Director Member Properties and a Dual-Class Structure

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In dual-class companies, management controlling the voting rights is able to choose or influence director board to further entrench itself or increase benefits of all shareholders. This study compares the board director members' characteristics and their effects on the adoption of performance-based stock awards and the corresponding number of performance measures. The main results show that in terms of the influence of board members on the adoption of performance-based stock awards and on the numbers of performance measures, strong board properties such as a larger board size and more independent directors increase the propensity for the adoptions, but the dual-class structure decreases the propensity to a certain degree.

INTRODUCTION

Recently, dual-class stock structures have been popular among high-tech and social media companies, due to its flexibility and being recognized as a means of attracting talents. At the same time, shareholders have grown increasingly wary of firms with a dual-class stock structure. For example, California Public Employees' Retirement System (CalPERS), one of the largest and most influential institutional investors in the United States, began to campaign for the removal of dual-class stock-market listing and to reevaluate whether to invest in IPOs that use them (The Wall Street Journal August 20, 2012). A dual-class stock has a structure that allows decision-making power to be divorced from the financial risk. Despite investor concerns, many companies seem to enjoy a dual-class stock structure, as evidenced that one in eight new initial public offerings (IPOs) in 2012 was listed with a dual-class structure (Dow Jones Newswires August 20, 2012). In September, 2014, Alibaba, a giant Chinese e-commerce company, started its listing on the New York Stock Exchange (NYSE), which is also one of the largest IPOs in history and in fact used a dual-class stock. Alibaba's general shareholders hence have little control over how the company is run.

Although a dual-class structure has received some attentions in both academia and industry, there has been an ongoing debate about a dual-class structure's role and effectiveness in practice. Some studies imply that the separation of ownership and control inherent in dual-class structures lead to lower firm value and poor performance (Gompers, Ishii, and Metrick, 2009), while there is evidence suggesting that dual-class structures enhance firm value (Dimitrov and Jain 2006). Numerous high-profile companies have chosen a dual-class stock structure in recent years—underscoring the importance of the issue in practice. Institutional investors especially, however, have been concerned about multiple classes of stock

with disparate voting rights, and complained that dual-class stock companies may limit their ability to press boards and executives to institute real changes (Byrd 2012). In contrast, dual-class shares are claimed to be founders' best friend and allow them to more effectively focus on long-term shareholder appreciation (Kupor 2013).

Separation of ownership from control is one of the characteristics of some publicly traded firms in the United States. Among public firms there are Type I and Type II agency problems. Type I agency problems arise as a result of the conflicts of interests between management and shareholders. Separation of ownership and control gives rise to agency conflicts between managers and shareholders. Given the prevalence of Type I agency problems in public companies, one common measure shareholders adopt to better align managers' interests with shareholders' interests is to encourage increased managerial ownership (Jensen and Meckling 1976). The increased managerial ownership may lead to a better alignment of the interests between management and shareholders, and thus mitigates Type I agency problems. On the other hand, the increased managerial ownership may result in weakening of the firm's governance structure because management gains more influence on the appointment of board members and other executives. Management may take actions on the expense of noncontrolling shareholders by influencing governance structure. Type II agency problems stem from conflicts between controlling and noncontrolling shareholders. Thus, the governance characteristics of board members represent the results of these conflicts.

This study on the governance structure of director board in dual-class firms would shed some light on the debate of dual-class structures. Managerial power theory indicates that members of management can exert influence on the corporate governance. Consequently, the governance features naturally reflect the considerations of the controlling insiders. Whether insiders care about the future of the firms, or whether they take advantage of smaller shareholders, or whether they act in the best interest of all shareholders can be evaluated by examining board characteristics.

The specific governance characteristics we examine are the director members of the dual-class firms. The director board is assumed to oversee the management and design compensation schemes to provide executives with efficient incentives to maximize shareholder value, so the characteristics of the director board may represent companies' properties and influence firms' performance as well. Specially, we examine the firm's board size, whether one executive served in the board during the fiscal year, whether the CEO and chairman of the board are separate individuals, the number of independent board members, and the percentage of independent directors in the board. These properties can all be used to either provide protection to ordinary shareholders or provide chances for management powering/entrenchment depending on the actual characteristics. Moreover, founders and founder-related families play a critical role in the setup and operation of dual-class firms. In this study, the presence of founders or family related board members in the whole board is also investigated to understand their involvement in the director board.

One of director board's functions is to design performance contracts in an attempt to improve firm performance and to increase shareholder values. Especially, executive contractual features such as performance stocks and performance measures in stock compensation awards directly reflect a firm's interest orientation. Furthermore, the board characteristics affect the adoption of performance-based stock compensation and the choice of performance measures in stock awards. Adoption of stock compensation and more measures better align executives' incentives with the firm's long-term goals and benefits of shareholders. Thus the impact of corporate governance on executive compensation is also examined among dual- and single-class firms.

The examined effect is focused on performance based stock compensation is because a), stock awards account for a considerable share of executives' total compensation and thus are economically significant to both the firm and the CEO; b), unlike cash bonuses or salaries, which are backward-looking and short-term oriented, stock awards spanning multiple years are forward-looking and potentially long-term oriented.

This work compares a sample of all U.S. dual-class firms in the S&P 1500 from 2007 to 2011 with a matched sample of single-class firms using propensity score matching to assess the corporate governance

characteristics and their impact on the executive compensation. The across-sample results indicate that dual-class and single-class firms have similar board size, and dual-class firms have similar independent board members and percentage as single-class firms have. Moreover, the dual-class firms have less issues of a dual CEO-Chairman. Additionally, the findings show that performance-based stock awards and performance measures are more likely to be applied when there are strong governance structures and the dual-class stock structure weakens such adoptions to a certain degree.

The results contribute to the research on the understanding of dual-class stock structures. First, our research attempts to conduct a direct examination of corporate governance structure of dual-class firms. Existing literature has generally focused on the resulting outcomes from dual-class structures such as pay level and not on how or why those results materialized. Governance structure and executive compensation contracts provide design details, thereby enabling analysis of the difference of governance characteristics and their effects on compensation contracts. This study fills in the gap in the relation between corporate governance and contractual features. Second, our analysis utilizes newer data from 2007-2011 to analyze corporate governance structure of dual-class and single-class firms. Previously several papers use Gompers, Ishii and Metrick's dataset which covers dual-class firms from 1996-2002. During the previous decade, many technology and social media companies have adopted a dual-class structure due to the new technology boom. It is worthwhile to examine the current corporate governance properties.

The remainder of this study comprises four sections. Section 2 reviews relevant literature and develops the hypotheses. Section 3 describes our sample of data and discusses the research design. Section 4 reports the analysis and discuses empirical results and Section 5 provides concluding remarks on our findings.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The dual-class structure is generally/traditionally considered to be weak governance, and prior literature has shown that there may be potential issues with this structure. A stream of the prior dual-class literature has compared the value and performance of dual-class firms with these of single-class firms. DeAngelo and DeAngelo (1985) first studied managerial ownership in dual-class stock structures and found that the difference between ownership and voting rights leads to poor firm performance and lower firm value. Gompers, Ishii and Metrick (2009) find that during the period from 1994 to 2002, dual-class firms perform worse than comparable firms for which all shares confer equal voting rights. They also report that dual-class firms' value is increasing in insiders' cash-flow rights and decreasing in insider voting rights.

On the other hand, management can use its voting ability to separate the Chairman and CEO and elect more outside directors to the board. This way, management is helping outside investors better monitor management's actions and is hopefully improving value creation. In dual-class firms, management controls the majority of the votes, so the governance characteristics may be a representation of management's orientation. Also, governance characteristics also may be infected by external financiers due to financing needs. One opinion holds that a firm can choose different ownership structure for itself, indicating that in certain scenarios a dual-class structure may be optimal and is not an inherently poor governance characteristic (Demsetz and Lehn 1985). Claessens et al. (2000) find that the negative association between issuance of dual-class shares and corporate valuation reported in prior studies is not statistically significant, and do not find evidence that the issuance of dual-class shares separating ownership and control is associated with the valuation discount.

Lehn, Netter, and Poulsen (1990) find that firms with greater growth opportunities are more likely to undertake a dual-class recapitalization to retain control of the firm when raising money through equity investors. Gompers, Ishii, and Metrick (2009) develop a governance index to proxy for 1990-1999 shareholder rights where a dual-class structure is treated as weak governance characteristic, and find higher annual stock returns for firms with better governance index than firms with weaker governance index. However, they find no significant difference in return on equity measure. The possible relation that weak corporate governance via a dual-class structure leads to poor stock performance is not supported

(Core, Guay and Rusticus 2006). Therefore, we can see there is no consensus regarding whether a dual-class structure is weak governance or not.

Therefore, this study investigates dual-class firms' governance details. The size of the board of directors is the first to be examined. It is recommended that boards contain eight or nine members, since larger boards become more inefficient and costly, including slower and more biases in decision-making. Smaller boards make it easier for member to discuss more effectively and come to a consensus (Lipton and Lorsch 1992). Smaller boards are also found to be associated with higher firm value, better operating performances and stronger CEO incentives (Yermack 1996). The board size balance reached in the practice would be interesting to investigate among dual- and single-class firms. If dual-class firms have a larger board size, then it indicates dual-class structure results in a relatively more inefficient director board.

In terms of the size of independent board members, extant literature documents that firms' board should be composed of major outsiders on its board. These outsiders should be experts, bringing expertise and potentially important connections to the firm (Fama and Jensen 1983). After poor performance, firms tend to include independent directors to the board to restrain the influence from the CEO's ability and to increase board independence (Hermalin and Weisbach1988). Since 2002, Sarbanes-Oxley Act requires firms to have a majority of independent directors on the board. In contrast, a model developed by Harris and Raviv (2008) indicates that for many firms, an insider controlled board is more advantageous for shareholders with a reasonable agency cost. This applies to the case where insiders have a significant amount of information about product and business innovation that is not appropriately available to outside directors. Considering the difference of board size, the number of independent directors would also vary. Therefore, we also consider the percentage of independent directors in the whole board to see whether the board has a majority of independent board for dual-class firms.

The separation of CEO and chairman of the board positions is also another important feature to examine. One of the functions of the chairman is to oversee the process of hiring, firing, evaluating, and compensating the CEO, so the CEO and chairman positions have to be separated (Jensen 1993). However, some prior studies find that the firms with separate positions do not perform better than firms with the same person serving in both roles, and suggest that potential advantages of separate positions may be traded off by additional monitoring costs (Brickley, Coles, and Jarrell 1997). From the perspective of limiting the power of management, it may be important for a dual-class firm to have a separate CEO and chairman. But from the perspective of strategic business models, the management needs the board to have a similar mindset as the management does.

Furthermore, the structure and characteristics of the director board influence the firms' compensation contract design. By investigating the adoption of performance-based stock awards, we can obtain a better understanding of how the board properties and the dual-class stock structure affect the design and orientation of performance-based stock awards. Based on the inconclusive findings of prior literature, no direction of expectation is provided for the two hypotheses. Therefore, the two hypotheses proceed as follows:

> *H1: Companies with a larger board size or more independent board members are more likely to grant performance-based stock awards, while a dual-class structure is less declined to grant such awards.*
>
> *H2: Companies with a larger board size or more independent board members are likely to use more performance-based measures, while a dual-class structure is less declined to use more performance-based measures.*

SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

Sample Selection for the Dual-Class and Single-Class Samples

In this study, the dual-class firm sample covers all the U.S. dual-class firms in the S&P 1500 from 2007 to 2011. Stock structure data is collected from Compustat. For each individual firm with a dual-class stock structure, annual filings made with the Securities and Exchange Commission are examined to confirm that the company actually is a dual-class firm. The final dual-class sample consists of 419 firms.

Two steps are performed to match the dual-class sample with a control group of single-class firms. The first step is to do coarsened exact matching (CEM), which ensures that the treatment and control samples have identical characteristics. This procedure maximizes the quality of matching at the cost of a reduced sample size because control firms with identical characteristics as treatment firms are not always available. A necessary step to ensure an exact match is to convert every continuous variable to a set of different intervals, with each interval represented by an indicator variable (Iacus, King, and Porro 2008). In the sample, CEM yields 339 control firms with a single-class structure.

The second step is to do propensity score matching (PSM) to find control observations for the remaining 80 dual-class firms (Guo and Fraser 2010). PSM still assures that the control sample has similar characteristics as the treatment sample. The main benefit of PSM is that it uses all available control variables and does not require continuous variables to be represented by indicator variables. The propensity score is the predicted value from a Logit model of the likelihood of receiving treatment as a function of the control variables, and it can be used as a measure of the similarity between the treatment firm and control firm.

Descriptive Statistics of Dual- and Single- Class Firms

Table 1 reports descriptive statistics concerning characteristics of dual- and single-class firms. The matched single-class firms are similar to the dual-class firms at the median value in terms of size, leverage, ROE, market-to-book, and CEO equity ownership percentage, implying that the matching process has generated a control sample effectively. Dual-class firms tend to have lower sales growth, lower market value, less leverage, and lower profitability (ROE) compared to S&P 1500 firms, but are similar in terms of size. However, dual-class firms have higher capital expenditures than S&P 1500 firms.

TABLE 1
DESCRIPTIVE STATISTICS FOR DUAL-CLASS FIRMS, SINGLE-CLASS FIRMS AND S&P1500 FIRMS

	DUAL	N	MEAN	S.D.	P25	P50	P75
SIZE	1	419	7.857	1.624	6.719	7.541	8.700
	0	419	8.014	1.796	6.674	7.814	9.027
	1500	7500	7.987	1.669	6.763	7.856	9.010
LEVERAGE	1	419	0.168	0.177	0.016	0.126	0.260
	0	419	0.183	0.192	0.012	0.153	0.267
	1500	7500	0.184	0.170	0.027	0.155	0.291
ROE	1	419	-0.015	0.844	0.023	0.086	0.151
	0	419	0.030	1.470	0.028	0.096	0.191
	1500	7500	0.091	2.569	0.047	0.109	0.177
MTB	1	419	1.752	9.815	1.083	1.641	2.825
	0	419	2.813	4.942	1.192	1.873	3.112
	1500	7500	2.555	19.518	1.252	1.892	3.011

SALEGROW	1	419	5.215	18.129	-2.652	4.590	13.002
	0	419	9.718	59.859	-4.068	5.235	13.943
	1500	7500	7.353	28.509	-3.129	5.963	14.889
MV	1	419	9374	26740	642	1574	4836
	0	419	10733	29529	733	1955	7598
	1500	7500	10025	28954	725	1874	7026
OWN	1	419	5.612	11.206	0.097	0.659	4.785
	0	419	4.036	8.786	0.115	0.384	1.974
	1500	7500	1.790	5.064	0.108	0.323	1.013
CAPXS	1	419	0.045	0.048	0.016	0.032	0.053
	0	419	0.052	0.089	0.017	0.029	0.049
	1500	7500	0.049	0.078	0.014	0.025	0.039

SIZE is defined as the natural log of total assets. *ROE* is annual return on equity for the sample company. LEVERAGE is the debt-to-equity ratio. MTB is the market-to-book ratio, calculated as the market capitalization four months after fiscal year end divided by common equity. SALEGROW captures the firm's annual sales growth rate. MV is market value, calculated as the number of common shares outstanding multiplied by the closing price at fiscal yearend. *OWN* refers to CEO equity ownership, and measures the percentage of firm equity owned by the CEO. It is calculated as the number of shares owned by the CEO (with options excluded) divided by the number of common shares outstanding at the end of the fiscal year. *CAPXS* is equal to capital expenditures scaled by sales.

RESEARCH DESIGN AND RESULTS

Matching Analysis

This section uses matching estimators to provide an analysis of corporate governance between dual-class and single-class firms and how a dual-class structure affects the design of performance-based stock awards. Matching estimators are increasingly used in managerial accounting research (Armstrong, Jagolinzer and Larcker 2010; Casas-Arce, Indjejikian and Matějka 2013). As discussed earlier, the sample of dual-class firms is matched to a control sample of single-class firms in the S&P 1500 firms with similar characteristics. The CEM and PSM designs control for all main characteristics of the firms except for the horizon measures under investigation. Thus, employing these two matching procedures ensures identical or similar characteristics between the control sample and treatment sample. Since influential control variables are all included in the matching process, the in-sample homogeneity enables a direct contrast between dual-class firms and single-class firms in terms of matching estimators.

Table 2 presents a comparison of the governance characteristics between dual-class firms and a matched sample of single-class firms. Firstly, we examine the size of the board (*DIRNBR*) and find both dual-class and single-class firms have eight board members, indicating two types show no difference in terms of board size and have balanced boards. Secondly, we examine whether one executive served as a director during the current fiscal year (*EXECDIR*). The results present a similar situation for both dual-class and single-class firms. Nearly for all firms, executives are involved in the board and they somehow interlock with each other.

TABLE 2
COMPARISON OF DIRECTOR BOARD PROPERTIES BETWEEN DUAL-CLASS AND SINGLE-CLASS FIRMS

		Min	Max	Mean	Std	N
DIRNBR	Dual	3	32	8.17	3.47	419
	Single	3	20	8.65	2.86	419
EXECDIR	Dual	0	1	93.41%	0.25	419
	Single	0	1	96.39%	0.19	419
DUALITY	Dual	0	1	51.29%	0.5	419
	Single	0	1	61.06%	0.49	419
INDDIR	Dual	1	28	6.36	2.78	419
	Single	1	16	7.27	2.3	419
INDDIRPER	Dual	14.29%	1	79.40%	0.16	419
	Single	8.33%	1	85.44%	0.14	419

DIRNBR describes the number of director the board of directors has. *EXECDIR* describes whether there is any executive that served on the board during the fiscal year. *DUALITY* describes the dual role of CEO, and it is equal to 1 if CEO also holds the role of chairman of the board, and 0 otherwise. *INDDIR* describes board independence, and it is the number of independent directors. *INDDIRPER* describes the percentage of independent directors in the whole director board.

Thirdly, comparison is made for the CEO and board chairman position across dual-class and single-class firms. We found that dual-class firms are less likely to have the same individual to act as the CEO and board chairman. The separation of the CEO and Chairman of the Board positions is an important characteristic of corporate governance, because one of the board's roles is to monitor management (Jensen 1993). The analysis reveals that 48.71% of dual-class firms have separate CEOs and Chairmen, while only 38.94% single-class firms have so. From this angle, dual-class firm present a better governance characteristic.

TABLE 3
COMPARISON OF FAMILY AND FOUNDER INVOLVEMENT IN THE DIRECTOR BOARD BETWEEN DUAL-CLASS AND SINGLE-CLASS FIRMS

		Min	Max	Mean	Std	N
FAMILY	Dual	0	1	0.8165	0.3876	419
	Single	0	1	0.1226	0.3284	419
FOUNDER	Dual	0	1	0.4259	0.4951	419
	Single	0	1	0.1683	0.3284	419
CONTROLLED	Dual	0	1	0.4706	0.4997	419
	Single	0	1	0.0144	0.1194	419
CEOFAMILY	Dual	0	1	0.3012	0.4593	419
	Single	0	1	0.0962	0.2952	419
CEOFOUNDER	Dual	0	1	0.2000	0.4005	419
	Single	0	1	0.1490	0.3566	419

FOUNDER describes whether the founder also serves in the board of directors, and it is equal to 1 if yes and 0 otherwise. *FAMILY* describes whether any family related board member serves in the board of directors, and it is equal to 1 if yes and 0 otherwise. *CONTROLLED* defines a controlled company as a company of which more than 50% of the voting power for the election of directors is held by an individual, group or another company. *CEOFAMILY* describes whether the CEO is the founders' family, and it is equal to 1 if yes and 0 otherwise. *CEOFOUNDER* describes whether the CEO is the founder of the firm, and it is equal to 1 if yes and 0 otherwise.

Finally, we examine how many independent directors the firm has (*INDDIR*). The results show that dual-class firms have six independent board members on average, whereas single-class firms have seven independent board members. The percentage of independent directors is also further investigated (*INDDIRPER*). The analysis indicates that 79.40% of the directors are independent, and the percentage is 85.44% for single-class firms.

For a dual-class structure, founders play a critical role in setting up the company, and they would have a big involvement in the management. 42.59% of dual-class firms have founder take a role in the director board, compared to 16.83% of single-class firms. Family members (founders and their descendants) currently holding director positions are also investigated. The previous literature finds that family involvement in various executive positions tends to be higher in dual-class companies (83.21%). This study also shows that family involvement in the director board is high as well. 81.65% of dual-class firms have some degree of family involvement, compared to 12.26% in single-class companies.

Dual-class firms are characterized by a significant amount of family control. The stock exchanges define a controlled company as a company of which more than 50% of the voting power for the election of directors is held by an individual, group or another company (SEC 2009). It is not surprised to find that nearly 47% of dual-class firms are controlled company relative to 1.44% of single-class firms. This finding is consistent with the inherent property of a dual-class firm, requiring the decision making control of the firm.

Whether CEO is the founder or founder-related family is also investigated. The analysis shows that for 20% of the dual-class firms, founder is the CEO relative to 15% of single-class firms. Moreover, in 30% of dual-class firms the CEO position is held by founder-related family, while in 9% of single-class firms, the CEO position is held by founder's family.

Management performance is oriented by the compensation contract. Therefore, we further investigate the effect of governance characteristics on performance contract. H1 predicts the effect of board properties and a dual-class structure on granting CEO's performance-vesting stock grants. *YES_SP* measures whether such grants are awarded, and it is equal to 1 if yes, and 0 otherwise. Table 4 reports the results regarding the effects of director board on the choice of performance-based stock awards.

The results suggest that more board numbers would increase the demand for performance-contingent stock compensation. At the same time, a dual-class stock structure would somehow decrease the need for larger board size. This may be due to the large amount of insider information with regards to product innovation for dual-class firms so that they tend to not increase the board size. For dual-class firms with a dual CEO-Chairman, such firms are less likely to adopt performance-based stock awards. In terms of the influence of independent board member, it is more likely for companies to adopt performance related stock compensation when there are more independent directors serving on the board. This indicates that more independent board members increases the tendency of the adoption of performance based stock award, but the dual-class stock structure decreases the impact to a certain degree. Similar impact is shown for the percentage of independent board members. The fact that one executive also served as a director during the fiscal year marginally increases the adoption of performance-based stock awards, since it is very common for executives get involved into the board. For a dual-class firm, the possibility to use performance stock award is reduced.

TABLE 4
ADOPTION OF PERFORMANCE-BASED STOCK AWARDS

YES_SP			
	Difference	T-stat	P-value
DIRNBR	0.2195	58.8319	<0.0001
DUAL*DIRNBR	-0.072	18.7701	<0.0001

YES_SP			
	Difference	T-stat	P-value
EXECDIR	0.5898	3.2416	0.0718
DUAL*EXECDIR	-0.6423	19.9285	<0.0001

YES_SP			
	Difference	T-stat	P-value
DUALITY	0.2935	3.2223	0.0726
DUAL*DUALITY	-0.7627	16.1935	<0.0001

YES_SP			
	Difference	T-stat	P-value
INDDIR	0.2384	51.9787	<0.0001
DUAL*INDDIR	-0.0809	15.4945	<0.0001

YES_SP			
	Difference	T-stat	P-value
INDDIRPER	-0.3553	0.6143	0.4332
DUAL*INDDIRPER	-0.8478	24.3989	<0.0001

YES_SP measures whether performance-based stock awards is adopted. It is equal to 1 if adopted, otherwise is set to 0. *DIRNBR* describes the number of director the board of directors has. *EXECDIR* describes whether there is any executive that served on the board during the fiscal year. *DUALITY* describes the dual role of CEO, and it is equal to 1 if CEO also holds the role of chairman of the board, and 0 otherwise. *INDDIR* describes board independence, and it is the number of independent directors. *INDDIRPER* describes the percentage of independent directors in the whole director board.

TABLE 5
EFFECTS OF BOARD MEMBER PROPERTIES ON THE NUMBER OF MEASURES USED FOR DUAL-CLASS FIRMS

NMETRICS_SP			
	Difference	T-stat	P-value
DIRNBR	0.09664	8.35	<0.0001
DUAL*DIRNBR	-0.03253	-4.2	<0.0001

NMETRICS_SP			
	Difference	T-stat	P-value
EXECDIR	0.27072	1.62	0.1056
DUAL*EXECDIR	-0.28267	-3.83	0.0001

NMETRICS_SP			
	Difference	T-stat	P-value
DUALITY	0.19809	2.34	0.0197
DUAL*DUALITY	-0.41414	-4.32	<0.0001

NMETRICS_SP			
	Difference	T-stat	P-value
INDDIR	0.10873	7.8	<0.0001
DUAL*INDDIR	-0.03605	-3.74	0.0002

NMETRICS_SP			
	Difference	T-stat	P-value
INDDIRPER	0.42678	-1.98	0.0278
DUAL*INDDIRPER	-0.38222	-4.41	<0.0001

NMETRICS_SP measures the number of performance measures are used when awarding performance-based stock awards. *DIRNBR* describes the number of director the board of directors has. *EXECDIR* describes whether there is any executive that served on the board during the fiscal year. *DUALITY* describes the dual role of CEO, and it is equal to 1 if CEO also holds the role of chairman of the board, and 0 otherwise. *INDDIR* describes board independence, and it is the number of independent directors. *INDDIRPER* describes the percentage of independent directors in the whole director board.

Finally, to examine H2, we investigate how the governance characteristics and the dual-class stock structure affect the adoption of more performance measures. Variable *NMETRICS_SP* measures how many performance measures are adopted when awarding performance-vested stock compensation. Table 5 reports the effects of governance characteristics on the number of performance measures used for dual-class firms' executives' stock awards. Comparison is conducted for the use of performance-based measures across dual-class and single-class firms. For dual-class firms with a duality issue, such firms would be prone to use fewer performance-based measures for CEO evaluation. This may be because CEO also serves as the board director, he or she has the power to influence the board decisions. Dual-class firms are more inclined to use more performance based measures to assess CEO performance when there

are more independent directors of board. Overall, clearly dual-class firms tend to incorporate a greater number of diverse measures when more independent directors serve on the board.

In addition, the larger the board size is, the more performance measures the board would use. However, the dual stock structure would weaken this positive relationship. There is no significant difference for the effect of executive involvement in the board for stock compensation measurement decision, but a dual-class firm would use fewer performance measures.

CONCLUSION

There has been a debate about the dual-class structure from various perspectives. This study investigates the corporate governance characteristics of dual ownership structure. The specific governance characteristics examined are the director members, family members and founders of the dual-class firms. The director board is assumed to oversee the management and design compensation schemes to provide executives with efficient incentives to maximize shareholder value, so the characteristics of the director board represent companies' properties and influence firms' performance as well. Specially, we examine the firm's board size, whether one executive served in the board during the fiscal year, whether the CEO and chairman of the board are separate individuals, the number of independent board members, and the percentage of independent directors in the board. Moreover, the presence of founders or family related board members in the whole board is also investigated to understand their involvement in the director board. How the adoption of performance-based stock compensation and the choice of performance measures in stock awards are affected by the board characteristics is examined as well.

We extend the dual-class literature by comparing detailed governance characteristics of dual-class firms with those of a matched sample of single-class firms. The findings include that dual-class firms have similar numbers of independent boards and similar percentage of independent members in the whole director board as well as the same board size. In addition, dual-class firms are less likely to have the same individual to serve as the CEO and chairman of the director board. In terms of the influence of board members on the adoption of performance-based stock awards and on the more performance measures, dual-class firms with strong board properties increase the demands for those adoptions, and dual-class firms with weak board properties decrease the demands for those adoptions.

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