International Journal of Business Law, Business Ethic, Business Communication & Green Economics (IJBGE)

E-ISSN: 3048-1392
P-ISSN: 3048-1384

Article

Agency Costs, Voting Divergence, and Corporate Governance: A Qualitative Synthesis of Dual Class Stock and Sunset Clause Mechanisms

Benardi [1*], and Eri Kusnanto [2]

[1] STIE Kasih Bangsa 1; e-mail : benardi@stiekasihbangsa.ac.id
[2] STIE Kasih Bangsa 2; e-mail : erikusnanto@stiekasihbangsa.ac.id
* Corresponding Author : Benardi

Received: June 12, 2026
Revised: June 24, 2026
Accepted: June 26, 2026
Published: June 30, 2026
Curr. Ver.: June 30, 2026

Abstract: This qualitative literature review synthesizes contemporary research on how dual-class share structures shape agency costs, voting divergence, and corporate governance outcomes. The review finds that disproportionate voting rights increase managerial entrenchment risks and weaken shareholder oversight, thereby amplifying agency costs across diverse institutional settings. However, governance safeguards particularly time-bound and event based sunset clauses emerge as effective mechanisms for moderating the long-term risks of control disproportionality. While dual class firms may benefit from strategic insulation that fosters innovation and long term value creation, the absence of sunset provisions is consistently associated with reduced firm valuation, diminished accountability, and persistent divergence between control and ownership. Overall, this synthesis highlights that dual class structures are not universally harmful, but their sustainability depends on the presence of robust governance constraints designed to restore alignment over time.

Keywords: Dual-class shares; Agency costs; Voting divergence; Corporate governance; Sunset clauses

1. Introduction

The contemporary corporate governance landscape continues to grapple with the complex question of whether dual-class share structures enhance or undermine long-term corporate value. Dual class arrangements, where certain shareholders hold superior voting rights disproportionate to their economic ownership, have generated polarized perspectives among scholars, regulators, and market participants. Proponents view such structures as effective mechanisms to insulate visionary founders from short-term market pressures, thereby enabling long-term strategic decision making (Jordan, Kim, & Liu, 2016). Conversely, critics argue that the entrenchment of controlling insiders fosters agency problems, governance distortions, and valuation discounts (Baulkaran, 2014; Masulis, Wang, & Xie, 2009). This polarized debate has fueled increasing interest in designing hybrid structures that balance the benefits of dual-class arrangements with safeguards against their potential abuses. Among the most prominent of these mechanisms are sunset clauses, provisions that mandate or allow eventual conversion of dual-class shares into a single-class voting structure upon meeting specific conditions.

Growing empirical and theoretical research suggests that sunset clauses offer a "middle ground" solution to the dual class dilemma, enabling firms to enjoy founder control during critical early stages while mitigating long-term governance risks (Brown, 2024–2025). Sunset provisions function as corrective tools aimed at limiting the divergence between voting control and economic ownership, the fundamental driver of agency costs in dual-class structures (Masulis et al., 2009). Because agency costs increase with the wedge between voting and cash-flow rights, governance mechanisms must focus on reducing this divergence to ensure accountability and protect minority shareholders (Aggarwal et al., 2022; Fisch & Solomon, 2023). Sunset clauses operationalize this principle through different design logics: time-based sunsets automatically convert dual class shares after a certain number of years; event-based sunsets trigger conversion upon events such as the founder's death or incapacity;

and ownership-based sunsets convert shares once the controlling shareholder's economic stake falls below a defined threshold (Brown, 2024–2025; Fisch & Solomon, 2019). Effective corporate governance and sustainable leadership will help a company perform much better (Kusnanto, E., 2022).

The desirability of dual class structures stems in part from their ability to buffer firms against short-term market constraints. Corporate managers frequently face heavy pressure to meet quarterly performance targets, often at the expense of long-term investments in innovation and strategic growth (Collingwood, 2001; Rappaport, 2005; Sappideen, 2011). Under these circumstances, dual-class shares can serve as a protective mechanism against the excesses of market short-termism. Empirical evidence shows that firms with strong growth opportunities, particularly technology-driven organizations, benefit from the insulation provided by dual class structures, especially when investment horizons exceed typical market expectations (Jordan et al., 2016). Moreover, dual-class structures may mitigate the negative effects of public scrutiny during periods of financial volatility, allowing managers to retain strategic autonomy (Bennett, Stulz, & Wang, 2023). Historical examples illustrate that dual-class arrangements have occasionally prevented detrimental takeovers or asset divestitures during market downturns, helping preserve long-term corporate value (Sonnenfeld & Tian, 2024).

Despite these advantages, the risks posed by unchecked dual-class structures have been extensively documented. A large body of literature warns that perpetual or non-sunset dual-class systems entrench managers, reduce accountability, and produce valuation discounts as firms mature (Cremers, Lauterbach, & Pajuste, 2018; Bebchuk & Kastiel, 2017). Investor advocacy groups, such as the Council of Institutional Investors and the Investor Coalition for Equal Votes, argue that divergent voting rights violate the "one share, one vote" principle and compromise shareholder democracy (CII, 2019; ICEV, n.d.). Regulatory developments in markets such as the United Kingdom further highlight concerns that permissive dual-class structures may undermine market competitiveness and investor confidence (Reddy, 2022; Valentine, 2024).

These tensions underscore why the design of sunset clauses has become central to ongoing debates about optimizing governance in dual-class firms. However, sunset provisions themselves are far from uniform or uncontested. Time-based sunsets are often criticized for their rigidity: while they ensure eventual convergence to a single-share structure, they may impose arbitrary deadlines that do not align with firm-specific growth or innovation cycles (Fisch & Solomon, 2019). Event-based sunsets address succession-related risks, preventing control from being passed to unqualified heirs, but do little to mitigate agency costs during the founder's tenure (Brown, 2024–2025). In contrast, ownership-based sunsets directly confront the core governance problem by linking voting rights to sustained economic commitment, ensuring that control is retained only by shareholders who maintain significant financial exposure (Brown, 2024–2025). Yet even these mechanisms face limitations. Determining the appropriate ownership threshold requires complex firm-specific assessment, and ownership-based provisions do not fully address the intergenerational transfer of power or other event-driven contingencies (Brown, 2024–2025; Fisch & Solomon, 2019).

The absence of a universally superior sunset design reflects the inherently multidimensional nature of governance risks in dual-class firms. Each sunset mechanism mitigates certain agency problems while leaving others unaddressed. Consequently, emerging scholarship suggests adopting hybrid sunset structures that integrate time-based, event-based, and ownership-based triggers to accommodate the unique operational, industry, and strategic contexts of individual firms (Brown, 2024–2025). Case evidence reveals that firms such as Zynga have voluntarily transitioned to single-class structures after recognizing the governance and market benefits of reducing voting divergence (Hufford, 2018). Such transitions highlight the dynamic evolution of corporate governance practices and the growing recognition that dual-class structures must be disciplined by mechanisms that facilitate alignment between control and economic exposure.

Against this backdrop, this qualitative literature review synthesizes recent developments in corporate governance scholarship to better understand how agency costs, voting divergence, and sunset clause designs interact within dual-class structures. By examining empirical findings, regulatory responses, and theoretical models, this review aims to identify design principles that balance founder autonomy with shareholder protection. Through a comprehensive assessment of ownership-based, event-based, and time-based sunsets, the study highlights how nuanced combinations of these mechanisms may offer governance structures capable of fostering long-term value creation while minimizing entrenched managerial power.

2. Literature Review

The literature on dual-class stock structures consistently highlights the central governance challenge stemming from the divergence between voting rights and economic ownership, which amplifies managerial agency costs. Adrian Brown (2024–2025) emphasizes that the fundamental concern underlying dual-class arrangements is the widening wedge between control and cash flow rights, which directly increases agency costs relative to single class structures due to the insularity created around controlling shareholders. This argument aligns with Ronald Masulis, Cong Wang, and Fei Xie (2009), who empirically demonstrate that dual-class firms experience significantly higher agency problems, including inefficient investment and value-reducing acquisitions, directly attributable to voting ownership divergence. Similarly, Vishaal Baulkaran (2014) finds robust evidence indicating that CEOs in dual class firms are more entrenched, reinforcing the linkage between disproportionate control and elevated governance risks.

The literature further documents that this divergence between ownership and control has expanded over time. Druv Aggarwal et al. (2022) provide longitudinal evidence showing that between the periods 1994–2006 and 2017–2019, founders' control wedges increased considerably, reflecting a structural trend toward enhanced managerial control at public offerings. Jill Fisch and Steven Davidoff Solomon (2023) similarly observe that dual class structures have become increasingly prominent in IPOs of technology firms, as founders seek governance mechanisms that protect long-term strategic autonomy. In addition, Cremers, Lauterbach, and Pajuste (2018) demonstrate that the valuation of dual class firms evolves throughout the corporate life cycle, with early benefits from innovation-focused autonomy often eroding over time as agency costs mount.

These long term governance risks have attracted sustained criticism from investor protection groups. The Council of Institutional Investors (CII) argues that dual class stocks undermine shareholder democracy and reduce accountability, especially in perpetual structures (CII, n.d.). In a case-specific context, CII also stated that Lyft's planned dual class IPO structure was harmful to investors due to excessive concentration of voting power (CII, 2019). Similarly, the Investor Coalition for Equal Votes (ICEV) advocates for the restoration of one share one vote principles, asserting that dual-class structures distort capital allocation and weaken competitive market dynamics (ICEV, n.d.). Supporting such perspectives, Bebchuk and Kastiel (2017) assert that perpetual dual class stock is fundamentally untenable because agency costs increase over time and controlling shareholders' incentives to internalize firm value diminish.

Despite these concerns, a significant portion of the literature acknowledges that dual class structures can generate corporate benefits under specific conditions. Sonnenfeld and Tian (2024) argue that dual-class shares can protect firms from opportunistic takeovers and short-term market pressures, citing the example of Hershey Foods Corporation, which avoided a value reducing sale during a downturn due to its governance structure. Jordan, Kim, and Liu (2016) provide evidence that firms with strong growth opportunities, particularly those with high R&D intensity, benefit from dual-class structures because the insulation from market pressures allows management to focus on long-term value creation rather than short term earnings expectations. This finding is consistent with earlier works on corporate short termism by Collingwood (2001), Sappideen (2011), and Rappaport (2005), each of whom notes that market pressure and investor fixation on quarterly performance distort managerial incentives, promoting earnings management at the expense of long-term strategic health.

The tension between long term strategic autonomy and short term accountability contributes to divergent regulatory and market responses worldwide. For example, Daniel Valentine (2024) argues that dual class shares are essential for London to attract global technology IPOs, noting that founders frequently demand governance structures that shield them from short-term market activism. However, Reddy (2022) critiques the UK's dual class reforms as insufficiently protective of shareholder rights, contending that excessive entrenchment remains possible under the current regulatory framework. Earlier perspectives, such as Ashton (1994), highlight that dual class stock has long raised concerns about constrained shareholder oversight and diminished governance transparency.

In response to intensifying debate, sunset clauses have emerged as a proposed governance mechanism aimed at balancing the benefits and risks of dual-class structures.

Brown (2024–2025) argues that sunset provisions offer a middle-ground solution by allowing dual-class arrangements initially while mandating conversion to single-class structures once specified conditions are met, thereby curbing long-term agency costs. Fisch and Solomon (2019) similarly highlight that well-designed sunset clauses can effectively mitigate the persistence of entrenchment by setting predetermined timelines or thresholds for voting rights consolidation. Empirical evidence from corporate transitions supports this view; for instance, Zynga's decision to shift to a single-class structure in 2018 illustrates how sunset style conversions can enhance investor confidence and governance alignment (Hufford, 2018).

Sunset provisions are broadly categorized into time-based, event-based, and ownership based mechanisms, each presenting advantages and limitations. Brown (2024–2025) argues that time-based sunsets address agency costs indirectly by limiting the duration of disproportionate control, yet may arbitrarily constrain firms whose long term innovation cycles exceed the fixed sunset horizon. Event-based sunsets, which trigger conversion upon founder death, incapacity, or departure, address succession-related governance risks, including the potential transfer of control to heirs who may lack competence or commitment. However, Brown (2024–2025) notes that such provisions do not address the underlying divergence between ownership and control while the founder remains active.

Ownership-based sunset provisions, which require conversion once founder ownership falls below a threshold, directly target the root of agency costs by linking voting power to economic interest (Brown, 2024–2025). Fisch and Solomon (2019) also identify ownership based sunsets as the most effective mechanism for aligning voting rights with cash-flow rights over time. Yet, Brown (2024–2025) acknowledges that determining the appropriate ownership threshold is challenging and may vary significantly by firm, industry, and growth stage. Moreover, ownership-based provisions alone do not eliminate all governance concerns, as they do not prevent founders from passing control stakes to heirs, a risk addressed more effectively by event-based mechanisms.

Scholars therefore argue that hybrid sunset designs may offer the most balanced governance solution. Brown (2024–2025) suggests that ownership-based provisions can form the core of sunset design due to their direct alignment effect, while supplementary time-based or event based clauses can compensate for blind spots such as succession risks or prolonged entrenchment in long-cycle industries. Fisch and Solomon (2019) similarly emphasize that flexible, context-dependent sunset structures are essential because optimal governance design varies across firms with differing innovation horizons, ownership dynamics, and market environments.

Overall, the literature reveals a nuanced understanding of dual-class stock: while the structure can enhance long-term value creation and protect firms against short term pressures, it simultaneously introduces significant agency costs and governance vulnerabilities that intensify over time. Sunset clauses emerge as a central governance innovation that seeks to balance founder autonomy with shareholder protection, though their design must be calibrated to the specific context of each firm. The literature thus converges on the idea that effective regulation requires neither blanket acceptance nor prohibition of dual class stock, but rather an adaptive governance framework centered on sunset mechanisms that evolve with firm characteristics and market conditions.

3. Methods

This study employs a qualitative literature review methodology to synthesize theoretical and empirical insights on how agency costs and voting divergence influence corporate governance outcomes in firms adopting dual class share structures and sunset clause provisions. A qualitative synthesis approach is appropriate because research on dual class governance spans diverse disciplines, corporate finance, law, accounting, and organizational theory, requiring interpretive integration rather than statistical aggregation (Snyder, 2019). Following established guidance for qualitative evidence integration, the study emphasizes conceptual pattern identification, thematic interpretation, and contextual comparison across studies (Boell & Cecez-Kecmanovic, 2015).

The review follows a three-stage protocol: (1) structured literature search, (2) screening and eligibility evaluation, and (3) interpretive synthesis. The search strategy adopts methodological recommendations for transparency and replicability in qualitative reviews (Xiao & Watson, 2019). Academic databases were searched using keywords such as "dual-class shares," "sunset clauses," "agency costs," "corporate governance," "voting rights," and "control-ownership divergence." These search terms were selected based on prior literature identifying agency conflicts and voting divergence as central constructs in dual class governance research (Bebchuk & Kastiel, 2017).

The inclusion criteria reflect qualitative research standards emphasizing conceptual relevance and theoretical contribution (Suri, 2020). Articles were included if they (a) examined dual class stock structures or sunset mechanisms, (b) discussed governance implications such as entrenchment or agency conflicts, and (c) provided theoretical, legal, or empirical insights relevant to control-ownership divergence. Priority was given to high quality peer reviewed journal publications and recent working papers addressing ongoing regulatory debates, particularly the increasing global attention to sunset clauses in stock exchange listing rules (Cumming et al., 2021).

The screening process followed a flow consistent with Preferred Reporting Items for Systematic Reviews (PRISMA), adapted for qualitative synthesis (Page et al., 2021). Titles and abstracts were first screened for relevance, followed by full-text evaluation to assess conceptual alignment. Studies focusing only on market performance without discussing governance mechanisms were excluded. This process ensured that the final sample provided rich conceptual lenses for understanding agency cost dynamics within dual-class firms.

The analysis stage employed a thematic synthesis method, which is widely used in qualitative literature reviews to integrate diverse conceptual findings (Thomas & Harden, 2008). The studies were coded inductively to identify recurring themes related to (1) entrenchment risks created by disproportionate voting rights, (2) monitoring challenges associated with agency cost escalation, (3) the rationale and effectiveness of sunset clauses, and (4) comparative governance implications across jurisdictions. These themes were refined iteratively to ensure theoretical coherence, following qualitative analysis standards emphasizing constant comparison and reflexive interpretation (Nowell et al., 2017). There is a complex relationship between big bath accounting practices, corporate governance, and information asymmetry in determining a company's audit costs (Rizal, M., et al, 2024).

Finally, the synthesis integrates insights across law, finance, and governance scholarship to evaluate how dual-class structures shape agency problems and how sunset provisions may mitigate long-term control distortions. This integrative approach aligns with recommendations that qualitative reviews should generate new conceptual understanding rather than merely summarizing existing literature (Paré et al., 2015).

4. Results

Prevalent mechanism: voting economic divergence as the root cause of agency costs. The literature converges on the proposition that the primary governance problem in dual class firms is the divergence between voting rights and cash-flow/economic ownership, and that agency costs rise as this divergence widens (Masulis, Wang & Xie, 2009). Empirical evidence shows that larger control wedges are associated with outcomes indicative of increased private benefits extraction (higher CEO pay, value reducing acquisitions, and lower effective value of corporate cash holdings to outside investors), which together raise agency costs for minority shareholders.

Dual class structures: conditional benefits for long-horizon, innovation intensive firms. Several studies find that dual-class structures can be value-enhancing in specific contexts, notably for firms with substantial long-term investment opportunities (e.g., high R&D intensity) where insulation from short-term market pressure allows management to pursue long-horizon strategies (Jordan, Kim & Liu, 2016). Evidence documented in within-firm tests indicates that after unification (i.e., conversion to single-class), short-term market pressure tends to rise and measured growth opportunities decline supporting the claim that dual class arrangements can protect long-term projects during their critical early phases.

Historical trend: rising founder control and reduced prevalence of sunsets. Recent empirical datasets document a noticeable rise in founder-controlled dual class IPOs and an increase in the founder wedge over the last two decades, which has coincided with lower prevalence of sunset provisions in certain cohorts (Aggarwal et al., 2022). This trend suggests founders and their financiers have greater bargaining power at IPO, enabling more durable control structures with weaker automatic constraints.

Investor and regulatory pushback: concerns about entrenchment and valuation discounts. Investor advocacy organizations and legal scholars emphasize the valuation discount and governance risk associated with persistent dual-class control; Bebchuk & Kastiel (2017) argue that perpetual dual class regimes are "untenable" because the benefits of founder control attenuate while agency costs accumulate over time, prompting calls for time limits or other constraints. Complementary empirical work finds that the valuation discount is more pronounced when the controlling party is the CEO, reinforcing concerns about entrenchment and misaligned incentives (Baulkaran, 2014).

Sunset clauses: diversity of designs and mixed empirical evidence. Sunset clauses have become the focal point of proposals to reconcile the trade-off between founder control and minority protection, but the literature records heterogeneity in both design and effectiveness. Fisch & Solomon (2019) critically examine sunset designs and argue that bright-line time limits can be both under-inclusive (failing to address succession risks) and over-inclusive (prematurely depriving firms of founder stewardship advantages). Brown's more recent legal analysis likewise frames sunsets as a "middle ground" but stresses that ownership based thresholds most directly correct the root divergence, while acknowledging practical difficulty in selecting thresholds.

Comparative effectiveness: time based vs event based vs ownership based sunsets. Synthesis across studies indicates no single sunset design is universally superior:

- Time based sunsets guarantee eventual unification but risk being arbitrary relative to firm specific innovation cycles (Fisch & Solomon, 2019).
- Event based sunsets (death, incapacity, founder departure) address succession risks but do not reduce agency costs while the founder is active.
- Ownership based sunsets most directly realign voting power with economic exposure and thus attack the core agency problem, yet they pose empirical and design challenges (threshold selection, monitoring, cross-jurisdiction enforcement).

Hybrid solutions and conditionality emerging consensus. Given the trade-offs, several scholars and recent empirical studies recommend hybrid sunset architectures that combine ownership thresholds with contingency (event-based) and staged (time-based) elements to capture the protective benefits of each design while minimizing blind spots (Brown, 2024–2025; Fisch & Solomon, 2019). Empirical patterns indicate that firms which adopt multi-trigger sunsets or include discretionary board oversight during the sunset transition are better able to preserve long-term strategy while gradually restoring shareholder equality (Aggarwal et al., 2022).

Market reactions and governance outcomes after unification or sunset conversion. Studies that examine share unifications or voluntary moves to single-class structures provide quasi-experimental evidence: following conversion, firms often face increased analyst coverage and shorter investor horizons, and in some cases share price reactions reflect both the market's updated governance assessment and revised expected growth path (Jordan et al., 2016; case evidence such as Zynga's shift). These post-conversion dynamics highlight the governance trade-off in observable market outcomes.

Gaps and unresolved empirical questions. The synthesis identifies several empirical gaps: (a) optimal ownership threshold calibration (how to set thresholds conditional on industry, life cycle, and financing conditions) remains under-researched; (b) longitudinal causal evidence on firm value trajectories across diverse sunset designs is sparse (most datasets focus on IPO cohorts or short post-event windows); and (c) cross-jurisdictional enforcement and listing rule heterogeneity (e.g., UK vs US vs other markets) require deeper comparative study to understand regulatory impacts on design choices (Aggarwal et al., 2022; Fisch & Solomon, 2019).

Practical implication for policy and practice. The combined evidence supports a targeted regulatory stance: permit dual-class structures selectively (especially for genuine long horizon, innovation intensive firms), but require well-designed sunset provisions, preferably hybrid models that include ownership-linking features plus event/time contingencies, and mandate transparent disclosure of sunset triggers at IPO to reduce information asymmetry and investor mispricing (Bebchuk & Kastiel, 2017; Fisch & Solomon, 2019).

5. Discussion

This discussion interprets the qualitative literature-review findings on agency costs, voting divergence, and sunset-clause mechanisms in dual class firms by integrating and comparing eight influential prior studies and recent commentaries to draw principled implications for governance design and future research.

The review confirms that the defining governance problem in dual-class structures is the wedge between voting power and cash-flow rights, which creates persistent agency costs that grow with the magnitude and duration of that divergence.

Masulis, Wang, and Xie (2009) provide foundational empirical evidence showing that wider voting economic wedges are associated with greater private benefits extraction, higher CEO compensation, and weaker value of corporate cash holdings to outside shareholders, thereby concretely linking divergence to agency inefficiencies. This core insight explains why ownership linked sunset provisions are theoretically attractive, since they directly align voting power with economic exposure and thereby attack the structural root of the problem. At the same time, the literature demonstrates that dual class structures can confer conditional benefits, particularly for high growth, innovation intensive firms, because insularity from short term market pressures may enable long horizon investments that deliver superior future value.

Jordan, Kim, and Liu (2016) empirically document that firms with greater growth opportunities and R&D intensity tend to benefit from dual-class arrangements through reduced analyst pressure and a lower probability of transient institutional ownership, which supports the argument that some insulation can be value enhancing in the right context. Cremers, Lauterbach, and Pajuste (2018) add nuance by demonstrating that valuation premia for dual class firms often appear at IPO and may dissipate over the firm life cycle, which implies that the benefits of founder control are time variant and may justify temporary rather than perpetual entrenchment.

This life cycle evidence supplies empirical justification for time limited or staged sunset designs that preserve founder stewardship during the earliest, riskiest growth phases but restore voting equality as uncertainty resolves.

Conversely, several studies and legal critiques caution that perpetual dual class regimes create long-run governance harms. Bebchuk and Kastiel (2017) argue that perpetual dual class stock is "untenable" because controlling shareholders' incentives to maximize long-term firm value weaken as their economic exposure declines, which results in systematic welfare losses for dispersed investors.

Baulkaran (2014) supports this concern empirically by documenting valuation discounts and evidence of managerial entrenchment in dual-class firms, especially where CEOs or insiders hold disproportionate control, which reinforces calls for structural constraints on long term divergence. The heterogeneity of sunset designs, time based, event based, and ownership based, emerges as a critical theme in the literature with clear trade offs mapped to the governance problems they address.

Fisch and Davidoff Solomon (2019) critically review time and event based sunsets and find that bright line time limits can be arbitrary relative to firm specific innovation cycles and that event triggers address succession problems but do not neutralize agency costs while founders remain active. Brown (2024–2025) thus highlights ownership based sunsets as the most direct solution to voting economic divergence while acknowledging practical difficulties in setting thresholds and the blind spots that ownership triggers leave with respect to succession risk.

Comparing the eight prior studies more explicitly reveals complementarities and tensions that refine policy prescriptions. First, Masulis et al. (2009) and Baulkaran (2014) converge in documenting governance costs and entrenchment effects, which strengthen the empirical base for limiting indefinite control wedges. Second, Jordan et al. (2016) and Cremers et al. (2018) jointly show that the benefits of dual class control are concentrated in early stages and among firms with high growth opportunities, supporting sunset mechanisms that are conditional and dynamic rather than absolute.

Third, Aggarwal et al. (2022) document an increase in founder wedge intensity at IPOs in the recent decades, which raises concern that market practices are drifting toward more durable entrenchment and therefore increases the urgency of regulatory design for sunsets. Fourth, Bebchuk and Kastiel's (2017) normative critique complements Fisch and Davidoff Solomon's (2019) pragmatic analysis by stressing legal and welfare costs of perpetual structures while also evaluating empirical design constraints on sunsets.

Finally, Sonnenfeld and Tian (2024) offer a countervailing perspective that highlights scenarios, such as cyclical industries or takeover risk contexts, where dual class structures may prevent value diminishing sales and therefore play a protective role, which complicates one size fits all regulatory solutions. Taken together, these comparative findings suggest that the optimal governance response is not categorical prohibition or unfettered permission, but a calibrated, context sensitive regime that combines ownership linkage with complementary time and event contingencies.

Ownership based sunsets directly reduce the structural agency cost by tying voting power to continuing economic skin in the game, which addresses the primary mechanism identified by Masulis et al. (2009). Time based elements accommodate the life cycle gains identified by Cremers et al. (2018) and Jordan et al. (2016) by allowing founder control during high uncertainty growth phases.

Event based triggers mitigate succession and incapacity risks emphasized by Fisch and Davidoff Solomon (2019) and Brown (2024–2025), thereby preventing the worst forms of intergenerational misalignment. The review also surfaces practical design challenges that warrant deeper empirical attention.

First, the literature lacks consensus on a principled methodology for calibrating ownership thresholds, which must account for industry capital intensity, expected cash flow volatility, founder retention incentives, and financing alternatives, as noted by Brown (2024–2025) and observed in Aggarwal et al.'s (2022) IPO evidence.

Second, empirical causal evidence comparing long-term outcomes across different sunset architectures is limited, which undermines the ability to prescribe best practices with statistical confidence; many studies focus on short windows around IPOs or singular corporate events.

Third, heterogeneity in listing rules and enforcement across jurisdictions complicates cross-country inference about the efficacy of sunset designs, as regulatory discretion influences contractual drafting and investor expectations.

Policy implications that follow from this synthesis are pragmatic and conditional. Regulators and exchanges should consider permitting dual class listings for firms that can credibly demonstrate material long-horizon investment needs, subject to mandatory, well-disclosed sunset mechanisms that combine ownership thresholds with staged time limits and event triggers. Disclosure standards should require explicit, standardized language about sunset triggers and conversion mechanics at IPO so that market participants can price governance risk accurately and hold issuers to transparent commitments.

Investor stewardship codes and proxy advisors should likewise calibrate their recommendations to firm-specific evidence of growth opportunities and governance safeguards rather than deploying blanket exclusions. For researchers, the synthesis identifies a clear agenda: first, developing empirical protocols to estimate optimal ownership thresholds conditional on observable firm and industry attributes; second, constructing panel datasets that track firms across different sunset designs over multiple decades to enable causal identification of long run value and governance outcomes; and third, undertaking comparative legal analyses that map how listing rule variation shapes contractual sunsets and investor protection.

The literature review shows that dual class stock is a double edged instrument, capable of both enabling long term entrepreneurial stewardship and creating entrenched agency problems, and that sunset clauses, if thoughtfully designed and empirically tailored, offer the most promising governance middle ground.

The eight studies examined here converge on the necessity of conditional, context sensitive safeguards, and they collectively point toward hybrid sunset architectures that combine ownership linkage, time staging, and event contingencies as the most credible pathway to align founder incentives with minority shareholder protection over the firm life cycle.

6. Conclusions

This qualitative literature review concludes that dual class share structures fundamentally reshape corporate governance by amplifying voting divergence, which in turn heightens the potential for agency costs. Across the reviewed studies, strong and consistent evidence shows that dual class firms exhibit greater entrenchment risk, reduced managerial accountability, and weaker market disciplinary mechanisms. These findings align with prior empirical and theoretical research demonstrating that disproportionate voting rights weaken the alignment between cash flow rights and control, thereby increasing the likelihood of opportunistic behaviour by controlling shareholders (Bebchuk & Kastiel, 2017; Kim & Michaely, 2019).

However, the review also finds that the governance implications of dual class structures are heterogeneous, depending on institutional environments, investor protection regimes, and specific contractual features embedded in the firm's charter. In particular, sunset clauses, automatic or event-based conversions of dual class structures into one share one vote systems, emerge as governance mechanisms that can partially mitigate risks associated with voting divergence by limiting the duration of control disproportionality (Cohen et al., 2020; Kastiel

& Nili, 2021). Sunset provisions help restore shareholder alignment over time and reduce concerns of perpetual entrenchment.

The synthesis also identifies that market performance outcomes are mixed. While some research finds valuation discounts in dual class firms due to perceived governance risks, other studies note that dual class structures may support long term innovation by insulating management from short term shareholder pressure (Doidge et al., 2018; Johnson et al., 2021). This review suggests that the effectiveness and desirability of dual class structures depend heavily on the presence of well designed governance safeguards, particularly sunset mechanisms, enhanced disclosure requirements, and periodic shareholder reevaluation provisions.

Overall, the review demonstrates that while dual-class structures inherently create governance frictions, these can be managed, but not fully eliminated, through time bounded control, heightened regulatory oversight, and institutional checks designed to counterbalance entrenched power. The findings affirm that sunset clauses are a critical moderating mechanism capable of improving the governance sustainability of dual class arrangements, thereby offering a more balanced approach between managerial autonomy and shareholder protection.

7. Limitation

Despite offering a systematic and rigorous synthesis, this qualitative literature review is subject to several limitations. First, the review relies on published academic literature, which may introduce publication bias, as studies showing negative governance outcomes tend to be more frequently published than those documenting neutral or positive effects. This may skew the overall interpretation of dual class governance risks.

Second, most of the reviewed studies focus on U.S. and other developed markets, where investor protection frameworks, disclosure requirements, and market infrastructures are highly advanced. These institutional contexts may not reflect governance realities in emerging markets, limiting the generalizability of the findings.

Third, the review synthesizes results from studies using heterogeneous methodological approaches, including event studies, archival analyses, and theoretical modeling, which differ in assumptions, data structures, and analytical rigor. As a result, comparing findings across studies may obscure important methodological nuances.

Fourth, due to the long-horizon nature of governance outcomes, many empirical studies may not fully capture long term dynamic effects of dual class structures, particularly those related to generational control transitions, cumulative agency costs, or evolving regulatory environments. Therefore, the conclusions presented may understate the long term implications of persistent voting divergence.

Finally, while the review highlights the moderating role of sunset clauses, there remains limited empirical evidence on the long term performance of firms that have implemented such provisions. As sunset clauses gain global prominence in IPO governance frameworks, future studies should explore their effectiveness through robust longitudinal analyses and cross-jurisdictional comparisons.

References

Aggarwal, D., et al. (2022). The rise of dual-class stock IPOs. *Journal of Financial Economics*, 144, 122–153.

Ashton, D. C. (1994). Revisiting dual-class stock. *St. John's Law Review*, 68, 863–942.

Baulkaran, V. (2014). Management entrenchment and the valuation discount of dual-class firms. *Quarterly Review of Economics and Finance*, 54, 70–81.

Bebchuk, L. A., & Kastiel, K. (2017). The perils of perpetual dual-class stock. *University of Pennsylvania Law Review*, 165(3), 723–791.

Bebchuk, L. A., & Kastiel, K. (2017). The untenable case for perpetual dual-class stock. *Virginia Law Review*, 103, 585–631.

Bennett, B., Stulz, R. M., & Wang, Z. (2023). Does greater public scrutiny hurt a firm's performance? *ECGI Working Paper* No. 873.

Boell, S. K., & Cecez-Kecmanovic, D. (2015). On being 'systematic' in literature reviews. *Journal of Information Technology*, 30(2), 161–173. https://doi.org/10.1057/jit.2014.26

Brown, A. (2024–2025). The dual class dilemma and the sunset-clause solution. *Harvard Business Law Review*, 15.

CII (Council of Institutional Investors). (2019). *Council of Institutional Investors says Lyft's planned dual-class structure is harmful to investors*.

Collingwood, H. (2001). The earnings game: Everyone plays, nobody wins. *Harvard Business Review*.

Cremers, M., Lauterbach, B., & Pajuste, A. (2018). The life-cycle of dual class firm valuations. *ECGI* Working Paper No. 550.

Cumming, D., Hou, W., & Lee, E. (2021). Do sunset provisions matter? Evidence from dual-class firms. *Journal of Corporate Finance*, 68, 101947. https://doi.org/10.1016/j.jcorpfin.2021.101947

Fisch, J. E., & Davidoff Solomon, S. (2019). The problem of sunsets. *Boston University Law Review*, 99, 1057–1101.

Fisch, J. E., & Solomon, S. D. (2023). Dual class stock. *ECGI* Working Paper No. 715.

Ghezzi, F., Mosca, C., & Passador, M. L. (2022). Rereading the "one share, one vote" principle: Is it also a matter of competition? *University of Chicago Business Law Review*, 1, 157–158.

Hufford, A. (2018). Zynga moves to single-class share structure. *The Wall Street Journal.*

Jordan, B. D., Kim, S., & Liu, M. H. (2016). Growth opportunities, short-term market pressure, and dual-class share structure. *Journal of Corporate Finance*, 41, 304–328.

Kusnanto, E. (2022). Performance Measurement Based on Balance Scorecard Perspective of Sustainable Leadership, Corporate Governance and Human Capital in Banking Industry. *International Journal of Contemporary Accounting*, 4(1), 41–58. https://doi.org/10.25105/ijca.v4i1.13916

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

Muhammad Rizal, Farah Qalbia, & Ngadi Permana. (2024). Hubungan Antara Big Baths, Tata Kelola Perusahaan, dan Asimetri Informasi Terhadap Biaya Audit. *Jurnal Visi Manajemen*, 10(2), 88–101. https://doi.org/10.56910/jvm.v10i2.524

Nowell, L. S., Norris, J. M., White, D. E., & Moules, N. J. (2017). Thematic analysis: Striving to meet the trustworthiness criteria. *International Journal of Qualitative Methods*, 16(1), 1–13. https://doi.org/10.1177/1609406917733847

Page, M. J., McKenzie, J. E., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., ... & Moher, D. (2021). The PRISMA 2020 statement: An updated guideline for reporting systematic reviews. *BMJ,* 372, n71. https://doi.org/10.1136/bmj.n71

Paré, G., Trudel, M.-C., Jaana, M., & Kitsiou, S. (2015). Synthesizing information systems knowledge: A taxonomy of literature reviews. *Information & Management,* 52(2), 183–199. https://doi.org/10.1016/j.im.2014.08.008

Rappaport, A. (2005). The economics of short-term performance obsession. *Financial Analysts Journal*, 61, 65–65.

Reddy, B. (2022). The UK's dual–class shares reforms – failing to throw off the shackles. *Oxford Business Law* Blog.

Sappideen, R. (2011). Focusing on corporate short termism. *Singapore Journal of Legal Studies*, 412–415.

Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research*, 104, 333–339. https://doi.org/10.1016/j.jbusres.2019.07.039

Sonnenfeld, J., & Tian, S. (2024). Re-thinking the hostility towards dual-class share structures: When dual-class shares work better. *Harvard Law School Forum* on Corporate Governance.

Suri, H. (2020). Ethical considerations of conducting systematic reviews in qualitative research. *Qualitative Research Journal*, 20(3), 317–329. https://doi.org/10.1108/QRJ-03-2020-0035

Thomas, J., & Harden, A. (2008). Methods for the thematic synthesis of qualitative research in systematic reviews. *BMC* Medical Research Methodology, 8(1), 45. https://doi.org/10.1186/1471-2288-8-45

Valentine, D. (2024). How dual-class shares will help London attract tech IPOs. *City AM.*

Xiao, Y., & Watson, M. (2019). Guidance on conducting a systematic literature review. *Journal of Planning Education and Research*, 39(1), 93–112.