Shareholding Control, Shareholding Concentration and Value of the Brazilian Firm

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1 INTRODUCTION

Ownership structure of Brazilian firm is characterized by the presence of majority control, high shareholding concentration, non-voting share issuance, and pyramidal control structures (Aldrighi & Mazzer Neto, 2007; Okimura, Silveira & Rocha, 2007). However, there has been a trend towards a reduction in the concentration of voting rights and excess voting rights in recent years (Peixoto & Buccini, 2013). Studies conducted in recent times have shown a growth in the number of firms with shared control and no controlling shareholder (Crisóstomo & Brandão, 2019; Peixoto & Buccini, 2013), which may have consequences for the type and magnitude of agency conflicts.

In firms with dispersed control, there is no controlling shareholder and the predominant agency conflicts are under the principal-agent agency model, that is, between managers and dispersed shareholders (Jensen & Meckling, 1976). Higher ownership concentration in these firms may favor the firm, given that it contributes to the reduction of agency costs by easing the alignment of interests between shareholders and managers (Morck, Shleifer & Vishny, 1988; Shleifer & Vishny, 1986).

The presence of defined shareholding control mitigates agency conflicts of the principal-agent type, but favors another type of agency model, resulting from the relationship between controlling and minority shareholders, the so called principal-principal agency model (Claessens & Yurtoglu, 2013; Young, Peng, Ahlstrom, Bruton & Jiang, 2008). In this context, it is relevant to analyze ownership concentration as well as issues related to voting rights and excess voting rights of controlling shareholders, issues that are associated with the risk of the expropriation of minority shareholders' wealth (Cueto, 2013). There are studies indicating that in firms with shared control between two or more shareholders, through a shareholders' agreement, there are fewer agency conflicts than when there is a single majority controlling shareholder (Baglioni, 2011; Pagano & Roell, 1998), contributing to an increase in firm value (Carvalhal, 2012; Silva, Lana & Marcon, 2018).

This study aims to verify whether the type of shareholding control (dispersed, shared or majority) affects agency conflicts in the Brazilian market. We analyze the relationship between the type of shareholding control and firm value and the relationship between attributes of shareholding concentration and firm value. The paper deepens the analysis of the ownership structure as relevant in the Brazilian market by assimilating the type of shareholding control as able of to affect firm value and to condition the effect of ownership concentration on firm value.

The analysis indicates two main results. First, the relationship between shareholding control and firm value indicates that agency conflicts tend to be greater in firms with majority control and that shared control can function as a corporate governance mechanism, reducing agency conflicts between controlling and minority shareholders. Second, the relationship between shareholding concentration and firm value depends on the type of shareholding control. When there is defined control (shared or majority), shareholding concentration favors the alignment of interests between controlling and minority shareholders, while high excess voting rights contribute to the entrenchment of controlling blockholders. On the other hand, when there is no defined control (dispersed), voting rights concentration facilitates the entrenchment of large non-controlling shareholders.

This paper contributes to the literature on ownership structure, especially in countries where the principal-principal type agency conflicts are prevalent. We propose classifying firm shareholding control in three categories: dispersed, shared, and majority. The type of shareholding control is relevant to firm value and to the relationship between shareholding concentration and firm value, indicating that the type of shareholding control influences the nature and the magnitude of agency conflicts. In practice, the results suggest that, within the same institutional environment, agency conflicts may be different among firms, depending on the type of shareholding control. In this respect,

the type of shareholding control should be considered in the proposition of corporate governance practices, according to the nature and magnitude of agency conflicts prevailing in each firm.

2 THEORETICAL BACKGROUND

2.1 Shareholding control and agency conflicts

Firm ownership structure can be understood as the form of distribution of ownership rights among shareholders, who may act as managers, or behave as external shareholders who have no direct role in firm management (Jensen & Meckling, 1976). Although Berle & Means, 1932 observed that the separation between ownership and management in large corporations generated conflicts of interest between managers and shareholders, only more recently, a theory for the firm was developed focusing on the conflicts of interests between managers and shareholders (agency conflicts) and the costs arising from this relationship (agency costs) (Jensen & Meckling, 1976).

Ownership structure configuration may interfere in agency conflicts (Claessens & Yurtoglu, 2013). Initial empirical research about ownership structure analyzed agency problems from the perspective of firms with dispersed capital, i.e., firms without a shareholder holding enough voting rights to grant him corporate control. In these firms, shareholding control is dispersed and the main agency conflicts are between shareholders and managers, configuring the so called principal-agent agency theoretical model (Jensen & Meckling, 1976). Dispersed ownership is associated with shareholders with less power and incentive to maintain direct management monitoring, as they own a smaller proportion of cash flow and voting rights, which increases manager's power over management decisions (Bebchuk & Hamdani, 2009; Desender, Aguilera, Crespi & García-Cestona, 2013). This lower monitoring can facilitate managers opportunistic behavior (Morck et al., 1988).

In countries where there is a lack of adequate protection for shareholders' rights, firms tend to present controlling blocks, which exercise control through pyramidal ownership structures, cross-ownership and issuance of non-voting shares (La Porta, Lopez-De-Silanes & Shleifer, 1999). When there is a defined shareholding control, the main agency problem arises from conflicts between controlling and minority shareholders - conflicts of the principal-principal type (Young et al., 2008). Shareholding control can be achieved by a single shareholder (majority control) or through an agreement between two or more shareholders (shared control).

A firm with majority control is controlled by an entity, be it, for example, a family/individual, a business/financial group, or a government entity, which holds, directly or indirectly, the largest portion of the voting shares. Majority control is viewed in the literature as being able to mitigate agency conflicts under the principal-agent agency model, given the greater power and incentive for direct monitoring of the controlling shareholder over firm management (Shleifer & Vishny, 1997). However, there is a great possibility that the controlling shareholder will make use of his corporate position to extract private benefits of control in detriment of minority shareholders (Connelly, Hoskisson, Tihanyi & Certo, 2010; Renders & Gaeremynck, 2012), and minority shareholders face considerable difficulties when it comes to challenging the power of the controlling shareholder (Bebchuk & Hamdani, 2009).

In firms with shared control, two or more investors who do not have family ties or belong to the same economic group may share firm control by signing a formal contract (shareholders' agreement) which regulates, among other aspects, the right to vote at meetings (Carvalhal, 2012; Crisóstomo & Brandão, 2019). Shared control can be both harmful and beneficial to the firm (Carvalhal, 2012; Silva et al., 2018). On the one hand, a shareholders' agreement can be used to facilitate the enjoyment of private benefits of control for a small group of shareholders (Bianchi, Bianco & Enriques, 2001; Gelman, Castro & Seidler, 2015; López-Iturriaga & Santana-Martín, 2015). On the other hand, a shareholders' agreement can mitigate conflicts of interest between large shareholders and strengthen management monitoring, contributing to the protection of minority shareholders (Baglioni, 2011; Pagano & Roell, 1998).

2.2 Shareholding control and firm value

The literature has found that differences in the type of shareholding control may affect the value of Brazilian firms (Carvalhal, 2012). Although the Brazilian capital market is composed predominantly of firms with majority control, recent research has shown a reduction in the degree of shareholding concentration, with an increasing number of firms with dispersed or shared control (Crisóstomo & Brandão, 2019; Peixoto & Buccini, 2013). In Brazil, there is evidence that firms with dispersed control have higher valuation than firms whose controller is a family, a government entity, a foreign investor or an institutional investor (Silva, 2004). In this context, there are also results that signal a positive effect of institutional and foreign shareholders as controlling shareholders on firm value (Peixoto & Buccini, 2013). Regarding shared control, the research points to a positive relationship between this form of control and the value of the Brazilian firm, when compared with other types of shareholding control (Carvalhal, 2012; Silva et al., 2018). In summary, the argument is that the excess control may cause problems related to private benefits of control and that more dispersed control may attenuate such problems. Thus, the type of shareholding control may exacerbate or mitigate agency conflicts, and this situation motivates the proposition of the first research hypothesis, which suggests that the type of shareholding control matters in terms of Brazilian firm valuation.

Hypothesis 1: The type of shareholding control affects firm value

The existence of a majority shareholder is seen as being able to reduce agency conflicts, given that it facilitates the alignment of shareholders' and managers' interests. At the same time, very high voting power concentration by one majority shareholder increases the possibility of extracting private benefits of control in detriment of minority shareholders (Caixe & Krauter, 2013; Dyck & Zingales, 2004). Agency conflicts between controlling and minority shareholders characterize the principal-principal agency model and are intensified in firms with one majority shareholder (Bebchuk & Hamdani, 2009; Claessens, Djankov, Fan & Lang, 2002). In fact, in these firms, conflicts between controlling and minority shareholders (principal-principal agency model) are added to the conflicts between shareholders and managers (principal-agent agency model) that are present in any shareholder configuration (Lei, Lin & Wei, 2013). Thus, this argument suggests that there is a higher incidence of agency conflicts in firms with one majority shareholder, with the consequence of more agency costs, which leads to the proposition of the hypothesis that the presence of one majority shareholding control has a negative effect on firm valuation.

Hypothesis 1a: Majority control has a negative effect on firm value

Shared firm control can function as a mechanism of management monitoring (Edmans & Manso, 2011). There is an argument that agreements among shareholders may correct extreme situations, such as the presence of one shareholder with a huge voting ownership concentration (Baglioni, 2011). The shareholders' agreement limits the power of a firm's majority shareholder, which ceases to exist, and the firm will enjoy more balanced power divided among the major shareholders that sign the agreement. At the other extreme, in firms with low voting rights concentration and the absence of controlling shareholders, the shareholders' agreement tends to strengthen the whole set of shareholders, optimizing the decision-making process and improving management monitoring (Baglioni, 2011). The presence of blockholders who sign the shareholders' agreements can also generate the incentive effect, which mitigates agency conflicts with managers (Claessens et al., 2002; Gomes & Novaes, 2006). Moreover, the need for debate among the shareholders participating in the control block reduces the possibility of decisions that lead to the wealth expropriation of minority shareholders (Gomes & Novaes, 2006). This set of arguments suggests that the shareholders' agreement is capable of reducing the possibility of controlling

shareholder entrenching, contributing to the alignment of shareholders' interests, having a positive effect on firm valuation, as expressed in the following hypothesis:

Hypothesis 1b: Shared control has a positive effect on firm value

Firm dispersed control, which corresponds to the absence of defined control, tends to match the principal-agent agency theoretical model, given that there is no powerful controlling shareholder and managers become more powerful (Morck et al., 1988). Low enforcement and weak legal protection for shareholders in the Brazilian market increase the risk of managerial decisions that are inappropriate for the firm and to shareholders' wealth (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000). Corporate governance practices are proposed as a strategy to minimize this risk (Claessens & Yurtoglu, 2013; Hart & Moore, 1995; Love, 2011). On the other hand, the high power of controlling shareholders is much more evident in emerging economies, with these shareholders having a great deal of power, including the power to dismiss the top management team and make use of private benefits of control (Dyck & Zingales, 2004). The absence of this excessive power in the hands of one majority shareholder or in the hands of a controlling coalition of shareholders puts the firm in the traditional principal-agent agency model that tends to have less agency costs than the existing conflicts in the principal-principal agency model. This argument supports the hypothesis that dispersed control is favorable to firm valuation.

Hypothesis 1c: Dispersed control has a positive effect on firm value.

2.3 Shareholding concentration and value according to the type of shareholding control

Shareholding concentration is related to the proportion of shares held by the firm's main shareholders. In Brazil, in addition to voting rights, as measured by interest in voting capital, the right to cash flow, as measured by interest in the firm's total capital, and excess voting rights over cash flow rights are also taken into account (Aldrighi & Mazzer Neto, 2007). The literature has documented that voting rights concentration in Brazilian firms is high, with excess voting rights resulting from the issuance of non-voting shares and pyramidal control structures (Aldrighi & Mazzer Neto, 2007; Okimura et al., 2007).

In Brazil, the results of the relationship between ownership concentration and firm value are inconclusive. Empirical studies have found a positive relation (Okimura et al., 2007), a negative relation (Caixe & Krauter, 2013; Peixoto & Buccini, 2013; Silva, 2004), quadratic or U-shaped relation (López-Iturriaga & Crisóstomo, 2010; Okimura et al., 2007; Silva, 2004), and even null relation (Vieira, Velasquez, Losekann & Ceretta, 2011). The type of shareholding control, whether it is the presence of one majority shareholder, the shareholders' agreement to share firm control, or dispersed control, can shed light on this absence of convergent results when analyzing the relationship between shareholding concentration and firm value.

As already mentioned, the possibility of extracting private benefits of control is excessive in firms with one dominant shareholder. This excess power tends to be challenged in other shareholding control configurations. Thus, attributes of the firm's ownership concentration may have an effect on the potential conflict of interests between shareholders and managers in firms with dispersed control, and between minority shareholders and controlling shareholders in firms with dominant shareholder or shared control. In this respect, it is feasible to propose the hypothesis that the effect of shareholding concentration on firm value is moderated by the type of firm shareholding control.

Hypothesis 2: The type of shareholding control affects the relationship between shareholding concentration and firm value

In firms with defined control, agency conflicts are intensified when controlling shareholders use their position to extract private benefits, taking advantage of their power in controlling the firm (Dyck & Zingales, 2004; La Porta et al., 1999). High voting power of controlling shareholders raises

the possibility that these blockholders will use private benefits of control at the expense of minority shareholders (Cueto, 2013; De Miguel, Pindado & De la Torre, 2004). This excess voting power can guarantee firm control with lower cash investments, granting private benefits of control to a few controlling blockholders, and the costs of private benefits of control are shared with all shareholders (Claessens & Fan, 2002). Increased concentration of cash flow rights, on the other hand, can reduce the benefits of controlling shareholders, generating the incentive effect that reduces agency conflicts with minority shareholders (Claessens et al., 2002). It is expected, therefore, that in firms with majority and shared control an increase in the concentration of voting rights and excess voting rights will emphasize agency conflicts between controlling and minority shareholders, having a negative relationship with firm value, while the concentration of cash flow rights has a positive relationship.

Hypothesis 2a: Voting rights have a negative relationship with the value of a firm with majority and shared control

Hypothesis 2b: Excess voting rights have a negative relationship with the value of a firm with majority and shared control

Hypothesis 2c: Cash flow rights have a positive relationship with the value of a firm with majority and shared control

In firms without defined control, several dispersed shareholders tend to have a smaller share in cash flow and voting rights, which reduces their incentive to directly monitor firm management (Desender et al., 2013). The concentration of voting rights and cash flow rights in these firms can be seen as favorable to corporate governance, given that non-controlling blockholders would have greater incentive (cash flow rights) and power (voting rights) to monitor firm management (Shleifer & Vishny, 1997). Large blockholders, in firms without controlling shareholders, tend to have more incentive and power to facilitate the alignment of interests between ownership and management, given that these non-controlling blockholders are able to avoid the excess power of the firm's executive management. This is a plausible situation in firms with dispersed control in Brazil, where firms are characterized by defined control and high ownership concentration. This action to strengthen minority shareholders tends to balance forces and align interests between shareholders and managers by mitigating agency conflicts and their costs. This argument supports the proposition that the concentration of voting and cash flow rights is favorable to the value of firms with dispersed control.

Hypothesis 2d: Voting rights have a positive relationship with the value of a firm with dispersed control

Hypothesis 2e: Excess voting rights have a positive relationship with the value of a firm with dispersed control

Hypothesis 2f: Cash flow rights have a positive relation with the value of a firm with dispersed control

3 METHODOLOGY
3.1 Sample
The sample comprises 1,224 firm-year observations from 160 firms in the period 2010-2017. This period was chosen for the uniformity of accounting data, after the convergence to international accounting standards, and the mandatory preparation and disclosure of the reference form from 2010 onwards, our base source for the extraction of data on shareholding control. The sample consists of firms whose shares have liquidity indices in the minimum stock exchange (0.1) in order to have the most visible firms and data on firm value.

3.2 Variables

Data were collected from the analysis of documents available on the *Comissão de Valores Mobiliários* - CVM (The Brazilian SEC), Brasil, Bolsa, Balcão [B³] (the Brazilian stock exchange) and Economática®. Table 1 presents the constructs of model variables.

Table 1 - Model variables

Variable	Description	Construct
Shareholding control (CTR_TYPE)	Dispersed control (DISP), shared control (SHARED) and majority control (MAJOR)	Binary variables that indicate the type of shareholding control
Shareholding concentration (CONC)	Concentration of voting rights (CONVOT)	Percentage of common shares held by the three largest shareholders in year t
	Concentration of cash flow rights (CONCF)	Percentage of total shares held by the three largest shareholders in year t
	Excess voting rights (EXCVOT)	Ratio between CONVOT and CONCF in year t and CONCF in year t
Firm Value (Q)	Tobin's (Q)	Ratio of the sum of market value of firm shares and book value of debt in year t to total assets in year t
Control variables (CONTR)	Return on Assets (ROA)	Ratio between EBIT in year t and total assets in year $t-1$
	Indebtedness (DEBT)	Ratio of total onerous debt in year t to total assets in year $t-1$
	Size (SIZE)	Natural logarithm of total assets in year t
	Sector of activity (SECTOR)	Binary variables for each industry
	Year of observation (YR)	Binary variables for each year of observation

Ownership structure data were extracted from the first version of the reference form (FR) published by the firm each year. In item 8.1 (until 2015 and item 15.3 from 2016 onward), the firm must declare whether or not there is a shareholder controlling the firm and disclose the name (or names) of such shareholder(s). Item 15.1/2 shows the absolute number and proportion of shares held by controlling shareholders and minority shareholders with relevant participation (shareholders who hold more than 5% of some share class), in addition to the firm control pyramidal structure.

Shareholder control was characterized by means of content analysis based on the identity of the ultimate controlling shareholder, in accordance with the methodology of Crisóstomo & Brandão (2019). By checking the firm's ownership structure (item 15.1/2 of the FR), the shareholder mentioned in item 8.1 (15.3 from 2016 onward) is confirmed as the controlling shareholder (ultimate shareholder) if there is no other shareholder with a higher proportion of voting shares. If there is one, he is considered the ultimate shareholder of the firm. After the identification of the ultimate shareholder, the shareholding control was categorized into three types: majority control (MAJOR), when there is only one ultimate shareholder, or the ultimate shareholders who belong to the same family or to the same economic group; shared control (SHARED), when there is more than one ultimate shareholder, and they do not belong to the same economic group or to the same family, and have signed a shareholders' agreement that defines the right to vote at general meetings; and dispersed control (DISP), when there is no ultimate shareholder appointed by the firm and there are no individual shareholders or agreements that hold more than 50% of the firm's voting capital.

Shareholding concentration was analyzed based on the proportion of voting and total shares held by the three largest shareholders (item 15.1/2 of the FR). Voting rights concentration (CONVOT) was measured by the sum of the percentages of voting shares, while the cash flow rights concentration (CONCF) was measured by the sum of the percentages of the total shares. The excess voting rights (EXCVOT) were measured by the difference between CONVOT and CONCF, divided by CONCF. For robustness tests, these variables were operated considering the largest shareholder and the five largest shareholders.

Firm value was operated through Tobin's Q, defined by the ratio between the firm market value and the cost of replacing the assets. In this research, it was proxied by Chung and Pruitt's (1994) proposal, which uses only accounting and market variables: stock market value (available in Economática®), as a *proxy* for the market value of equity; sum of current assets with long-term onerous debt minus inventory net current assets, for the market value of debt; and value of total asset, as a *proxy for the* replacement cost of assets.

Financial variables (ROA, DEBT and SIZE) were operated as described in Table 1, with data from standardized financial statements.

3.3 Empirical models and statistical procedures

The hypothesis that the type of shareholding control affects firm value (*Hypothesis 1*) was tested using the empirical model of Equation 1, where Q is the value of firm i in period t; CTR_TYPE is the type of shareholding control of firm i in period t. Profitability, debt and firm size, as well as sector and time dummies, are included as control variables associated with firm i in period t; and ε is the error term.

$$Q_{i,t} = \beta_o + \beta_1 \, CTR\_TYPE_{i,t} + \beta_2 \, ROA_{i,t} + \beta_3 \, DEBT_{i,t} + \beta_4 \, SIZE_{i,t} + \beta_5 \, SEC + \beta_6 \, YR + \varepsilon \qquad (1)$$

The hypothesis suggesting that the type of shareholding control matters for the relationship between shareholding concentration and firm value (*Hypothesis 2*) was tested using the empirical model of Equation 2: Q is the value of firm i in period t; CONC are attributes of the shareholding concentration of firm i *in* period t (concentration of voting rights, concentration of cash flow rights, and excess voting rights over cash flow rights) for firm i in period t. Profitability, debt and firm size, as well as sector and time dummies, are included as control variables associated with firm i in period t; and ε is the error term.

$$Q_{i,t} = \beta_o + \beta_1 \, CONC_{i,t} + \beta_2 \, ROA_{i,t} + \beta_3 \, DEBT_{i,t} + \beta_4 \, SIZE_{i,t} + \beta_5 \, SEC + \beta_6 \, YR + \varepsilon \qquad (2)$$

The models were estimated using *Feasible Generalized Least Squares* (FGLS), which corrects problems of heteroscedasticity and autocorrelation of residuals. Random effects modeling was chosen because the explanatory variables of interest (type of shareholding control) present low temporal variation, making the fixed effects estimators imprecise.

In order to have robust results, models were also estimated with *Generalized Method of Moments* (GMM-SYS) which deals with endogeneity problems and provides better estimates in situations with a relatively short period of time, as demonstrated by (Blundell & Bond, 1998). Independent variables were considered endogenous, while the type of shareholding control, sector of activity and year of observation were considered strictly exogenous (Roodman, 2009). Models were estimated using the two-step system estimator with adjusted standard errors for potential heteroskedasticity proposed by (Blundell & Bond, 1998).

For the analysis of the empirical model of Equation 2, the sample was divided into three sub-samples, according to the type of shareholding control (majority, shared and dispersed). Then *FGLS* estimates were then processed for each sub-sample, and the sign and statistical significance of the coefficients of variables for the shareholding concentration (CONC) were compared among the three groups. In the split samples, it was not possible to process the estimates in GMM-SYS, due to the reduced number of instruments and observations per firm (Roodman, 2009). As robustness tests, models were estimated with other shareholding concentration measures (considering the largest and the five largest voting shareholders).

Possible problems with *outliers* of the financial and market variables were mitigated by "*winsorization*" in the upper and lower 2.5% percentile of the sample in each variable. Correlation and variance inflation factor tests, not reported, indicated the absence of multicollinearity or collinearity problems in the estimates. For a better understanding of the hypothesis tests, mean

difference tests, and Jonckheere-Terpstra variance analysis were processed, in addition to the descriptive statistics analysis.

4 RESULTS AND DISCUSSION
4.1 Descriptive statistics

Table 2 shows the number and proportion of firms that were categorized into each type of shareholding control. Most Brazilian firms (56.78%) have only one controlling shareholder. Shareholder agreements control 24.75% of firms, while 18.46% have no controlling shareholder.

Table 2 – Firm distribution by the type of shareholding control

Type of firm share control	Number of Firms	Firm-year observations	%
Majority	101	695	56.78
Shared	51	303	24.75
Dispersed	40	226	18.46
Total	160	1,224	100.00

Table 3 shows the descriptive statistics and the correlation matrix of model variables. Brazilian firms have a high concentration of voting rights (59.8%) (CONVOT) and high excess voting rights (115.4%) (EXCVOT), corroborating previous studies (Aldrighi & Mazzer Neto, 2007; Okimura et al., 2007). These two attributes of shareholding concentration are negatively correlated with firm value (Q), signaling that there may be entrenchment of controlling shareholders (Claessens et al., 2002). Cash flow rights, in turn, are not correlated with firm value.

Table 3 - Descriptive statistics and correlation matrix

Panel A - Descriptive statistics

Variable	Average	Standard Deviation	Coefficient of variation	Minimum	Maximum
Q	1.062	0.848	0.799	0.173	4.053
CONVOT	0.598	0.224	0.375	0.001	1.000
CONCF	0.530	0.190	0.359	0.001	1.000
EXCVOT	1.154	0.346	0.300	0.911	3.000
ROA	0.086	0.089	1.045	-0.117	0.333
DEBT	0.297	0.169	0.568	0.000	0.649
SIZE	15.451	1.369	0.089	12.737	18.439

Panel B - Pearson correlation matrix

Variable	Q	CONVOT	CONCF	EXCVOT	ROA	DEBT
CONVOT	-0.12[***]					
CONCF	-0.02	0.79[***]				
EXCVOT	-0.17[***]	0.41[***]	-0.21[***]			
ROA	0.61[***]	-0.02	0.01	-0.04		
DEBT	-0.20[***]	0.09[***]	0.12[***]	-0.01	-0.15[***]	
SIZE	-0.16[***]	0.12[***]	-0.05[*]	0.25[***]	0.01	0.26[***]

Variables: Tobin's (Q), concentration of voting rights among the three largest shareholders (CONVOT), concentration of cash flow rights among the three largest shareholders (CONCF), excess voting rights among the three largest shareholders (EXCVOT), return on assets (ROA), indebtedness (DEBT) and size (SIZE). **Statistical significance:** 10% (*), 5% (**) and 1% (***).

Table 4 shows the descriptive analysis and statistical tests that analyzed the association of firm value (Q) and shareholding concentration with the type of shareholding control. The type of shareholding control is associated with firm value (Q): firms with majority control have a lower value (Q), which is statistically lower than firms with dispersed and shared control, suggesting that the presence of a single controlling shareholder depreciates firm value.

Table 4 - Firm value and shareholding concentration of the three largest shareholders by type of shareholding control

Panel A – Mean values for Q and shareholding concentration				
Variable	Type of share control			
	Dispersed	Shared	Majority	Total
Q	1.156	1.274	0.939	1.062
CONVOT	0.347	0.570	0.692	0.598
CONCF	0.346	0.534	0.589	0.530
EXCVOT	0.004	0.078	0.236	0.154

Panel B – Tests for the difference in means of Q and shareholding concentration by type of share control					
Variable	Comparing means between the three types of share control		Comparing means between paired types of share control (t test)		
	Analysis of variance (F)	Jonckheere-Terpstra (J-T) Test	Dispersed x shared	Dispersed x majority	Shared x majority
Q	18.723 ***	-5.222 ***	-1.442	3.295 ***	5.377 ***
CONVOT	306.483 ***	19.489 ***	-15.193 ***	-28.077 ***	-9.340 ***
CONCF	178.736 ***	14.874 ***	-13.526 ***	-20.620 ***	-4.621 ***
EXCVOT	52.136 ***	10.449 ***	-5.190 ***	-14.457 ***	-4.625 ***

Variables: Q = Tobin's (Q) that proxies for firm value; CONVOT = concentration of voting rights among the three largest shareholders; CONCF = concentration of cash flow rights among the three largest shareholders; EXCVOT = excess voting rights among the three largest shareholders. **Analysis of variance**: test for the difference in means of the variable between firms with different types of shareholding control (dispersed, shared and majority). **Jonckheere-Terpstra test**: check the association between the variable and concentration of shareholding control considering the dispersed control (least concentrated), shared, and the majority control (most concentrated). **Comparing means between paired types of share control**: difference of means in pairs of the metric variables between firms with different types of shareholding control (dispersed, shared and majority control). **Statistical significance:** 1% (***).

Shareholding concentration also presents an association with the type of shareholding control (Table 4): shareholding concentration (CONVOT, CONCF and EXCVOT) levels are lower when there are no controlling shareholders, increase when there is shared control, and are even higher when only one shareholder or group of shareholders holds the shareholding control. These findings endorse the argument that firms with dispersed control are characterized by the principal-agent agency model (Desender et al., 2013). On the other hand, firms with controlling shareholder have higher voting rights concentration and excess voting rights, which raises the probability of arising the principal-principal agency conflict (Cueto, 2013; Okimura et al., 2007).

4.2 Shareholding control and firm value

Table 5 shows model estimates on the relationship between the type of shareholding control and firm value. As suggested by Hypothesis 1, the configuration of the shareholding control does indeed appear to affect firm value. One can observe the positive effect of shared control (SHARED) (Hypothesis 1b) and dispersed control (DISP) (Hypothesis 1c) on firm value (Tobin's Q). Meanwhile, this effect is reversed in firms with majority control (MAJOR) (Hypothesis 1a).

The negative relationship of majority control with firm value (Table 5) reinforces the argument that agency costs are higher when there is a single controlling shareholder (Hypothesis 1a). Firms with majority control, besides having a single controlling shareholder, present a higher concentration of voting rights (CONVOT) and excess voting rights (EXCVOT) (Table , Panel B). These characteristics favor agency conflicts between controlling and minority shareholders (Cueto, 2013; Renders & Gaeremynck, 2012). In addition, within the agency theoretical framework, weak legal protection for shareholders' rights, the various forms of private benefits of control, and the low contesting power of minority shareholders may explain why firms with majority control have a lower market value (Bebchuk & Hamdani, 2009; Claessens et al., 2002; La Porta et al., 1999).

Table 5 – Firm value and shareholding control

Explanatory Variables	Panel A Feasible generalized least squares			Panel B Systemic Generalized Method of Moments		
	Dependent variable: Q			Dependent variable: Q		
	(i)	(ii)	(iii)	(i)	(ii)	(iii)
DISP	0.11 **			0.16 *		
	(0.05)			(0.10)		
SHARED		0.22 ***			0.28 *	
		(0.04)			(0.15)	
MAJOR			-0.24 ***			-0.27 ***
			(0.04)			(0.09)
ROA	5.50 ***	5.30 ***	5.38 ***	7.59 ***	6.72 ***	7.26 ***
	(0.22)	(0.22)	(0.22)	(1.13)	(1.25)	(1.08)
DEBT	-0.16	-0.19	-0.17	0.40	0.49	0.53
	(0.12)	(0.12)	(0.12)	(0.65)	(0.51)	(0.49)
SIZE	-0.09 ***	-0.10 ***	-0.10 ***	-0.09	-0.28 **	-0.18
	(0.02)	(0.02)	(0.01)	(0.16)	(0.13)	(0.12)
SECTOR	Yes	Yes	Yes	Yes	Yes	Yes
YR	Yes	Yes	Yes	Yes	Yes	Yes
X^2	1093.88 ***	1133.35 ***	1161.9 ***	-	-	-
F	-	-	-	23.25 ***	22.48 ***	103.19 ***
AR(2)	-	-	-	-1.19	-1.38	-1.28
J for Hansen	-	-	-	24.63	23.7	18.83
Instruments	-	-	-	46	46	46

Sample: 1,224 observations/year of 160 Brazilian listed firms. **Estimation method:** feasible generalized least squares - FGLS (Panel A) and Systemic Generalized Method of Moments - GMM SYS (Panel B). **Dependent variable:** Tobin's Q (Q). **Explanatory variables of interest:** binary variables indicative of dispersed shareholding control (DISP), shared (SHARED) and majority (MAJOR). **Explanatory control variables:** return on assets (ROA); indebtedness (DEBT); firm size (SIZE); and binary variables indicative of the sector of activity (SECTOR) and the year of observation (YR), whose coefficients were not reported. **Statistical significance:** 10% (*), 5% (**) and 1% (***).

The results support the hypothesis that shared control reduces the possibility of agency conflicts (Hypothesis 1b), having a positive effect on firm value (Table 5). Previous literature has documented evidence that shared control increases the value of the Brazilian firm (Carvalhal, 2012; Silva et al., 2018). Concentration of voting rights (and cash flow rights) of firms with shared control is high when compared with firms with dispersed control (Table 4), allowing more effective management monitoring and reducing agency conflicts (Claessens et al., 2002; Gomes & Novaes, 2006). There are fewer excess voting rights in firms with shared control than in firms with majority control, reducing potential private benefits of control and agency conflicts with minority shareholders (Claessens et al., 2002; Cueto, 2013). Furthermore, the need for agreement among shareholders that make up the controlling group reduces the possibility of wealth expropriation of minority shareholders (Claessens et al., 2002; Gomes & Novaes, 2006).

Firms with dispersed control have low shareholding concentration (CONVOT) and there are practically no excess voting rights (EXCVOT) (Table 4), which makes managers more powerful and firms more susceptible to agency conflicts between shareholders and managers. As proposed, firms with dispersed or shared control present a higher value than firms with majority control (Table 4) and this finding is confirmed by the positive effect of dispersed control (DISP) on firm value (Table 5). Because agency conflicts in the Brazilian firm are focused on the relationship between controlling and minority shareholders (Claessens & Yurtoglu, 2013), the absence of defined control can be seen by investors as a factor that reduces agency costs, contributing to higher firm value. The positive effect of dispersed control on firm value is less than that of shared control, which is probably explained by the fact that the risk of expropriation of shareholder wealth by managers is greater in firms with dispersed control than in firms with shared control (Shleifer & Vishny, 1997).

4.3 Shareholding concentration and firm value by type of shareholding control

The results of the model estimates analyzing the relationship between shareholding concentration among the three largest shareholders and firm value, taking into account the type of shareholding control, are presented in Tables 6, 7, and 8, respectively to firms with majority, shared and dispersed control. Through collinearity problems between variables CONVOT and CONCF, two models were processed. The first model (i) analyzes the voting rights concentration (CONVOT) and the excess voting rights (EXCVOT), showing more pronounced agency conflicts. In the second model (ii), we analyze cash flow rights concentration, which reveals a reduction in agency conflicts. As suggested in Hypothesis 2, the results indicate that, in fact, the type of shareholding control alters the effect of the shareholding concentration on firm value.

In firms with majority control (Table 6), concentration of voting rights (CONVOT) and cash flow rights (CONCF) have a positive relationship with the value. One possible explanation for these results is that, as shareholders have shareholding control, they already have the power to expropriate minority shareholders, regardless of the proportion of voting rights they hold. In fact, excess voting rights over cash flow rights is what really increases the risk of expropriation (Claessens & Fan, 2002). On the other hand, the largest portion of the capital held by the controlling shareholder may reduce the benefit of managerial decisions that expropriate the firm's wealth, generating an incentive effect. The results suggest that voting rights and cash flow rights concentration generates an incentive effect in firms with majority control (Claessens et al., 2002), contradicting hypothesis 2a and supporting hypothesis 2c. It was observed also that in the analysis of the shareholding concentration among the five largest shareholders, the positive relationship of the voting rights concentration with the firm value is not statistically significant. This finding indicate that the incentive effect in the firms with majority control (Claessens et al., 2002) is weaker when one analyzes the shareholding concentration of the five largest shareholders.

Table 6 – Firm value and shareholding concentration in firms with majority control

Explanatory variables	Panel A Largest shareholder		Panel B Three largest shareholders		Panel C Five largest shareholders	
	Dependent variable: Q		Dependent variable: Q		Dependent variable: Q	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
CONVOT	0.52 ***		0.30 **		0.19	
	(0.10)		(0.13)		(0.14)	
CONDIF	-0.22 ***		-0.25 ***		-0.27 ***	
	(0.04)		(0.07)		(0.08)	
CONCF		0.75 ***		0.42 ***		0.32 **
		(0.12)		(0.13)		(0.15)
ROA	4.67 ***	4.55 ***	4.83 ***	4.83 ***	4.88 ***	4.88 ***
	(0.27)	(0.28)	(0.28)	(0.28)	(0.28)	(0.28)
DEBT	-0.31 **	-0.31 **	-0.22	-0.19	-0.18	-0.13
	(0.15)	(0.15)	(0.16)	(0.16)	(0.15)	(0.16)
SIZE	-0.13 ***	-0.13 ***	-0.13 ***	-0.14 ***	-0.14 ***	-0.15 ***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
SECTOR	Sim	Sim	Sim	Sim	Sim	Sim
YR	Sim	Sim	Sim	Sim	Sim	Sim
X^2	672.93 ***	665.09 ***	623.31 ***	611.40 ***	615.26 ***	601.60 ***

Estimation method: feasible generalized least squares – FGLS. **Sample:** 695 observation/year of 101 Brazilian listed firms with majority control (MAJOR). **Dependent variable:** Tobin's Q (Q). **Explanatory variables of interest:** concentration of voting rights (CONVOT), concentration of cash flow rights (CONCF) and excess voting rights (EXCVOT) of the largest (PANEL A), three largest (PANEL B) and five largest (PANEL C) shareholders. **Explanatory control variables:** return on assets (ROA); indebtedness (DEBT); firm size (SIZE); and binary variables indicative of the sector of activity (SECTOR) and the year of observation (YR), whose coefficients were not reported.
Statistical significance: 10% (*), 5% (**) and 1% (***).

Excess voting rights (EXCVOT) are negatively related to the value of firms with majority control (Table 6), as predicted (Hypothesis 2b). Excess voting rights are characteristic of firms with defined control and are considered as indicative of agency conflicts between controlling and minority shareholders (Claessens & Fan, 2002; Cueto, 2013). It is observed that excess voting rights (EXCVOT) are the highest in firms with majority control (Table 4).

In firms with shared control was no observed significant relationship between concentration of voting rights (CONVOT) and cash flow rights (CONCF) and firm value (Table 7), contrary to proposed (Hypothesis 2a and Hypothesis 2c). The lower shareholder concentration (Table 4) and the fact that the major shareholders do not belong to the same economic group or family may be contributing to the irrelevance of the concentration of voting rights and cash flow to agency conflicts in firms with shared control.

Table 7 – Firm value and shareholding concentration in firms with shared control

Explanatory variables	Panel A Largest shareholder		Panel B Three largest shareholders		Panel C Five largest shareholders	
	Dependent variable: Q		Dependent variable: Q		Dependent variable: Q	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
CONVOT	-0.10		-0.13		-0.26	
	(0.23)		(0.23)		(0.26)	
CONDIF	-0.31 **		-0.42 *		-0.43 *	
	(0.13)		(0.21)		(0.26)	
CONCF		-0.12		-0.14		-0.28
		(0.24)		(0.24)		(0.27)
ROA	6.30 ***	6.50 ***	6.36 ***	6.53 ***	6.36 ***	6.52 ***
	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
DEBT	-0.21	-0.24	-0.27	-0.24	-0.27	-0.22
	(0.26)	(0.26)	(0.26)	(0.26)	(0.26)	(0.26)
SIZE	-0.03	-0.06	-0.03	-0.06	-0.03	-0.06 *
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
SECTOR	Sim	Sim	Sim	Sim	Sim	Sim
YR	Sim	Sim	Sim	Sim	Sim	Sim
X^2	476.94 ***	457.66 ***	473.01 ***	457.93 ***	474.17 ***	459.72 ***

Estimation method: feasible generalized least squares – FGLS. **Sample:** 303 observation/year of 51 Brazilian listed firms with shared control (SHARED). **Dependent variable:** Tobin's Q (Q). **Explanatory variables of interest:** concentration of voting rights (CONVOT), concentration of cash flow rights (CONCF) and excess voting rights (EXCVOT) of the largest (PANEL A), three largest (PANEL B) and five largest (PANEL C) shareholders. **Explanatory control variables:** return on assets (ROA); indebtedness (DEBT); firm size (SIZE); and binary variables indicative of the sector of activity (SECTOR) and the year of observation (YR), whose coefficients were not reported. **Statistical significance:** 10% (*), 5% (**) and 1% (***).

Excess voting rights (EXCVOT), in turn, are negatively related to the value of firms with shared control (Table 7), as predicted (Hypothesis 2b). Although the sharing of shareholder control makes it difficult to expropriate minority shareholders (Gomes & Novaes, 2006), investors may be viewing excess voting rights as an incentive for controlling shareholders to use their position to enjoy private benefits (Cueto, 2013).

In addition, it is observed that excess voting rights (EXCVOT) are the highest in firms with majority control than in firms with shared control (Table 4). This huge excess of voting rights has an adverse effect on the value of firms with shared control (Table 7) and an even stronger negative influence on the value of firms with majority control (Table 6). This finding endorses the proposal that agency conflicts in Brazil are more intense in firms with majority control and that such conflicts are under the principal-principal agency theoretical model.

In firms with dispersed control (Table 8), the concentration of voting rights (CONVOT) and of cash flow rights (CONCF) has a negative relationship with firm value, contrary to what was predicted (Hypotheses 2d and 2f). This relationship indicates that large shareholders, even without obtaining

the controlling position, may use their voting power for their own benefit against the interests of minority shareholders (Morck et al., 1988). It can be observed that the concentration of voting rights (CONVOT) and cash flow rights (CONCF) among the three largest shareholders in firms with dispersed control is approximately 35% (Table 4), which is considered in some international studies to be a shareholding concentration of firms with defined control (Faccio & Lang, 2002; La Porta et al., 1999).

It should be emphasized that, when analyzing the shareholding concentration of the largest shareholder, there is an absence of statistical significance of the cash flow concentration in firms with dispersed control (Table 8, panel C). This finding indicate that the management entrenchment effect in the firms with dispersed control (Morck et al., 1988) is weaker when one analyzes the shareholding concentration of only the largest shareholder.

Table 8 – Firm value and shareholding concentration in firms with dispersed control

Explanatory variables	Panel A Largest shareholder		Panel B Three largest shareholders		Panel C Five largest shareholders	
	Dependent variable: Q		Dependent variable: Q		Dependent variable: Q	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
CONVOT	-0.89 *		-1.04 ***		-0.97 ***	
	(0.54)		(0.32)		(0.26)	
CONDIF	6.06		-0.84		-0.77	
	(5.60)		(0.95)		(0.98)	
CONCF		-0.86		-0.99 ***		-0.93 ***
		(0.54)		(0.32)		(0.26)
ROA	4.20 ***	4.19 ***	4.09 ***	4.08 ***	4.00 ***	4.00 ***
	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)
DEBT	0.37	0.29	0.42	0.33	0.44	0.35
	(0.29)	(0.28)	(0.28)	(0.28)	(0.28)	(0.27)
SIZE	-0.27 ***	-0.26 ***	-0.29 ***	-0.29 ***	-0.30 ***	-0.29 ***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
SECTOR	Sim	Sim	Sim	Sim	Sim	Sim
YR	Sim	Sim	Sim	Sim	Sim	Sim
X^2	428.21 ***	425.07 ***	449.81 ***	444.63 ***	459.89 ***	454.81 ***

Estimation method: feasible generalized least squares – FGLS. **Sample:** 226 observation/year of 40 Brazilian listed firms with dispersed control (DISP). **Dependent variable:** Tobin's Q (Q). **Explanatory variables of interest:** concentration of voting rights (CONVOT), concentration of cash flow rights (CONCF) and excess voting rights (EXCVOT) of the largest (PANEL A), three largest (PANEL B) and five largest (PANEL C) shareholders. **Explanatory control variables:** return on assets (ROA); indebtedness (DEBT); firm size (SIZE); and binary variables indicative of the sector of activity (SECTOR) and the year of observation (YR), whose coefficients were not reported. **Statistical significance:** 10% (*), 5% (**) and 1% (***).

Excess voting rights (EXCVOT) are not related to the value of firms with dispersed control (Table 8), contrary to what is suggested (Hypothesis 2e). Excess voting rights are more characteristic of firms with defined control. In this respect, in firms with dispersed control, this excess does not seem to be relevant, as expected. Indeed, it is worth commenting that the average excess of voting rights is very low, 0.4% (Table 4).

5 CONCLUSION

The Brazilian market is characterized by firms with majority control and excess voting rights, which makes the principal-principal the predominant agency theoretical model. However, the dispersion of stock control in recent decades has increased the number of firms with shared and dispersed control. In this context, the work aims whether the type of shareholding control affects the value of the Brazilian firm. The categorization adopted in the research for shareholding control (dispersed, shared and majority) showed that the dispersion of shareholding control in firms in a

country can reduce agency conflicts between controlling and majority shareholders, as well as raise conflicts between dispersed shareholders and managers.

The findings indicate that majority control presents the greatest possibility for agency conflicts: firms with this type of control have less value and more excess voting rights than firms with other types of shareholding control. Because they represent the greatest part of publicly traded firms, the development of the Brazilian capital market may experience the creation of mechanisms that promote the improvement of the corporate governance in firms with majority control.

The consequences of shared control for agency conflicts are still largely unknown, with both positive and negative points being identified. This work adds to this discussion, indicating that, in the Brazilian market, the value of firms with shared control is greater than that of firms with majority control, and the level of excess of voting rights is lower. This evidence leaves a question mark as to whether shared control is beneficial to corporate governance in markets that offer little legal protection to shareholders, since this control seems capable of mitigating agency conflicts with managers and reducing conflicts with minority shareholders.

The absence of a controlling shareholder is seen as an ownership structure that reduces agency conflicts between shareholders. The results indicate that dispersed shareholding control really favors firm value. However, it has been found that the presence of *blockholders* may be generating an entrenchment effect, harming the other shareholders. Because it is an ownership structure that has been growing in the Brazilian capital market, the agency conflicts in these firms should be the object of greater attention of in research.

The study adds to the literature by making an in-depth research on the link between ownership concentration and firm value in Brazil according to the type of firm shareholding control defined by the degree of control dispersion. Brazil is characterized by firms with defined control (shared or majority), by high level of voting rights concentration, and an excess of voting rights in relation to cash flow rights. The results of this research indicate that the type of shareholding control is indeed relevant for firm value and its interaction with ownership concentration. For academics, these findings add additional evidence, from an important emerging market, that excess ownership concentration depreciates firm value at the same time that shared control (shareholder agreement), as well as dispersed control, is able to invert such negative effect. Methodologically, we proposed a classification for the type of shareholder control not yet reported in the literature, which proved relevant for understanding the differences in agency conflicts between companies in the same country. For firm management, it can reveal the need to increase the corporate governance system in a way to minimize the negative signal transmitted by high ownership concentrated firms with majority control trying to minimize the principal-principal conflicts.

As future work, we suggest an analysis of the identity of the controller (family, firm, government, etc.) and its effect on agency conflicts, which can be further investigated in specific research. Another possibility is to explore the effect of the type of shareholding control on other corporate attributes related to agency problems, such as risk, firm performance and the effectiveness of corporate governance mechanisms.

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