Post*. From Cara Operations Ltd to Shopify Inc: Why dual class shares are suddenly cool again, 5 May 2015. Electronically available at: <http://business.financialpost.com/news/fp-street/from-cara-to-google-why-dual-class-shares-are-suddenly-cool-again>, referred on 2 November 2015.

*Google therefore has a responsibility to the world. The dual-class structure helps ensure that this responsibility is met. We believe that fulfilling this responsibility will deliver increased value to our shareholders."*

A noteworthy point in the Google's justification is that they emphasize the society and employees as important stakeholders that they are responsible towards, and fulfilling their responsibilities towards these stakeholders will enhance shareholder value as well.

The fact that Google has a dual class-share structure and has issued such strong justification is in line with a finding made by DeAngelo and DeAngelo (1985) according to which non-monetary private benefits of control may be high in media-related firms and hence may tempt founders to create a dual-class share structure.

## **2.2 Disadvantages of Dual-Class Share Structures**

So far, we have focused on benefits of dual-class share structures, however, there is also the other side of the coin which we will take a look at below.

### *2.2.1 Principal-Agent Problems and Private Benefits*

As already pointed out, generally, dual-class share structures create increased principal-agent problems between those who make decision (holders of superior voting shares) and those who bear the consequences (holders of common shares) and enable the first mentioned group to gain private benefits at the cost of the latter mentioned group (Grossman & Hart, 1988). Such agency costs, associated with disproportional structures, such as dual-class shares, increase exponentially as the fraction of cash flow rights held by holders of superior voting shares declines (Bebchuk & al. 2000). More specific economical consequences of principal-agent costs derived from dual-class share structures have been discussed below.

### *2.2.2 Shareholder Value*

Bennedsen & Meisner Nielsen (2008) researched the effect of disproportional ownership structures on firm values in Europe. They found that such disproportional structures have a large negative effect on firm value and dual-class share structures have an even larger effect than other disproportional structures, such as pyramid ownership structures, cross

ownership, golden shares<sup>17</sup> and voting caps so that the firm value of an average European firm with dual-class shares is approximately 19 percent lower than a firm with a proportional ownership structure. This finding can be deemed to be in line with a finding that dual-class firms trade at lower price-to-earnings ratios than single-class firms (Smart & Zutter 2003). These finding also hold in Scandinavia. When analyzing the effect of anti-takeover mechanisms on the firm value using a data including publicly listed Nordic companies, Ikäheimo & al. (2011) found that such provisions, especially dual-class shares have a negative effect on the firm value.

IRRC Institute & ISS (2012) researched performance of controlled firms in the S&P 1500 Composite, *i.e.*, firms with a majority shareholder holding more than 30% of the votes in the company. Most of these controlled companies featured multiclass capital structures. It was found that non-controlled firms outperform controlled firms over a 10-year period and controlled companies with multi-class equity structure only outperformed over a one year period, and materially underperformed over longer periods of time. It was also found that controlled companies with multi-class equity structures consistently show materially more share price volatility than non-controlled companies, whereas, the share price of controlled single-share companies was less volatile than the share price of non-controlled companies. (*ibid.*). This finding, especially, means that the usual argument for dual-class share structures of enhancing long-term value does not hold.

When analyzing dual-class firms in the United States and the relationship between insider ownership and firm value, Gompers & al. (2010) found that firm value is increasing in insiders' cash-flow rights and decreasing in insider voting rights. In other words, the more insiders own superior voting shares, the more firm value is decreasing. An explanation for this correlation appears to be that such an asymmetry in insider voting and cash flow right results in increased private benefit at cost of holders of common shares. When studying dual-class companies in the United States, Masulis & al. (2007) found that the bigger the gap is between insiders' cash flow rights and control rights, the more private benefits result and the less an extra dollar is worth to outside shareholders.

---

<sup>17</sup> A type of share that gives its holder veto power over certain resolutions. Such a share is often held by a government organization (*Investopedia*. Golden Share. Electronically available at: <http://www.investopedia.com/terms/g/goldenshare.asp>, referred on 16 October 2015).

### 2.2.3 Investor's View

Li & al. (2008) researched whether voting rights affect investment decision of institutional investors. They found that compared to single-class firms, institutional ownership in firms with a dual-class equity structure is substantially lower, a result that holds for all types of institutions. In addition, the institutions substantially increased their ownership following the unification of the dual-class equity structure.

More specific, when researching financial institutions' views<sup>18</sup> on disproportional structures, ISS & al. (2006) found that depending on the type of disproportional structure, from 58% to 92% of investors take into account existence of a possible disproportional structure, when considering the investment. From all disproportional ownership structures, dual-class share structures have the largest impact on the financial institutions' view. Furthermore, 80% of institutional investors considered that there should be a discount on the share price of companies with disproportional structures, and such discount ranged from 10% to 30%. (*ibid.*). The investors' view on the required discount can be considered to be in line with findings presented above, according to which companies with disproportional ownership structures are trading at a lower value than companies with proportional ownership structures.

## 2.3 Conclusions on Dual-Class Share Structures

As discussed above, consequences of dual-class equity structures on shareholder value are large. Firms with dual-class equity structures are trading at a lower value than single-share firms, they are providing worse returns to investors and their stock price is more volatile than single-share firms'. In addition, "smart" money (as evidenced by institutional investors) avoids investing in dual-class equity structure firms.

It appears that there are more arguments against than ones advocating for the benefits of dual-class share structures. It also appears that most of the companies that have chosen a dual-class equity structure cannot justify such a choice. In light of this, it is not surprising that John J. Pehlan in 1986, a chairman of NYSE back then, stated (Monks & Minow 2004, page 123):

---

<sup>18</sup> World widely, 445 institutional investors, managing more than EUR 4.9 trillion in assets, participated in a survey.

*"The one share, one vote rule (which was then applicable in NYSE) is good for listed companies, good for the shareholders, and good for the country."*

A noteworthy matter from the perspective of this paper is that efficiency losses derived from dual-class share structures are highlighted in Europe compared to the United States. In Europe, the ownership of companies is usually concentrated while in the United States it is dispersed, and the regulations against self-dealing have traditionally been stricter in the United States (Enriques & Volpin 2007).

To summarize, the literature review highlights certain key advantages and disadvantages of dual-class share structures. The advantages stated in research from the perspective of shareholder value maximization are:

- (i) insider control, *i.e.*, benefits from managerial ownership are enabled, while enabling simultaneous raising of external equity capital which may have a positive effect on shareholder value in some specific circumstances;
- (ii) abnormal returns as evidenced in some studies which argument is questionable; and
- (iii) non-monetary private benefits for the public good, *e.g.*, information online in media-related industries.

On the other hand, the disadvantages stated in research from the perspective of shareholder value maximization are:

- (i) increased principal-agent problems and the cost of private benefits;
- (ii) loss of shareholder value in the long-term; and
- (iii) lack of institutional investors investing in disproportional structures.

To conclude, the disadvantages of dual-class share structures seem to outweigh the advantages, as shareholder value is lost in the long-term (except for a number of exceptional cases of abnormal returns).

Notwithstanding the aforesaid, many companies in Finland still have a dual-class share structure and several IPOs have also been carried out with a dual-class equity structure during the recent years. Could there be other reasons for these dual-class share structures?

### **3 LEGAL FRAMEWORK IN FINLAND REGARDING THE DUAL-CLASS SHARES**

In the early 1990s, superior voting shares on the Helsinki Stock Exchange (currently Nasdaq OMX Helsinki) traded on average at 100% higher value than common shares (Löyttyniemi 1992). Currently, no such price difference exists. On the contrary, more liquid shares with inferior voting rights trade at a higher price in many cases. One major reason behind the disappearance of price differences can be found from developments in regulation, especially, regulation relating to corporate governance.

In this chapter, I seek answers to what practical consequences dual-class share structures have under Finnish law. Since many Finnish publicly listed companies have adopted their current dual-class share structures long ago, it is essential to understand the developments in regulation when evaluating the necessity of such structures today. Therefore, we need to take a brief look at relevant Finnish legislation and a recent history.

The European Commission has made an extensive effort to harmonize European company law, and so far altogether 13 company law directives have been imposed and implemented by the member states. The developments discussed below have been driven by the implementation of the directives.

#### **3.1 Finnish Company Law and its Implications**

##### *3.1.1 Decision Making in a Finnish Limited Liability Company*

*“A man without a vote is a man without protection.”*

-Lyndon B. Johnson (36th U.S. President)

When passing resolutions in Finnish limited liability companies (including public companies) the main rules under the Finnish Companies Act ("CA") are as follows:

- (i) a decision by the shareholders' meeting requires a simple majority of all votes cast (CA: 5:26); and
- (ii) certain more material decisions (such as the amendment of the Articles of Association, a directed share issue, the acquisition and redemption of own shares in a public company, a merger, and a demerger) require 2/3 of the votes cast and the shares represented at the shareholders' meeting (CA:5:27).

In light of the above, it appears that the holders of superior voting shares are able to pass resolutions that may not be optimal from the minority shareholders' point of view, and thus, gain private benefits at the cost of other shareholders. However, during two recent decades, there have been material efforts to improve corporate governance standards in European Union and in Finland, and certain rules, which limit the rights of holders of superior voting shares, have been imposed.

In 1997, the Finnish Companies Act was amended so that in a company with different share classes, two-thirds majority is required in every share class for certain important corporate decisions (such as a merger, a demerger and the directed acquisition of own shares) (Pajuste 2005). Simultaneously, the equality of shareholders was highlighted, the minority shareholders' protection was strengthened and the liability of the Board of Directors was made stricter (Government proposal 89/1996). An essential argument for such changes is that if there were no protective measures for minority shareholders against malpractices of the majority shareholder, attractiveness to invest into companies would decrease materially (Savela 2010).

In 2003, Board of the Securities Market Association issued the Corporate Governance Recommendation for Listed Companies (which was later replaced by the Corporate Governance Code, issued by the Board of the Securities Market Association). The code is based on self-regulation imposed by the Board of the Securities Market Association and the aim of the code is that Finnish publicly listed companies apply corporate governance practices which represent high international standards. Furthermore, the code should improve the transparency of processes of publicly listed companies, as well as harmonize the practices of publicly listed companies. The current code came into effect in 2010. (The Corporate Governance 2010)

Furthermore, a new Companies Act, which came into effect in 2006, imposes certain rules and principles which aim to further the equality of the shareholders. First, the current law contains an explicit principle of equality of shareholders under which a shareholders' meeting, the Board of Directors or the management cannot take any decision that would unduly favor a shareholder or third party to the detriment of the company or another shareholder (CA:1:7). Second, a general explicit principle, under which the management of the company shall act with due care and promote the interests of the company, was

introduced in the current Companies Act (CA:1:8). In the government proposal for a new Companies Act, it has been highlighted that it is not allowed for a board member to act only for direct benefits of a specific shareholder or a group of shareholders, not even when the board or a member of the board has been appointed by such shareholder or a group of shareholders (Government proposal 109/2005). Third, when it comes to a liability of the management, the current Companies Act is stricter than the previous one, as solely a breach of the aforementioned general principle suffices to trigger a liability of the management towards the company (CA:22:1).

Consequently, as minority shareholders are currently better protected against malpractices of the majority shareholder and the board is under a highlighted obligation to further the corporate benefit (even when the board members are appointed by the majority shareholder), the majority shareholder is not able to gain benefits from the company at the cost of minority shareholders to that extent as it was previously possible.

The development in Finland can be considered to be in line with the finding that in countries with strong legal and regulatory frameworks, dual-class share structures and other disproportional share structures make less of a difference to investors, as shareholders holding superior voting shares are able to gain less private benefit than in poorly regulated countries (OECD 2007).

### 3.1.2 *Takeover and Squeeze-Out*

*"You can ensure the safety of your defense if you only hold positions that cannot be attacked."*

-Sun Tzu, approximately 2,500 years ago

Hostile takeovers are usually profitable for shareholders of a target company. However, as a hostile takeover may result in a displacement of the management, there may be a conflict of interest between shareholders and the management. Dual-class share structures are such anti-takeover measures that provide insiders with the possibility to consolidate control and protect them from hostile takeovers. (Jarrell & Poulsen 1988)

When it comes to hostile takeovers, an essential question is whether the bidder is able to complete the takeover. In practice, an offeror will not launch an offer, if it is clear that the offeror will not be able to purchase all of the shares in the target. When analyzing, whether

an offeror has an opportunity to purchase all of the shares in the target, squeeze-out rules under the Companies Act play a crucial role.

Under the Finnish Companies Act, a shareholder holding more than 90% of the shares and votes of a company has the right and, at the request of a minority shareholder, the obligation to redeem the remaining shares (CA:18:1). Consequently, complete control over the target is achieved when the offeror is able to exceed aforementioned thresholds, and therefore, public tender offers are usually subject to achieving the thresholds.

Should there be superior voting shares in the target company, which the offeror has not succeeded to purchase through a tender offer (or separately as market purchases), the offeror may face insurmountable challenges to complete the deal. Given the superior voting structures actually used in Finland giving their holder 20 votes per share, a shareholder holding only 0.5% of the shares in the company may hold 10% of the votes, and consequently, prevent a hostile takeover.

Until 2006, the Finnish Companies Act restricted that the number of votes carried by a share may not be more than 20 times the number of votes carried by another share. However, the current Companies Act does not include such a restriction and the current law also allows shares with no voting power at all. So far, we have not, however, seen more extreme structures in Finnish publicly listed companies than 1 to 20 voting ratios, except on First North traded Cleantech Invest which has issued a share-class giving no votes to holders of such shares.

As discussed in section 3.1.1 above, changes in legislation have dramatically restricted possibilities of holders of superior voting shares to gain private benefits at cost of minority shareholders which have been reflected in prices of such shares. However, a takeover attempt can be prevented with a relatively small portion of superior voting shares. Thus, one could argue that dual-class share structures have primarily been retained as anti-takeover measures in order to prevent hostile takeovers.

The finding that dual class share structures are positively and significantly related to the takeover premium and negatively and significantly related to the likelihood of a takeover made by Holmén & al. (undated) is in line with the above-mentioned.

### 3.2 13<sup>th</sup> Company Law Directive

As discussed above, significance of superior voting shares have dramatically decreased when it comes to the decision making, however, they have retained their position as anti-takeover measures. A function of dual-class share structures as anti-takeover measures was threatened, however, as will be discussed below.

Possibly one of the most controversial directive proposals ever made by the European Commission is a proposal for the 13<sup>th</sup> company law directive concerning takeovers. The objective of the directive was to impose integrated rules for takeover offers on publicly listed companies within the European Union, which would further an objective of member states to transform the European Union into the most competitive market of the World (Winter 2004).

A preparation of the Takeover Directive was started in 1974 and after several drafts, the European Council reached a political compromise on the directive in 2000 (Hopt 2002). However, the European Parliament voted “no” to the draft, as certain member states considered that the draft did not adequately tackle issues concerning takeover defenses. Consequently, the European Commission nominated the High Level Group of Company Law Experts, chaired by Mr. Jaap Winter (the "Winter Group"), to solve this issue (*ibid.*).

In January 2001, the Winter Group released its preliminary report. The report contained a debate-provoking breakthrough rule, under which an offeror who, through a takeover offer, obtains a shareholding representing at least 75 percent of the equity in the target company, would no longer be bound by restrictions set forth in the Articles of Association of the target at the first general meeting of the target company following disclosure of the offer (Winter & al. 2002A). The proposed break-through rule would have broken through voting caps, multiple voting rights and other defenses against takeovers (Hopt 2002). In other words, at the general meeting following disclosure of the offer, one share – one vote principle would have applied. Under Finnish law, the result would have been that the offeror achieving 90% of the shares would have been able to execute a squeeze-out process.

However, the proposed break-trough rule faced opposition from Finland, Norway and Sweden. First, these countries considered that the rule would limit the companies' right to determine their own capital structure. Second, Sweden argued that dual-class share

structures are beneficial for corporate governance, as they enhance the shareholders' active ownership (monitoring) in companies that are so large that they need to raise equity from the market. Third, the Nordic countries considered that the breakthrough rule is based on a theoretically incorrect view of defensive measures, as the basic problem is possible defensive measures by the Board of Directors after the announcement of the offer without approval by the shareholders. On the contrary, the breakthrough rule would have weakened shareholder influence, as structures created by the shareholders would have bypassed. Fourth, Sweden emphasized that there was no empirical support behind the proposal, as takeover activity in Sweden is higher than in most European countries and there was no evidence of takeover activity being adversely affected by the existence of dual-class share structures. Last, the Nordic countries argued that the proposed breakthrough rule would have violated property rights of holders of superior voting shares. (Skog 2004)

As Winter put it, the negotiations between the member states, following the release of the preliminary report, showed a true nature of the discussion. Even though the objective was to remove defenses against takeovers, many of the member states were willing to ensure that companies residing in their regime would not become subject to successful takeover offers. (Winter 2004)

Due to a heavy lobbying of the Nordic countries, the final report of the Winter Group did not mention the breakthrough rule (Winter & al. 2002B). The Takeover Directive ended up in the form that member states may choose whether they apply the breakthrough rule under article 11 of said directive (article 12 of the Takeover Directive).

In 2012, the European Commission published a report reviewing the application of the Takeover Directive by the member states. Generally, the European Commission considered that the existing regime is satisfactory, however, certain developments may be needed in order to further improve the protection of minority shareholders. When it comes to the breakthrough rule, only three member states (Estonia, Latvia and Lithuania) have implemented the rule in their legislations. However, the commission considered that at this stage the breakthrough rule will not be made mandatory. (The European Commission's Report on Application of the Takeover Directive)

In conclusion, dual-class share structures are effective measures to prevent hostile takeovers and it appears that this will be the case also in the future.

### **3.3 Conclusions on the Legal Framework of Dual-Class Share Structures**

In this chapter, the aim was to seek answers to the practical consequences that dual-class share structures have for companies under Finnish law. First, when looking at Finnish company law, it is seen that holders of superior voting shares are able to pass through resolutions via a simple majority of voting rights. However, when studying the developments and recent legal practice more closely, it is evident that the influence of disproportionate structures on decision making is avidly being mitigated. Second, the review highlights a clear conclusion that dual-class share structures are able to be used as effective anti-takeover measures against hostile takeovers. In reference to the discussion on the 13<sup>th</sup> Company Law Directive, this feature of the structure is widely acknowledged.

To conclude, although section 2 concluded on the fact that dual-class share structures lower the long-term shareholder value of companies and lead to principal-agent problems as well as fail to attract institutional investors, there were also advantages highlighted that benefit companies in specific situations, namely where management wants to retain control or the nature of the business is tied to public good. The legal framework adds another advantage to this conclusion, showing that these structures have their place as effective anti-takeover measures.

## **4 WHY DO DUAL-CLASS SHARE STRUCTURES EXIST IN FINLAND**

As described in section 1.2, dual-class share structures are common among Finnish publicly listed companies (35 out of 140 publicly listed companies, *i.e.*, 25 percent of listed companies; or 36 out of 141, if Evli Bank Plc is taken into account). However, these structures have been even more common, and in the end of 1995, 30 out of 65, *i.e.*, 45.5% publicly listed companies in Finland had a dual-class share structure (45.5%) (Pajuste 2005).

Considering what has been discussed in section 2.2 about value destroying effects of dual-class share structures, except in certain specific cases, and the fact that 25 percent of the Finnish publicly listed companies still have different share classes, it can be assumed that there are some relevant, specific and well-grounded reasons to adopt and retain such equity structures. In this chapter, possible reasons behind dual-class share structures are analyzed.

The analysis is three-part:

- (i) section 4.1 focuses on reasons why some companies have recently chosen to carry out their IPOs with dual-class share structures;
- (ii) section 4.2 looks at possible common characteristics of dual-class companies in order to explain why some companies retain a dual-class share structure; and
- (iii) section 4.3 studies why certain Finnish publicly listed companies have chosen to unify their share classes into a single-class.

Based on the analysis in sections 2 and 3, it is assumed that the retention of dual-class share structures, and on the other hand the decisions on unification are based on the identified advantages and disadvantages of dual-class share structures.

### **4.1 Recent Dual-Class IPOs in Finland**

The latest dual-class IPO on the Nasdaq OMX Helsinki main list took place in 2009, when Aktia carried out its IPO (if the non-completed IPO of Evli Bank is not taken into account). However, during recent years, there have been a few dual-class IPOs on the First North list

in Finland<sup>19</sup>. In order to find reasons behind the choices to carry out these IPOs with dual-class share structures, I reviewed prospectuses of Aktia, Evli Bank and the First North companies. In prospectuses, dual-class share structures are objectively described and only flagged as risk factors. However, as was the case also with some of foreign companies, discussed in sections 2.1.3 and 2.1.4 above, none of the Finnish companies that have recently chosen to carry out its IPO with a dual-class share structure has given any background or justifications for such a choice (Prospectuses of Aktia, Evli Bank, Taaleritehdas, Cleantech Invest, United Bankers, Savo-Solar and Fit Biotech).

It can be considered strange that none of the aforementioned companies have given any justifications for their dual-class share structures. This may be a speculative view, but I assume that Finnish investors do not require justifications, as they are less sophisticated than, *e.g.*, the U.S investors. This can be explained by the fact that there is no tradition of retirement savings in stocks in Finland, compared to other countries. Furthermore, dual-class share structures have always been very common on the Finnish stock market, and therefore it may be that these structures are tolerated as they are and have not been questioned.

One noteworthy point is that when it comes to Fit Biotech and Savo-Solar, different share classes have identical dividend and voting rights, and the only difference between share classes is liquidation preferences attached to certain share classes. This means that in case of liquidation, holders of shares with a liquidation preference are higher at the pecking order. The liquidation preferences are based on earlier financial rounds of these companies, thus, these structures differ from those dual-class share structures which have been willfully created just prior to the IPO. Furthermore, all of the B-shares of Savo-Solar were converted into A-shares, in connection with the IPO.

## **4.2 Current Dual-Class Share Structures**

As no reasons for dual-class share structures have been stated in the prospectuses of recent IPOs, perhaps, by analyzing companies that have a dual-class share structure and the characters of such companies, we are able to find patterns in the types of companies that

---

<sup>19</sup> Taaleritehdas in 2013, Cleantech Invest and United Bankers in 2014 and Savo-Solar and Fit Biotech in 2015.

are more likely to deviate from the one share – one vote principle. Therefore, I chose to run a regression analysis as described below.

#### 4.2.1 Methodology and Variables

In order to analyze possible common factors and characteristics behind current dual-class share structures, a binary choice logit model and linear probability model regression analyses are constructed and tested on a complete sample of all Finnish publicly listed companies. The objective is to explain the dependent variable that takes only two values; one if the company currently has a dual-class share structure (SCSS) and zero if the company has a single-class share structure. The logit regression model is expressed as follows:

$$\text{Ln}(\text{Pr}_{\text{DCSS}}/(1-\text{Pr}_{\text{DCSS}})) = \beta_0 + \beta_1(\text{Vintage}) + \beta_2(\text{Cap}) + \beta_3(\text{I}_{\text{BM}}) + \beta_4(\text{I}_{\text{CG}}) + \beta_5(\text{I}_{\text{CS}}) + \beta_6(\text{I}_{\text{FIN}}) + \beta_7(\text{I}_{\text{HC}}) + \beta_8(\text{I}_{\text{TE}}) + \beta_9(\text{ATM}) + \beta_{10}(\text{CSH}) + u_j$$

and respectively, the linear probability model is as follows:

$$\text{Pr}_{\text{DCSS}} = \beta_0 + \beta_1(\text{Vintage}) + \beta_2(\text{Cap}) + \beta_3(\text{I}_{\text{BM}}) + \beta_4(\text{I}_{\text{CG}}) + \beta_5(\text{I}_{\text{CS}}) + \beta_6(\text{I}_{\text{FIN}}) + \beta_7(\text{I}_{\text{HC}}) + \beta_8(\text{I}_{\text{TE}}) + \beta_9(\text{ATM}) + \beta_{10}(\text{CSH}) + u_j$$

where  $\text{Pr}_{\text{DCSS}}$  is a probability of a dual-class share structure for a company, *Vintage* refers to how long ago a company was listed, *Cap* is a market capitalization of a company,  $\text{I}_{\text{BM}}$  is an industry dummy variable for basic materials companies, other industry dummy variables being:  $\text{I}_{\text{CG}}$  = consumer goods,  $\text{I}_{\text{CS}}$  = consumer services,  $\text{I}_{\text{FIN}}$  = financials,  $\text{I}_{\text{HC}}$  = health care and  $\text{I}_{\text{TE}}$  = technology, *ATM* is a dummy variable for possible anti-takeover provisions in the Articles of Association of a company and *CSH* is a dummy variable for a potential controlling shareholder holding more than 30% of the votes in a company. Explanatory variables and their assumed correlations between the response variable will be defined in more detail below.

Vintage – A vintage of the company refers to how many years ago a company was listed. Dual-class share structures are considered to be temporary structures which are deployed in situations where simultaneously outside equity is needed and management is willing to hold control over the company (DeAngelo & DeAngelo 1985 and Amoako-Adu & Smith 2001). In light of this, dual-class share structures should be more common within newly listed companies than those companies that have been listed a long time ago, *i.e.*, a

negative correlation between the vintage and existence of a dual-class share structure would be expected.

Cap – An assumed correlation between a market capitalization and existence of dual class shares is not clear. A small size of a firm increases the likelihood of a firm's probability of becoming a takeover target (Palepu 1986 and Comment & Schwert 1995). Amoako-Adu & Smith (2001) claim that as dual-class share structures are effective anti-takeover measures, smaller firms should utilize such structures more commonly. However, Comment & Schwert (1995) find that the correlation between a firm's size and the likelihood that the firm is having a poison pill in its Articles of Association is actually positive. Consequently, an assumption, whether a correlation between a market capitalization and a likelihood of dual-class share structure is positive or negative, cannot be drawn.

Industry – Certain researchers suggest that industry of a company may have an effect on whether such a company has a dual-class share structure. The logic behind this is that the non-monetary private benefits of control may be high in some industries and hence may induce founders to establish a dual-class share structure (DeAngelo and DeAngelo 1985). For instance, Gompers & al. (2010) find that companies operating in the media industry have more commonly a dual-class share structure than companies in other industries. Consequently, a purpose of the industry dummy is to find possible industries in which non-monetary private benefits of control are high and a likelihood of dual-class share structures is higher. Unfortunately, there are only a few media companies on Nasdaq Helsinki OMX, and therefore it is not possible to test a media dummy in this paper.

There are altogether seven different industries; a reference category is industrials and dummy variables are as defined above. Industries defined by the stock exchange were used with following exemptions: in order to eliminate categories Fortum has been considered as an industrial company (instead of utilities), Neste Oil and Savo-Solar have also been considered as industrial companies (instead of oil and gas) and Elisa and TeliaSonera have been considered as technology companies (instead of telecommunications).

Anti-Takeover Mechanism (ATM) – In addition to dual-class share structures, certain Finnish listed companies have some other provisions in their Articles of Association that, in practice, serve as anti-takeover mechanisms. The following provisions can be considered as such mechanisms:

- (i) capped voting provision under which a number of votes that can be cast by a single shareholder assuring that voting power will be widely dispersed (Gilson 1996);
- (ii) mandatory offer provision (so called poison pill) under which a shareholder whose holding exceeds a threshold set forth in the Articles of Association is obliged to redeem the rest of the shares in the company (Pönkä 2008)<sup>20</sup>; and
- (iii) staggered board provision under which the board's term of office lasts longer than one year which make a takeover more difficult (Ikäheimo & al. 2011).<sup>21</sup>

Even though anti-takeover provisions discussed above may partly be unenforceable, such provisions represent a purpose to prevent hostile takeovers. Therefore, it is interesting to analyze whether companies tend to rely on only one anti-takeover mechanism or if there is a tendency to use both a belt and suspenders so that in addition to a dual-class share structure some other anti-takeover mechanisms are used. When researching a database consisting of more than 3,000 U.S. firms, Ganor (2014) found that there is a positive correlation between dual-class share structures and staggered boards. Under U.S. law, dual-class share structures and staggered boards are each considered as an entrenchment mechanism sufficient by itself to prevent hostile takeovers, therefore, the correlation is somewhat surprising (*ibid.*). Based on a generalization, an assumption is that there is a positive correlation between dual-class share structures and other anti-takeover mechanisms.

Controlling Shareholder (CSH) – Last but not least, a dummy indicating whether a company has a controlling shareholder was added. A company, person, management or family holding more than 30% of the votes in the company is considered as a controlling shareholder in this paper. As it can be deemed that there is a causal relation between a dual-class share structure and the existence of a controlling shareholder, a strong positive

---

<sup>20</sup> It is questionable whether mandatory offer provisions are enforceable under Finnish law (Pönkä 2008). Furthermore, in 2006, the Securities Market Act was amended so that a threshold for a mandatory takeover offer was lowered to a level (30% of the shares or the votes) which was already a market practice with Articles of Association of listed companies and as a consequence of this, poison pills practically lost their significance, when it comes to publicly listed companies.

<sup>21</sup> Staggered board provisions are very rare in Finland. In addition, pursuant to the Companies Act, a board member may be dismissed ahead of term by the party who appointed the member, consequently, a staggered board provision is unenforceable under Finnish law.

correlation can be assumed. However, the dummy variable was added in order to confirm that the companies with dual-class share structures have actually controlling shareholders – if this was not the case, it would be clear that these structures would not serve their purpose. CSH has a value of one if the company has a controlling shareholder and zero if there is no such shareholder.

The threshold of 30% for the control was chosen, since it is indirectly stated in the government proposal for amending the Securities Market Act that, given dispersed ownership structure of most of the publicly listed companies, a holder of 30% of the votes has factual control over the company (Government proposal 6/2006). Consequently, it is logical to apply the same threshold in this paper, when considering if a shareholder or a group of shareholders has factual control over the company.

Above, I have identified five different explanatory variables which may have an effect on whether the company has a dual-class share structure. The hypotheses and variables are summarized in table 1 below. The expected sign of each variable shows whether a likelihood of a dual class share structure is expected to go up (+) or down (-) together with that variable.

**Table 1. Summary of Dual-class Likelihood Hypotheses and Explanatory Variables**

<i>Hypothesis</i>	<i>Name</i>	<i>Meaning</i>	<i>Variable</i>	<i>Expected Sign</i>
Age Hypothesis	Vintage	How many years ago was the company listed	Years	-
Size hypothesis	Cap	Market capitalization of the company	M€	+/-
Industry hypothesis	Industry dummies	What is the company's industry being the reference group	Industry dummy	?
Anti-takeover hypothesis	ATM	Does the company have other anti-takeover provisions in its Articles of Association	ATM dummy	+
Control hypothesis	CSH	Does the company have a controlling shareholder holding more than 30% of the votes	CSH dummy	+

#### 4.2.2 Data

The data consists of all the publicly listed companies in Finland, including companies with shares traded on the First North market place. As the Evli Bank's IPO was not completed on the date of this research, Evli Banks has been excluded from the data. The data on whether a company has a dual-class share structure was gathered by reviewing the Articles of Association of each company, possible controlling shareholders were identified from the website of each company and the relevant stock market data was gathered from websites of

Nasdaq OMX (nasdaqomxnordic.com) and Kauppalehti (kauppalehti.fi). The data is as per 30 September 2015, except market capitalizations and vintages which are as per 6 October 2015.

As a general comment, the number of Finnish publicly listed companies is relatively small, thus, it is difficult to make statistically significant findings. However, the sample is a complete sample of the selected scope of the research.

The data can be summarized as follows:

**Table 2. Summary of the Data<sup>a</sup>**

<i>Variable</i>	<i>Scale</i>	<i>Observations</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
DCSS	Dummy (0;1)	35	0.25	0.43	-	-
Vintage	Years	140	16.50	11.47	0.25	73.50
Cap	MEUR	140	1686.17	5277.64	1.86	42888.99
I <sub>BM</sub>	Dummy (0;1)	12	0.09	0.28	-	-
I <sub>CG</sub>	Dummy (0;1)	14	0.1	0.30	-	-
I <sub>CS</sub>	Dummy (0;1)	14	0.1	0.30	-	-
I <sub>FIN</sub>	Dummy (0;1)	18	0.13	0.34	-	-
I <sub>HC</sub>	Dummy (0;1)	9	0.06	0.25	-	-
I <sub>TE</sub>	Dummy (0;1)	22	0.16	0.37	-	-
A <sub>TM</sub>	Dummy (0;1)	18	0.13	0.34	-	-
Industrials	Ref. group	33	-	-	-	-
CSH	Dummy (0;1)	48	0.34	0.48	-	-

<sup>a</sup>This table shows scales of variables the Cap being millions of euros, the Vintage being years and other variables being dummy variables which can take only two values; either one or zero. The table also shows the number (Observations) and percentage (Mean) of firms including in each category, except in categories the Vintage and Cap mean shows average vintage of listed companies and average market capitalization of listed companies, respectively. Also, minimum and maximum values have been shown in categories, where applicable.

#### 4.2.3 Results

Table 3 below presents the results of binary choice regression analyses which were run as a linear probability model (LPM) and logit model (Logit). Both models are seeking an answer to the question, “What company characteristics explain a choice to have a dual-class share structure?” Despite of some serious defects of the LPM, such as problems with the disturbance terms and predicted probabilities less than zero or higher than one with extreme x-values (Dougherty 2007, pages 292-294), I chose to run the LPM, in addition to the Logit, as the first mentioned is easier to interpret. As the number of observations is relatively small, I also chose to run logit model regression without industry dummies and

test whether this has any effect on statistical significance of correlations between other explanatory variables and the explained variable.

**Table 3. Regression Analysis on Factors affecting the likelihood of Dual-Class Share Structure<sup>b</sup>**

<i>Independent Variable</i>	<i>Exp. sign</i>	<i>LPM (t-value)</i>	<i>LOGIT (z-value)</i>	<i>LOGIT (without industry dummy) (z-value)</i>
Constant		0.005 (0.06)	-2.851 (-4.52)***	-2.390 (-5.10)***
Vintage	-	0.004 (1.34)	0.027 (1.39)	0.025 (1.41)
Cap	+/-	0.000013 (1.95)*	0.0000986 (1.61)	0.0000609 (1.72)*
I <sub>BM</sub>	?	0.129 (0.99)	0.841 (0.98)	-
I <sub>CG</sub>	?	0.217 (1.73)*	1.037 (1.43)	-
I <sub>CS</sub>	?	0.057 (0.47)	0.354 (0.47)	-
I <sub>FIN</sub>	?	0.170 (1.54)	0.987 (1.46)	-
I <sub>HC</sub>	?	0.307 (2.05)**	1.717 (1.96)**	-
I <sub>TE</sub>	?	-0.177 (-1.68)*	Omitted	-
ATM	+	0.196 (1.75)*	1.397 (1.84)*	1.138 (1.89)*
CSH	+	0.217 (2.86)***	1.397 (2.76)***	1.364 (3.04)***
Number of firms		140 (df=129)	118	140

<sup>b</sup>This table shows the results of linear probability and logit analyses of the existence of dual-class share structures on Nasdaq Helsinki OMX. The explanatory variables that have explained above in section 4.2.1 have been presented in the left column. The expected sign shows an expected correlation between the explained variable and the explanatory variable. The table also shows coefficients for explanatory variables, as well as, t- and z-values which are in brackets. In the table, \* corresponds to significant at 10%; \*\* significant at 5%; and \*\*\* significant at 1%.

As discussed above, it is controversial whether the correlation between the size of a company and the probability of the company to have a dual-class share structure is assumed to be positive or negative. Theoretically one would expect to see less dual-class share structures within large companies, as such companies are less likely to be taken over. However, the trade practice in the United States does not support this theory. On Helsinki Nasdaq OMX, the larger a company is, the more likely it is to have a dual-class share structure (the finding is significant on a 10% level in the LPM and the Logit when it has been run without industry dummies).

When it comes to the industry dummy, health care companies and companies providing consumer goods tend to have dual-class share structures (health care is significant at the 5% level in both regressions and consumer goods industry is significant at the 10% level in

the LPM) more often than companies in the reference group. Contrary, within technology companies dual-class share structures are statistically (at the 10% level) less common than in companies in the reference group (in the Logit, the technology industry dummy is omitted, as there are no dual-class technology companies on Nasdaq Helsinki OMX).

As is the case with the market capitalization of a company, it is rather unclear what kind of correlation is assumable between the existence of anti-takeover provisions and a dual-class share structure. In theory, it should be either a dual-class share structure or some other anti-takeover provision, but in practice, it appears to be both. In light of the aforementioned, an interesting finding is that there is a positive and statistically significant (at the 10% level in all the regressions) correlation between a company having a dual-class share structure and some other anti-takeover mechanism, as well. This does not appear to be logical.

Even though this is not a statistically significant finding, correlation between the vintage of a company and likelihood of company having a dual-class share structure appears to be against the theory that has been discussed in section 4.2.1 above. As dual-class share structures should be temporary structures which are deployed when a company is transforming from a private company into a genuine public company. Nevertheless, there is slight evidence that on Nasdaq Helsinki OMX companies that have been listed a long time ago tend to have a dual-class share structure more often than more recently listed companies.

Finally, as anticipated, there is a strong and significant (significant on a 1% level in all the regressions) correlation between the existence of a controlling shareholder and a dual-class share structure. As discussed previously, any other finding here would have been surprising.

### **4.3 Unifications of Share Classes in Finland**

Solely in 2000's, there have been several unifications of share classes on Nasdaq OMX Helsinki (see table 4 below). The starting point in each case has been that the common share has had one vote and the superior voting share 10 or 20 votes each. In a few cases, there have also been minor differences between financial rights of share classes, but generally, other rights of the share classes have been the same.

#### 4.3.1 *How is Unification Carried Out?*

An established way to carry out the unification of share classes is to direct a gratuitous share issue to holders of superior voting shares in some proportion to their holding of such shares in connection with the unification. During the recent years, the amount of such compensation shares has varied from 5% to 25%<sup>22</sup> of the shares held by the shareholders of superior voting shares. A clear trend has been that the number of compensation shares have decreased, which is in line with the fact that differences in share prices have diminished as well.

The unification itself is carried out by amending the Articles of Association of a company so that a provision concerning different share classes is removed. Under the Finnish Companies Act, a proposal to unify share classes need to be supported by at least two thirds (qualified majority) within each of the share classes represented at the meeting, in addition, consent obtained from the majority within each share class whose rights are to be reduced is required (CA:5:27 and 5:28). A noteworthy point here is that a possible premium which is paid to holders of superior voting shares has to be simultaneously large enough to incentivize holders of superior voting shares to give away their control power and small enough to be reasonable from a perspective of holders of common shares so that their ownership is not being diluted too much. Under the Companies Act, there is no obligation to provide any compensation for holders of superior voting shares in connection with the unification of share classes.

Oriola's attempt to unify its share classes in 2014 provides a real life example of the above described balancing under the Companies Act. Certain shareholders of Oriola, representing together 12.14% of the shares and 16.39% of the votes, demanded that a proposal to unify the share classes (and to issue compensation shares) is added to the agenda of the Annual General Meeting, held on 24 March 2014. One compensation share was proposed to be issued against 14 A-shares, in connection with the unification. Each Oriola's A-share has 20 votes and each B-share has one share. An exceptional feature in this case was that an

---

<sup>22</sup> In Efore's and Hackman's cases amounts of compensation shares were even higher, however, in Efore's case the unification was carried out in connection with a larger reorganization and in neither of cases were compensation shares issued gratuitously. Therefore, the cases are not completely comparable. (Table 4)

initiative to unify share classes came from shareholders, not from the Board of Directors, as it is the case usually. (The minutes of the Annual General Meeting)

In the Annual General Meeting, the proposal was, however, rejected. A qualified majority (two thirds) of the B-shares represented in the meeting voted for the proposal, but such a support was not met within holders of A-shares. Consequently, it appears that the proposed compensation (1 compensation share per 14 A-shares) was not adequate for holders of A-shares. On the other hand only 74% of the holders of B-shares voted for the proposal, and it may be that the threshold of two thirds would not have been exceeded, if the amount of compensation shares had been much higher. Furthermore, there was also a technical difficulty, as the consent (as referred above) from the majority of holders of A-shares had not been obtained. (*Ibid.*).

#### 4.3.2 Reasons for Unifications of Share Classes

As discussed above, there have been several unifications of share classes on Nasdaq Helsinki OMX in 2000's. Table 4 below presents the unifications (prospectuses and stock exchange release of companies listed in table 4).

**Table 4. Unifications of Share Classes in 2000's<sup>c</sup>**

<i>Company</i>	<i>Unification Year</i>	<i>Share Classes</i>	<i>Compensation Shares</i>	<i>Reasons for Unification</i>
Norvestia	2015	A-shares: 10 votes; B-shares: 1 vote	No compensation shares	Clarify the ownership structure; interest towards the share; liquidity; acquisition of financing
Yleiselektroniikka	2012	K-shares: 10 votes; A-shares: 1 vote	Calculative premium of 10%	Unification in connection with a merger; no stated reasons
Vahto Group	2010	K-shares: 20 votes; A-shares: 1 vote	2 per 25 K-shares	Clarify the ownership structure; interest towards the share; liquidity; acquisition of financing
Elcoteq	2010	K-shares: 20 votes; A-shares: 1 vote	No compensation shares	Unification was based on the conversion clause; no stated reasons
Tamfelt	2009	K-shares: 20 votes; A-shares: 1 vote	1 per 4 K-shares	No information available
Fiskars	2009	K-shares: 20 votes; A-shares: 1 vote	1 per 5 K-shares	Clarify the ownership structure; interest towards the share; liquidity; transparency
Wärtsilä	2008	A-shares: 10 votes; B-shares: 1 vote	1 per 9 A-shares	General trend; clarify the ownership structure; interest towards the share; liquidity
Panostaja	2008	A-shares: 20 votes; B-shares: 1 vote	1 per 13 A-shares	Interest towards the share; liquidity; use of share consideration in transactions
Julius Tallberg-Kiinteistöt	2007	A-shares: 20 votes; B-shares: 1 vote	1 per 10 A-shares	Simplify and clarify the ownership structure; interest towards the share; use of share consideration in transactions

Pohjois-Karjalan Kirjapaino	2007	K-shares: 20 votes; A-shares: 1 vote	1 per 19 A-shares	Simplify and clarify the ownership structure; interest towards the share; liquidity; acquisition of financing; use of share consideration in transactions
Sanoma	2006	A-shares: 20 votes; B-shares: 1 vote	1 per 10 A-shares	Simplify and clarify the ownership structure; trend in Finland and globally; interest towards the share; liquidity; acquisition of financing
Efore	2004	K-shares: 20 votes; A-shares: 1 vote	1 per 2 A-shares (compensation share was not gratuitous)	Simplify and clarify the ownership structure; international practice; liquidity; acquisition of financing
Pohjola	2002	A-shares: 10 votes; B-shares: 1 vote	No information available	No information available
Hackman	2002	K-shares: 20 votes; A-shares: 1 vote	1 per 2 K-shares (compensation share was not gratuitous)	No information available

<sup>c</sup>This table shows unifications of share classes carried out on Nasdaq OMX Helsinki in 200's. The starting point prior to the unification is presented in the centermost column and number of compensation shares directed to the holders of superior voting shares is presented under the title "Compensation Shares". The reasons that a company in question has stated in connection with the unification are present in the right column.

When it comes to reasons behind the unifications, an interesting point is that all the companies that have explicitly stated reasons for the unification have stated quite similar reasons. Such common reasons for the unification of the share classes include the following:

- (i) publicly listed companies are increasingly switching to one share class in Finland and abroad;
- (ii) it will clarify (and simplify) the company's ownership structure;
- (iii) it is expected to add interest towards the company's shares;
- (iv) it is expected to increase the amount of liquidity associated with the share capital;
- (v) it will improve the company's possibilities for use of the company's shares in the acquisition of financing (and as a share consideration in acquisitions); and
- (vi) it will increase transparency.

In conclusion, it appears that the main drivers behind the unifications have been an aim to improve corporate governance, increase the firm's share value and further a possibility to raise equity financing. When analyzing dual-class unifications of firms located in continental Europe, Pajuste (2005) found that unifications of dual-class shares are carried

out with objective to increase the firm's market value and reduce the cost of new equity financing. The findings made above are in line with those made by Pajuste. Furthermore, the findings above are also more generally in line with the literature reviewed in chapter 2.

As discussed in section 2, two key concepts for why shareholder value is being destroyed by dual-class share structures are increased principal-agent costs and private benefits gained by insiders. In light of this, a noteworthy point is that none of the companies that have unified their share classes have explicitly stated that the unification will reduce principal-agent costs or prevent insiders from gaining access to private benefits at the cost of holders of common shares. I assume that these are reasons that could highlight problems derived from dual-class share structures. However, reasons stating that the unification will clarify the ownership structure and increase investors' interest towards the company's share can be deemed, implicitly, to include statements on decreased principal-agent costs and private benefits.

Finally, the fact that there have been several unifications of share classes on Nasdaq OMX Helsinki during the 2000's (and prior to that as well), and many companies have explicitly stated that the possibility for using the company's shares in acquisition of financing has been a reason for the unification, supports Amoako-Adu & Smith's (2001) finding on dual-class shares being temporary structures kept until the moment when the firm needs new equity capital for further expansion and growth.

## 5 CONCLUSIONS

### 5.1 Summary of Findings

In this section, I aim to respond to the research questions presented in the introduction, namely:

- (i) Based on previous research, do dual-class share structures increase or destroy shareholder value?
- (ii) Under Finnish law, what are the practical consequences of having a dual-class share structure?
- (iii) Why have publicly listed companies in Finland chosen to create dual-class share structures?
- (iv) What common characteristics do publicly listed companies in Finland with dual-class share structures have?
- (v) Why have publicly listed companies in Finland chosen to unify their former dual-class share structures into a single class?

First, based on previous research, even though dual-class share structures may have some benefits in certain specific cases, the bottom line is that such structures tend to increase principal-agent costs and private benefits of insiders, and consequently destroy shareholder value. Furthermore, dual-class share structures weaken, on average, the long-term performance of a company and institutional investors are avoiding companies which have more than one share class.

Second, as discussed in chapter 3, developments in Finnish corporate law, which are strongly based on European Union legislation, and the increased focus on corporate governance, have reduced possibilities of controlling shareholders to gain benefits at the cost of minority shareholders. As recently as the 1990's, the Board of Directors was able to promote benefits of certain controlling shareholders. Nowadays every decision needs to be in accordance with corporate benefit. In light of this, the significance of share classes has diminished. However, under the Finnish Companies Act, a dual-class share structure is a very efficient anti-takeover mechanism.

Third, while analyzing reasons why some Finnish companies have chosen to carry out their IPOs with dual-class share structures, I found that none of these companies had given any justifications for such structures. In a way, dual-class share structures are taken as they are and are only flagged as risks in the risk sections of prospectuses. Perhaps, in the future, as investors will become more sophisticated, they will require well-grounded justifications for dual-class share structures.

Fourth, when running a binary choice regression analysis of Finnish publicly listed companies, I found that there is a statistically significant and positive correlation between a dual class share structure and the size of a company and existence of anti-takeover provisions in the Articles of Association of a company. These findings are against corporate financing theory, as larger companies and companies already having an anti-takeover mechanism in their Articles of Association should already be protected against hostile takeovers. On the other hand, large Finnish listed companies are relatively small on an international scale, and therefore the size does not protect them against global private equity or industrial players.

In addition, companies operating in the health care industry or providing consumer goods tend to have two share classes more often than other companies. In contrast, technology companies tend to have a dual-class share structure more seldom than companies operating in other businesses. This can be considered as surprising in light of the current international practice, discussed in chapter 1 above. Furthermore, there is some evidence that companies which have been longer subject to public trading have more often a dual-class share structure (not a statistically significant finding).

Finally, when analyzing public statements of companies that have chosen to unify their dual-class share structure into a single-class structure, I found that such companies have emphasized that the unification will clarify the ownership structure, increase public interest towards the company's share and improve the liquidity of shares. It was stated that the unification is beneficial in order for a company to raise equity financing from investors. All of the aforementioned reasons can be considered to be in line with findings made in previous research, presented in chapter 2 above.

To summarize the findings of this paper:

- (i) There is not enough evidence for reasons why dual-class share structures are adopted.
- (ii) Developments in company law have changed practical implications of dual-class share structures during recent decades.
- (iii) Large companies that have also other anti-takeover mechanisms in their Articles of Association, have been listed for a long time and operate in the health care and consumer goods sectors, are more likely to have dual-class share structures.
- (iv) Unifications are based on an attempt to increase interest from investors and enable equity financing, improve the liquidity of the shares and clarify the ownership structure.
- (v) Based on the literature review, the only good reasons to adopt a dual-class share structure today are insider control over business decisions in certain specific cases and a willingness to adopt anti-takeover measures. Otherwise a disproportional structure results in long-term loss of shareholder value and increased principal-agent problems.

## **5.2 Practical Implications**

When considering the practicality of dual class share structures, a noteworthy point is that most of the dual-class share structures of Finnish listed companies have been adopted prior to corporate scandals in the early 2000's. The world today is quite different compared to a few decades ago. During recent decades, corporate governance standards have improved and a general attitude towards dual-class share structures has become more negative. In light of this, even though a choice to create a dual-class share structure may have been rational when the choice was made, retaining such a structure is most likely not rational anymore.

Dual-class share structures have also been seen as a way of transitioning from a private company to a public company, and are therefore usually seen as temporary structures. However, there is some evidence that companies listed a long time ago tend to have a dual-

class share structure more commonly. Furthermore, it appears that larger companies and companies with other anti-takeover provisions tend to have dual-class share structures more commonly as well, which may not be logical. It may be that many of the dual-class share structures of Finnish listed companies are not optimal at present.

In my opinion, Finnish publicly listed companies with dual-class share structures should carefully consider whether possible private benefits derived from a dual-class share structure are more valuable than the financial loss brought by such a structure. A possible reason for why share classes have not been unified, at least in some cases, is that it is always easier to keep a status quo than break it. As Voltaire once said about status quo:

*"One day everything will be well, that is our hope. Everything's fine today; that is our illusion."*

When considering the fact that a dual-class share structure is an efficient anti-takeover measure, one could ask if it is in the shareholders' interest to protect the management of the company against hostile takeovers.

Even though it is not required under the Prospectus Decree, companies choosing to carry out their IPO with a dual-class equity structure in Finland should consider giving some reasons for the choice in the prospectus. This would certainly increase the transparency of the chosen structure and would likely improve investors' confidence in the company. Furthermore, this would probably decrease the dual-class discount of the company, at least if the special circumstances were to be communicated skillfully to the market.

### **5.3 Limitations of the Study**

There are a few limitations that should be considered when reviewing the applicability of this study to other research papers.

First, the number of Finnish listed companies is relatively small for statistically significant results. For example, there are only a few media companies listed on the Nasdaq Helsinki OMX, which makes it impossible to draw statistically significant conclusions on whether media companies have dual-class share structures more often than other companies in Finland. To mitigate the problem of a small sample in the whole study, the sample could have been extended to include companies in other Nordic countries as well. However, not

all of the Nordic countries are similar, *e.g.*, the Finnish capital market was a local market still in the 1980's. The extension of the data could have an effect on the result.

Second, according to previous research, situations in which the advantages of dual-class share structures are realized are quite specific. Unfortunately, the dataset's lack of qualitative data on the firms' specific situations prevents a firm specific analysis.

Third, when analyzing public announcements of companies, it may be that the true motives behind creating and unifying dual-class share structures remain undisclosed, and general messages in accordance with the market practice are released instead. It is common practice in the arena of corporate legal documents to draft releases according to established market practice. This can only be researched by qualitative interviews aiming to uncover true motives.

#### **5.4 Suggestions for Further Research**

It appears that due to dual-class share structures, shareholder value is destroyed in the Finnish market. The question of, "*How much money is left on the table?*" remains unanswered. Therefore, an interesting research question would be to analyze the effect of disproportional ownership structures, including dual-class share structures, on firm values in Finland. Nevertheless, given the limited amount of Finnish publicly listed companies, it may be impossible to make statistically significant findings.

To analyze the questions set out in this paper deeper, extensive interviews could be carried out in which CFOs of the companies with dual-class share structures are interviewed. However, a possible difficulty in this approach is that CEOs would not easily disclose anything that has not been publicly disclosed by the company.

As dual-class share structures were even more common in the past and as such structures effectively prevent hostile takeovers, one interesting research area would be to analyze takeovers in which the target company has had a dual-class share structure. More specific topics could be, for example, to study whether a dual-class share structure has an effect on a premium paid in takeover or a completion probability of the offer.

One current, however more specific, topic would be analyzing hybrid loans from the corporate governance perspective. It appears that such loans are particularly common in controlled companies which have a dual-class share structure. During recent years, hybrid

loans, which have high interest rates and no securities, have become increasingly popular within Finnish publicly listed companies. It also appears that such loans are usually directed to parties that are somehow connected with insiders of the issuing company. In light of this an interesting question would be whether hybrid loans generate private benefits, and thus, destroy shareholder value – and more generally, are hybrid loans in line with good corporate governance practices.

Finally, let us hope that the IPO window will stay open and a positive IPO flow in Finland will continue so that we will get more listed companies on Nasdaq OMX Helsinki which would further possibilities to make statistically significant findings on, *inter alia*, the topics defined above.

## 6 REFERENCES

### Literature

Amoako-Adu, B. & Smith, B. F. (2001). Dual class firms: capitalization, ownership structure and recapitalization back into single class. *Journal of Banking and Finance*, vol. 25, pages 1083–1111.

Arugaslan, O., Cook, D. O. & Kieschnick, R. (2010). On the decision to go public with dual class stock. *Journal of Corporate Finance*, vol. 16, issue 2, pages 170–181.

Barclay, M. J. & Holderness, C. G. (1989). Private benefits from control of public corporations. *Journal of Financial Economics*, vol. 25, pages 371–395.

Bauer, R., Guenster, N. & Otten, R. (2004). Empirical Evidence on Corporate Governance in Europe: The Effect on Stock Returns, Firm Value, and Performance. *Journal of Asset Management*, vol. 5, no. 2, pages 91-104.

Bebchuk, L., Kraakman, R. & Triantis, G. (2000). Stock pyramids, cross-ownership and dual class equity: The creation and agency costs of separating control from cash flow rights. *Concentrated Corporate Ownership* (R. Morck, ed.), pages 445–460.

Bennedsen M. & Nielsen K. M. (2008). The Principle of Proportional Ownership, Investor Protection and Firm Value in Western Europe. Working paper, electronically available at: [http://www.ecgi.org/competitions/rof/files/pp\\_bennedsen\\_may08.pdf](http://www.ecgi.org/competitions/rof/files/pp_bennedsen_may08.pdf)

Board of the Securities Market Association (2010). Corporate Governance Code (effective as per 1 October 2010). Electronically available at: <http://cgfinland.fi/files/2012/01/finnish-cg-code-2010.pdf>

Chemmanur, T. J. & Jiao, Y. (2012). Dual class IPOs: A theoretical analysis. *Journal of Banking & Finance*, vol. 36, pages 305–319.

Comment, R. & Schwert, G. (1995). Poison or Placebo. Evidence on the Deterrence and Wealth Effects of Modern Antitakeover Measures. *Journal of Financial Economics*, vol. 39, pages 3–43.

DeAngelo, H. & DeAngelo, L. (1985). Managerial ownership of voting rights. *Journal of Financial Economics*, vol. 14, pages 33–69.

Dimitrov, V. & Jain, P. C. (2006). Recapitalization of one class of common stock into dual-class: Growth and long-run stock returns. *Journal of Corporate Finance*, vol. 12, pages 342–366.

Dougherty, C. (2007). Introduction to Econometrics, third edition, *Oxford University Press Inc.*

Easterbrook, F. H. & Fischel D. R. (1983). Voting in Corporate Law. *The Journal of Law & Economics*, vol. 26, no. 2, pages 395-427.

Enriques, L. & Volpin, P. (2007). Corporate Governance Reforms in Continental Europe. *Journal of Economic Perspectives*, vol. 21, No 1, pages 117–140.

Fama, E. F. & Jensen, M. C. (1983) Agency Problems and Residual Claims. *Journal of Law & Economics*, vol. 26, no. 2, pages 327–349.

ISS, Sherman & Sterling and ECGI (2006). Report on the Proportionality Principle in the European Union. *European Commission External Study*, electronically available at: [http://ec.europa.eu/internal\\_market/company/docs/shareholders/study/final\\_report\\_en.pdf](http://ec.europa.eu/internal_market/company/docs/shareholders/study/final_report_en.pdf)

Ganor, M. (2014). Why do dual-class firms have staggered boards? *Working paper*, electronically available at: <http://ssrn.com/abstract=2469650>.

Gilson, R. J. (1996). Corporate governance and economic efficiency: When do institutions matter? *Washington University Law Review*, vol. 74, issue 2, pages 327–345.

Gompers, P. A., Ishii, J. & Metrick, A. (2010). Extreme governance: An analysis of dual-class firms in the United States. *The Review of Financial Studies*, vol. 23, no. 3, pages 1051-1088.

Grossman, S. J. & Hart, O. D. (1988). One share-one vote and the market for corporate control. *Journal of Financial Economics*, vol. 20, Pages 175–202.

Holmén, M., Nivorozhkin, E. & Rana, R. (undated). Do anti-takeover devices affect the takeover likelihood or the takeover premium. *Working paper*, electronically available at: [http://economics.handels.gu.se/digitalAssets/1381/1381742\\_holmen\\_nivorozhkin\\_rana\\_for\\_thcoming\\_ejf.pdf](http://economics.handels.gu.se/digitalAssets/1381/1381742_holmen_nivorozhkin_rana_for_thcoming_ejf.pdf).

Hopt, K. J. (2002). Takeover regulation in Europe – The battle for the 13th directive on takeovers. *15 Australian Journal of Corporate Law*.

Ikäheimo S., Puttonen V. & Ratilainen T. (2011). External corporate governance and performance – Evidence from the Nordic countries. *European Journal of Finance*, vol. 17, pages 427-450.

IRRC Institute & ISS (2012). Controlled Companies in the Standard & Poor's 1500: A Ten Year Performance and Risk Review. Electronically available at: <http://irrcinstitute.org/wp-content/uploads/2015/09/FINAL-Controlled-Company-ISS-Report1.pdf>

Jarrell, G. A. & Poulsen, A. B. (1988). Dual-class recapitalizations as antitakeover mechanisms – The recent evidence. *Journal of Financial Economics*, vol. 20, pages 129-152.

Li, K., Ortiz-Molina, H. & Zhao, X. (2008). Do voting rights affect institutional investment decisions? Evidence from dual-class firms. *Financial Management*, vol. 37, pages 713–745.

Löyttyniemi, T. (1992). EY:n direktiivit ja osakesarjojen hintaerot. *Kansantaloudellinen aikakauskirja*, vol. 88, pages 4-8.

Masulis, R. W., Wang, C. & Xie, F. (2009). Agency problems at dual-class companies. *The Journal of Finance*, vol. 64, issue 4, pages 1697–1727.

Maury, B. & Pajuste, A. (2011). Private benefits of control and dual-class share unifications. *Managerial and Decision Economics*, vol. 32, pages 355–369, published online 1 August 2011 in Wiley Online Library (wileyonlinelibrary.com).

Monks, R. A. G. & Minow N. (2004). Corporate Governance, third edition, *Blackwell Publishing*.

Pajuste, A. (2005). Determinants and consequences of the unification of dual-class shares. Working Paper Series 0465, European Central Bank, electronically available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp465.pdf?2a436e67ce16b853494adab3efb255d7>

Palepu, K. G. (1986). Predicting takeover targets: A methodological and empirical analysis. *Journal of Accounting and Economics*, vol. 8, pages 3–35.

Pönkä, V. (2008). Määräysvallasta osakeyhtiössä. *Defensor Legis*, no. 5/2008, pages: 737–758.

Savela, A. (2010). Osakeyhtiölain yhdenvertaisuusperiaate. *Defensor Legis*, no. 1/2010, pages 3–24.

Seligman, J. (1986). Equal protection in shareholder voting rights: The one common share, one vote controversy, 54 *Geo. Wash. L. Rev.* 687.

Smart, S. B. & Zutter C. J. (2003). Control as a motivation for underpricing: A comparison of dual- and single-class IPOs. *Journal of Financial Economics*, vol. 69, pages 85–110.

Skog, R. (2004). The European Union’s Proposed Takeover Directive, the “Breakthrough” Rule and the Swedish System of Dual Class Common Stock. *Scandinavian Studies in Law*, vol. 45, pages 293–305.

Sun-tzu, *The Art of War*.

Winter, J. (2004). We all want to go to heaven but nobody wants to die. *European Company Law*, 1 no. 1.

Winter, J. & al., Preliminary Report of The High Level Group of Company Law Experts on issues related to takeover bids, Brussels, 10 January 2002, electronically available at [http://ec.europa.eu/internal\\_market/company/docs/takeoverbids/2002-01-hlg-report\\_en.pdf](http://ec.europa.eu/internal_market/company/docs/takeoverbids/2002-01-hlg-report_en.pdf)

Winter, J. & al., Final Report of The High Level Group of Company Law Experts on issues related to takeover bids, Brussels, 4 November 2002, electronically available at [http://ec.europa.eu/internal\\_market/company/docs/modern/report\\_en.pdf](http://ec.europa.eu/internal_market/company/docs/modern/report_en.pdf)

### **Internet Sources**

*Financial Post*. From Cara Operations Ltd to Shopify Inc: Why dual class shares are suddenly cool again, 5 May 2015. Electronically available at: <http://business.financialpost.com/news/fp-street/from-cara-to-google-why-dual-class-shares-are-suddenly-cool-again>, referred on 2 November 2015.

*Financial Times*. Hong Kong exchange gives up on dual-class share plan, 5 October 2015. Electronically available at <http://www.ft.com/intl/cms/s/0/0bc597ee-6b42-11e5-aca9-d87542bf8673.html#axzz3oS4r5aJc>, referred on 10 October 2015.

*Forbes*. Alibaba Claims Title For Largest Global IPO Ever With Extra Share Sales, 22 September 2014. Electronically available at:

<http://www.forbes.com/sites/ryanmac/2014/09/22/alibaba-claims-title-for-largest-global-ipo-ever-with-extra-share-sales/>, referred on 18 September 2015.

*Fortune*. Here's how Mark Zuckerberg keeps Facebook's investors in check, 2 July 2015. Electronically available at: <http://fortune.com/2015/07/02/mark-zuckerberg-investors/>, referred on 15 October 2015.

*The Wall Street Journal*. As Activism Rises, U.S. Firms Spend More on Buybacks Than Factories, 26 May 2015. Electronically available at: <http://www.wsj.com/articles/companies-send-more-cash-back-to-shareholders-1432693805>, referred on 2 November 2015.

*The Wall Street Journal*. How Hong Kong Lost the Alibaba IPO, 15 March 2014. Electronically available at: <http://www.wsj.com/articles/SB10001424052702303546204579440820673013810>, referred on 19 September 2015.

*The Wall Street Journal*. Hong Kong Exchange Considers Rule Change on Dual-Class Shares, 19 June 2015. Electronically available at: <http://www.wsj.com/articles/hong-kong-exchange-considers-rule-change-on-dual-class-shares-1434714290>, referred on 19 September 2015.

### **Prospectuses & Releases**

Aktia – Prospectus, 25 September 2009, electronically available at: <http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=1743&TN=2>

Alibaba – Prospectus, 6 May 2014, electronically available at: <https://www.sec.gov/Archives/edgar/data/1577552/000119312514184994/d709111df1.htm>

Articles of Association of each company listed on Nasdaq OMX Helsinki (including companies traded on the First North market place), available at companies' websites.

Cleantech Invest – Prospectus, 2 May 2014, electronically available at: <http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=3478&TN=2>

Efore – Stock exchange release, 4 February 2004, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=21919&lang=fi>

Elcoteq – Stock exchange release, 20 July 2010, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=411157&lang=fi>

Evli Bank – Prospectus, 13 November 2015, electronically available at:

[https://www.evli.com/dam/jcr:7f696b8e-c114-4ff3-88d3-c0aa161d88dd/Evli%20Pankki%20Oyj%20Esite\\_2015.pdf](https://www.evli.com/dam/jcr:7f696b8e-c114-4ff3-88d3-c0aa161d88dd/Evli%20Pankki%20Oyj%20Esite_2015.pdf)

Fiskars – Stock exchange release, 5 June 2009, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=329831&lang=fi>

Fit Biotech – Prospectus, 29 May 2015, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=3933&TN=2>

Google – Prospectus, 18 August 2004, electronically available at:

<https://www.sec.gov/Archives/edgar/data/1288776/000119312504143377/d424b4.htm>

Groupon – Prospectus 2 June 2011, electronically available at:

<https://www.sec.gov/Archives/edgar/data/1490281/000104746911005613/a2203913zs-1.htm>

Julius Tallberg-Kiinteistöt – Prospectus, 23 February 2007, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=956&TN=2>

LinkedIn – Prospectus, 27 January 2011, electronically available at:

<http://www.sec.gov/Archives/edgar/data/1271024/000119312511016022/ds1.htm>

Norvestia – Proposal for Extraordinary General Meeting, 18 May 2015, electronically available at:

[http://www.norvestia.fi/files/980/EGM\\_proposals\\_\(FIN\)\\_18\\_May\\_2015\\_v1\\_Enehjelm.pdf](http://www.norvestia.fi/files/980/EGM_proposals_(FIN)_18_May_2015_v1_Enehjelm.pdf)

Norvestia – Stock exchange release, 12 June 2015, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=664672&lang=fi>

Oriola – Minutes of Annual General Meeting 2014, electronically available at:

<http://www.oriola-kd.com/CommonFiles/Attachments/Yhti%C3%B6kokous/2014/Oriola-KD%20Oyj%20varsinaisen%20yhti%C3%B6kokouksen%20p%C3%B6yt%C3%A4kirja.pdf>

Oriola – Stock exchange release, 29 January 2014, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=591309&lang=fi>

Panostaja – Stock exchange release, 10 November 2011, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=298103&lang=fi>

Pohjois-Karjalan Kirjapaino – Prospectus, 13 March 2007, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=969&TN=2>

Sanoma – Prospectus, 4 April 2006, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=535&TN=2>

Savo-Solar – Prospectus, 18 February 2015, electronically available at:

[http://mangoldonline.mangold.se/mangoldonline/Erbjudanden/SAVOS\\_2015\\_EN/dokument/Prospectus%20Savo-Solar%20Oyj%2020150218%20Final%20\(FIN\).pdf](http://mangoldonline.mangold.se/mangoldonline/Erbjudanden/SAVOS_2015_EN/dokument/Prospectus%20Savo-Solar%20Oyj%2020150218%20Final%20(FIN).pdf)

Taaleritehdas – Prospectus, 18 March 2013, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=3071&TN=2>

Tamfelt – Stock exchange release, 3 September 2009, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=362385&lang=fi>

United Bankers – Prospectus, 28 October 2014, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=3743&TN=2>

Vaaho Group – Prospectus, 3 December 2010, electronically available at:

<http://www.finanssivalvonta.fi/fi/Listayhtiolle/Esitteet/Esiterekisteri/Pages/Esiterekisteri.aspx?TID=2157&TN=2>

Wärtsilä – Stock exchange release, 28 February 2008, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=259229&lang=fi>

Zynga – Prospectus, 1 July 2011, electronically available at:

<https://www.sec.gov/Archives/edgar/data/1439404/000119312511180285/ds1.htm>

Yelp – Prospectus, 17 November 2011, electronically available at:

<https://www.sec.gov/Archives/edgar/data/1345016/000119312511315562/d245328ds1.htm>

Yleiselektroniikka – Stock exchange release, 2 April 2012, electronically available at:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=499084&lang=fi>

### **Directives etc.**

COMMISSION REGULATION (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (Prospectus Decree)

DIRECTIVE 2004/25/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 21 April 2004 on takeover bids (Takeover Directive)

DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II Directive)