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Assessing factors driving price premium between voting and non-voting stock at CSE

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In a dynamic capital market, the speed of information flow is crucial in maintaining an efficient market. Asymmetric information in the capital market creates either the buyer or seller a better (arbitrage) opportunity to make a profit. The party having more information on the past, present or future performance of the shares may know whether the share is underpriced or overpriced relative to its aggregate performance. Therefore, the speed of symmetric information flow of the share prices is a very important feature in the capital market domain. Publicly traded companies sometimes issue different classes of shares. The main benefit of dual class voting structures for shareholders and a company's management is to focus on long-term goals and a company's strategic direction while maintaining the freedom, rather than contending with the threat of a hostile takeover. The key difference between voting shares and non-voting shares in dual class structure is the voting right. When perusing historical data for past few years in companies that trade both voting and non-voting shares in the Colombo Stock Exchange (CSE), it was observed that the voting premium varies from company to company and within the company itself over the time. These reasons lead to an initial empirical examination of the factors affecting the voting premium of voting over nonvoting stocks. The purpose of the research was to explore the factors affecting the voting premium in the CSE and quantify the price gap between voting shares and non-voting shares. After conducting a systematic review of literature, factors affecting voting premium that is described using different models, frames and processes were identified. Consequently, the study identified the set of factors; namely, differences in liquidity (free float), restriction on transferability, share ownership structure and corporate control, percentage of private benefits of control, investor's purpose, management status, sector specific factors, macro-economic factors, firm specific factors and effect of time as possible reasons for the existence of the premium. Expert opinion has been sought to aid verification. It is envisaged to analyze historical data in the CSE including share prices, published financial statements and ratios while integrating previous literature, to verify and introduce a comprehensive model or framework-based solution approach for quantifying price gap between voting shares and non-voting shares in CSE. As an extension, this research expects to introduce an exact mathematical formula for quantifying the voting premium.

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