
REVEALING SHAREHOLDER COALITIONS IN BRAZIL

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ABSTRACT

The formation of shareholder coalitions is not always recognized, and therefore, shareholder agreements can facilitate the direct identification of this phenomenon. This study aims to analyze such agreements to identify and characterize coalitions in the Brazilian capital market. A total of 949 shareholder agreements were examined, distributed across 382 companies, both with active and canceled registration, covering the period from 1979 to 2019. The analysis highlights two main forms of coalitions: control coalitions, which seek to consolidate voting power among various blockholders, and mutual understanding coalitions, which unite the controlling blockholder and the minority shareholder around common interests, allowing the cooperating minority shareholder to maintain active monitoring mechanisms over management. In addition to their objectives, these coalitions differ in aspects such as the number of shareholders involved, the identity of the cooperating parties, and the control rights they concentrate. These results may contribute to future research on corporate governance and the allocation of corporate control, topics relevant to market agents.

Keywords: Shareholder coalition. Shareholder agreement. Blockholders. Control distribution.

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RESUMO

A formação de coalizão de acionistas nem sempre é notada, e, por isso, os acordos de acionistas podem facilitar a identificação direta desse fenômeno. Este estudo tem como objetivo analisar tais acordos para identificar e caracterizar

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as coalizões no mercado de capitais brasileiro. Foram examinados 949 acordos de acionistas, distribuídos em 382 empresas, tanto com registro ativo quanto cancelado, abrangendo o período de 1979 a 2019. A análise destaca duas principais formas de coalizões: as de controle, que buscam consolidar o poder de voto entre diversos *blockholders*, e as de entendimento mútuo, que unem o *blockholder* controlador e o acionista minoritário em torno de interesses comuns, permitindo que o acionista minoritário cooperante mantenha mecanismos de monitoramento ativo sobre a gestão. Além dos objetivos, essas coalizões diferem em aspectos como o número de acionistas envolvidos, a identidade das partes cooperantes e os direitos de controle que concentram. Esses resultados podem contribuir para pesquisas futuras sobre governança corporativa e a alocação do controle corporativo, temas relevantes para os agentes de mercado.

Palavras-Chave: Coalizão de acionistas. Acordo de acionistas. Grandes acionistas. Distribuição do controle.

1 INTRODUÇÃO

The distinction between dispersed ownership and ownership concentrated in a single large shareholder does not account for the existence of ownership structures with multiple blockholders (Aminadav & Papaioannou, 2020; Edmans & Holderness, 2017). Blockholders are shareholders who hold a significant fraction of a company's capital (Edmans & Holderness, 2017) and have the ability to strategically interact to form coalitions (Bennedsen & Wolfenzon, 2000; Russino, Picone, & Dagnino, 2019; Zwiebel, 1995). When forming a coalition, blockholders make decisions based on the combined level of their shareholdings, as opposed to their individual stakes (Basu, Paeglis, & Toffanin, 2017).

Research on coalition formation has been conducted based on the assumption of a struggle for corporate control among blockholders, using measures that express the voting power of the largest blockholder in a potential or theoretical voting coalition (e.g., Basu, Paeglis, & Rahnamaei, 2016; Jiang, Cai, Jiang, & Nofsinger, 2019; Maury & Pajuste, 2005; Renneboog & Trojanowski, 2007; Russino et al., 2019), leading to conclusions of a speculative nature.

In contrast to this approach, shareholder agreements can facilitate the identification of real coalitions, contributing to the understanding of the strategic relationships between blockholders (Baglioni, 2011; Consoni & Colauto, 2023; López-Iturriaga & Santana-Martín, 2015). The presence of shareholder agreements is notable in companies from Brazil (Carvalho, 2012; Gorga, 2009; Sternberg, Leal, & Bortolon, 2011), the USA (Villalonga & Amit, 2009), and European countries such as France (Roosenboom & Schramade, 2006), Italy (Baglioni, 2011; Bianchi & Bianco, 2006; Gianfrate & Zanetti, 2007), and Spain (López-Iturriaga & Santana-Martín, 2015).

Shareholder agreements are not always established to ensure the exercise of shared control (Barbi Filho, 2000; Enriques & Volpin, 2007; Proença, 2011), indicating the existence of coalitions with different purposes. Therefore, an indicator of the quality of shareholder agreements, as proposed by Carvalho (2012), may inadvertently overlook the unique contractual nexus that guides the actions of different coalitions. Similarly, the use of a measure indicative of the

presence of shareholder agreements may erroneously suggest a homogeneous effect of the existing interaction between the cooperating parties.

The size of the coalition (Bennedsen & Wolfenzon, 2000; Consoni & Colauto, 2023; Gomes & Novaes, 2005; Russino et al., 2019) and the types of cooperating blockholders (Bole, Habus, Koman, & Prasnikar, 2023; Long, Wu, Li, Ying, & Li, 2024; Maury & Pajuste, 2005) are elements that deserve further exploration to understand the complex relationship established among large shareholders. This justifies a deeper investigation into the configuration of real coalitions.

Theoretical models show that shareholder coalitions may be driven by the shared benefits of control or by private benefits of control, depending on the agency relationship sustained by their constituent parties (Bennedsen & Wolfenzon, 2000; Gomes & Novaes, 2005; Zwiebel, 1995). Empirical evidence indicates that the distribution of ownership among multiple blockholders and the heterogeneity among the coalitions formed are crucial to determining the incentives for monitoring activity or expropriation (Consoni & Colauto, 2023; Russino et al., 2019). In this sense, this study aims to analyze shareholder agreements to identify and characterize the coalitions formed in the Brazilian capital market. To identify shareholder coalitions, a comprehensive dataset was gathered, with information manually collected from 949 shareholder agreements distributed across 382 listed companies, covering the period from 1979 to 2019.

The analysis conducted demonstrates that shareholder agreements characterize different types of coalitions, with control coalitions and mutual understanding coalitions being the primary categories of analysis. These coalitions exhibit substantial differences in the number of shareholders involved, the identity and control rights of the cooperating parties, as well as their ability to modify the distribution of control in relation to the apparent ownership structure. Control coalitions are established to ensure that the cooperating parties secure control power, and they tend to prevail over time. The two largest blockholders in these coalitions are often of the same type, non-financial. Although these coalitions can be identified in direct majority control ownership structures, they are more frequent when none of the blockholder members hold sufficient shares to exercise absolute and permanent control. These coalitions make it extremely difficult to challenge control and often achieve substantial representation on the board of directors.

Mutual understanding coalitions reallocate part of the decision-making power from the controlling shareholder to a specific minority investor, whose shareholding is considered strategic and never less than 5% of the company's capital. In general, these coalitions are formed by shareholders of different types. Due to the characteristics of the ownership structure in which these coalitions arise, they may generate positive externalities in corporate governance, mutually reinforced by the cooperating parties, which also benefits other minority shareholders. Previous research, by focusing on the content of clauses present in shareholder agreements (Carvalho, 2012), especially those that specify voting rights (Gorga, 2009; Gorga & Gelman, 2012), does not address the formation of coalitions with such purpose and configuration.

These results highlight attributes of the coalitions, as well as the ownership structure in which they occur, and complement, in the Brazilian context, the

research conducted by Carvalhal (2012), Gorga (2009), and Gorga and Gelman (2012), while also incorporating elements not addressed by Silva, Bueno, Lana, Koetz, and Marco (2015), Gelman, Castro, and Seidler (2015), Leal and Silva (2008), and Sternberg, Leal, and Bortolon (2011). The findings contribute to the literature investigating the role of shareholder coalitions in corporate governance, emphasizing that shareholder agreements enable the characterization of these coalitions in terms of their objectives and configurations, which can lead to an analysis of their *modus operandi* (Bennedsen & Wolfenzon, 2000; Gomes & Novaes, 2005; Russino et al., 2019).

In markets characterized by a notably concentrated ownership structure, as is the case in the Brazilian market (Crisóstomo, Brandão, & López-Iturriaga, 2020; Black, Carvalho, & Gorga, 2009), formal agreements between shareholders can provide valuable insights for investigations into issues related to the allocation of corporate control, the parties that cooperate, how they cooperate, the delineation of strategic dependencies in companies held by the same shareholders, and the provision of information in the Brazilian capital market.

2 LITERATURE REVIEW

Coalitions are more likely when two or more blockholders hold equity positions that, individually considered, fall below the threshold necessary for exercising permanent control (Bennedsen & Wolfenzon, 2000; Gomes & Novaes, 2005; Zwiebel, 1995). By forming a coalition, blockholders collectively seek to concentrate control power to influence strategic decision-making (Basu, Paeglis, & Toffanin, 2017). As evidenced in Wang's (2017) study, there is a tendency for coalition formation among blockholders, even when cumulative voting rules are present, indicating that the smaller blockholder's ability and incentive to monitor the larger blockholder are quite limited.

Empirical evidence shows that coalitions have the potential to impact corporate tax strategies (Long et al., 2024), performance during the expansion-recession-recovery cycle (Bole et al., 2003), the cost of equity capital (Attig, Guedhami, & Mishra, 2008), the dismissal of underperforming managers (Crespi & Renneboog, 2010; Volpin, 2002), dividend distribution (Consoni & Colauto, 2023; Jiang et al., 2019; López-Iturriaga & Santana-Martín, 2015; Renneboog & Trojanowski, 2007), and corporate value (Attig, Ghoul, & Guedhami, 2009; Laeven & Levine, 2008; Leal & Silva, 2008; Maury & Pajuste, 2005; Russino et al., 2019).

The incentives for coalitions to seek private benefits of control seem to depend on attributes such as the voting power of the cooperating blockholders (Attig, Ghoul, & Guedhami, 2009; López-Iturriaga & Santana-Martín, 2015; Renneboog & Trojanowski, 2007), the number of cooperating shareholders, and the voting rights they concentrate (Consoni & Colauto, 2023; Russino et al., 2019). According to Bennedsen and Wolfenzon (2000), the shared benefits of control increase as the number of coalition shareholders rises, due to the difference between the concentration of control within the coalition and the individual cash flow participation of the cooperating parties. Gomes and Novaes (2005) suggest that shared control by blockholders with similar equity stakes may be efficient, as it prevents decisions from being left unmade due to bargaining issues. In this

regard, they argue that the negotiation process within the coalition fosters mutual monitoring among members and management, making it very difficult for a coalition with many members to reach a consensus on strategies that reduce corporate value.

Another important aspect is that the identity of the cooperating parties has been considered relevant to the analysis of coalition formation due to differences in strategic alignment between types of blockholders (Hadlock & Schwartz-Ziv, 2019). Although there is no consolidated theoretical guidance on this matter (Bloch & Hege, 2001; Sauerwald & Peng, 2013), blockholders appear more likely to form a coalition with expropriation incentives when they are of the same type (Basu, Paeglis, & Toffanin, 2017; Laeven & Levine, 2008; Maury & Pajuste, 2005).

The main approach used in the literature is that of theoretical coalitions, based on the premise that blockholders compete for corporate control. In this context, it is assumed that the largest blockholder and the smaller counterparts will form a coalition to secure control power (Bennedsen & Wolfenzon, 2000; Basu, Paeglis, & Toffanin, 2017; Maury & Pajuste, 2005).

On the other hand, shareholder agreements can provide direct evidence of coalition formation (Baglioni, 2011; Consoni & Colauto, 2023; López-Iturriaga & Santana-Martín, 2015). Shareholder agreements are contracts that often regulate the scope and preservation of corporate control within a group of shareholders, while also establishing criteria for granting property rights that govern market liquidity and ownership dilution (Baglioni, 2011; Belot, 2008; Chemla, Habib, & Ljungqvist, 2007; Gorga, 2009).

In France, shareholder agreements were present in 26.4% of initial public offerings between 1993 and 1999 and were positively associated with corporate value (Roosenboom & Schramade, 2006). López-Iturriaga and Santana-Martín (2015) found evidence that, in Spain, shareholder agreements are negatively related to dividend distribution, enabling coalitions to use their control power for expropriation.

Carvalho (2012) assessed the effect of shareholder agreements on corporate value (market-to-book) for publicly listed companies in Brazil and concluded that the presence and quality of such agreements can mitigate potential conflicts of interest among shareholders. The research conducted by Gorga and Gelman (2012) revealed the content of pre-meeting clauses in shareholder agreements, suggesting that such clauses may be used by the parties involved to confer to the board of directors and the general assembly only a formal ratification role. In this perspective, Gelman et al. (2015) presented evidence of a negative relationship between shareholder agreements and corporate value (market-to-book), highlighting that this relationship persists in the presence of pre-meeting clauses that bind the votes of board members.

Shareholder agreements predominate in companies in Brazil with lower ownership concentration, while the concentration of ownership among the three largest shareholders significantly contributes to the presence of these agreements (Silva et al., 2015). Such findings are particularly intriguing, as according to Crisóstomo et al. (2020), in the Brazilian capital markets, the largest blockholder holds, on average, 49.4% of the direct voting rights, and the five largest

blockholders account for 70.7% of the direct voting rights. In this context, Consoni and Colauto (2023) demonstrated that the heterogeneity of coalitions in shareholder agreements alters the incentives that cooperating parties have for extracting private benefits from control.

3 DATA AND PROCEDURES

To locate the shareholders' agreements, 2,251 records of companies, both with and without restrictions on trading securities in Brazil, were tracked. This search covered all active and canceled records available in the General Registry of Regulated Entities on the website of the Brazilian Securities and Exchange Commission (CVM). According to Brazilian corporate law (BRASIL, 1976), a copy of the shareholders' agreement must be filed at the company's headquarters to which the contract refers. Additionally, the company is required to disclose the shareholders' agreements of its owners as a Material Fact (CVM, 2002).

Due to the end of the data collection in January 2020, the dataset covers the period from December 2019 to December 1979 (41 years). The survey resulted in the collection of 949 shareholders' agreements, including amendments, distributed among 382 companies listed on the stock exchange or over-the-counter markets.

The content analysis technique was employed to identify the types of coalitions. The coding process was carried out manually by a single researcher-coder, who, by reading the agreements, identified the purpose of the agreement, the cooperating shareholders, and the terms agreed upon for interaction between them.

Following the purpose criterion (Proença, 2011), the shareholders' agreements were categorized into three predefined groups: (i) control agreements, aimed at organizing the control power; (ii) defense agreements, intended to protect qualified minorities against the abuse of voting power by the controller or controlling group; and (iii) mutual understanding agreements, whose objective is to unite controllers and minority shareholders around common interests, granting minority shareholders rights solely to protect their stake in the company's capital. Based on these categories of analysis, control, defense, and mutual understanding coalitions were identified.

Additionally, shareholder agreements that exclusively contained property-related clauses, which regulated the transfer of ownership or the preference for acquiring it, and established rules for maintaining shareholding participation, were classified as mutual understanding agreements, as the status quo of the cooperating parties in the ownership structure was not altered. Agreements with this sole purpose were found in 19 companies (4.97%) out of the 382 companies with coalitions.

To deepen the understanding of the power dynamics and interaction between the cooperating parties, the content of the clauses related to the exercise of voting rights and control power, the election of administrators, the binding of voting rights of board members, the transfer of shares, and the preference in acquiring them, among others, were collected and analyzed.

To characterize the direct ownership structure of companies with coalitions and the heterogeneity between the coalitions, the company's listing segment, sector of operation, the number of blockholders with 5% or more of voting rights (Edmans & Holderness, 2017), the percentage of blockholders' voting rights, the direct voting rights of the company's three largest shareholders, the number of coalition shareholders, the coalition's direct voting rights, the direct voting rights of the three largest coalition shareholders, and the identity of the two largest coalition shareholders were collected.

To keep the analysis parsimonious, the two largest coalition shareholders were recognized as "non-financial shareholders" (individual, family, holding company, government, corporation) and "financial shareholders" (general financial institution, investment funds, pension funds) (Hadlock & Schwartz-Ziv, 2019). As explained by Sauerwald and Peng (2013), non-financial shareholders tend to have a long-term commitment to the company, being an important factor in coalition formation, while financial shareholders seek short-term financial returns and generally have a more diversified portfolio.

4 ANALYSIS AND DISCUSSION OF RESULTS

4.1 Presence of Shareholder Coalitions

Shareholder coalitions are more common in companies from the financial services and insurance sectors (14.66%), electric power generation and distribution (12.04%), transportation and logistics services (9.95%), construction and engineering (7.33%), telecommunications (7.07%), and commerce (5.76%), totaling 56.81% of the 382 companies with shareholder agreements.

Control coalitions and mutual understanding coalitions predominate. Control coalitions occurred in 322 companies (84.3%) of the 382 companies with shareholder agreements. In 20 companies (5.24%), control coalitions and mutual understanding coalitions coexist, and in one company, there was a control and defense coalition. Mutual understanding coalitions, on the other hand, were identified in 99 companies (25.9%) of the 382 companies with shareholder agreements.

Defense coalitions were rare, being identified in only 4 companies (1.05%) of the 382 companies with shareholder agreements. Due to their low representativeness, these coalitions are addressed succinctly. Defense coalitions are formed exclusively by minority shareholders, allowing them to make joint decisions on certain matters during the general meeting, which they would not be able to achieve individually. Presumably, the articulation between minority shareholders is challenging in the absence of conditions that facilitate coordinated action, such as a long-term commitment to the company, similar investment strategies, homogeneous identities, among others (Sauerwald & Peng, 2013).

Figure 1 illustrates that the number of companies with shareholder coalitions increased from the second half of the 1990s, coinciding with the notable rise in control coalitions.

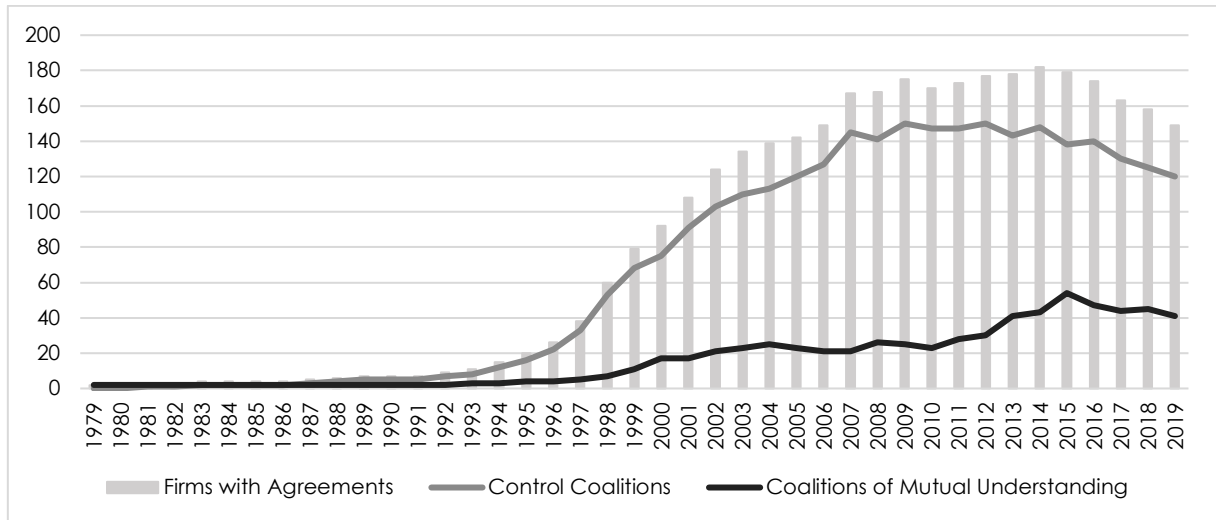


Figure 1 – Companies with shareholder agreements and shareholder coalitions (1979-2019)

Note: The number of companies with active shareholder agreements was determined by analyzing the conditions of validity and termination of these agreements. Brazilian corporate legislation (Brasil, 1976) does not impose a duration limit for shareholder agreements, unlike Italian legislation (Enriques & Volpin, 2007). When there was no fixed end date, termination could depend on liquidity events, such as an Initial Public Offering or the maintenance of minimum shareholding percentages by one or more involved parties. Source: Prepared based on the research data.

The collected data showed the formation of control coalitions among consortium investors who acquired energy, telephony, mining, steel, and transportation service companies in privatization auctions, as well as public service concessions and delegations (highways and airport terminals). According to Siffert Filho (1998), the privatization process led to the rise of several blockholders in the ownership structure of privatized companies, and control became shared. Additionally, the creation of an intricate network of shareholder agreements was identified to organize the direct and indirect control of companies in the telecommunications sector, in which various foreign companies and pension funds of state-owned companies maintained or maintain connections. Although Perkins, Morck, and Yeung (2014) demonstrated that the consolidation of the telecommunications sector in Brazil, after the privatization of Telebrás SA, occurred through the formation of a complex indirect control structure, they did not mention shareholder agreements as one of the mechanisms used.

In Brazil, similar to many other countries, blockholders are represented by individuals or families, followed by institutional investors and the government (Andrade, Bressan, Iquiapaza, & Mendes-da-Silva, 2016; Iwasaki & Mizobata, 2019; Peixoto & Buccini, 2013). The predominance of these shareholders was maintained in the analyzed coalitions. In privatized companies, in particular, the cooperating parties include individuals or families, corporations, private financial institutions in general, as well as BNDESPAR and the pension funds of state-owned companies. In this way, the government participates in the control structure of privatized companies, reflecting the trend highlighted by Bortolotti and Faccio (2009) and Iwasaki and Mizobata (2019) in privatization processes worldwide.

The institutional and legal context also encouraged the formation of control coalitions. Amendments to Brazilian corporate law in 1998 and 2001 impacted, among other issues, shareholder agreements (Black et al., 2009), with the wording of Article 118 of Law 6,404 (1976) enabling the structuring of shareholder agreements to organize and preserve control power in a group of owners, and the binding of the votes of board members elected under the terms of the shareholder agreement, as explained by Gorga and Gelman (2012). Furthermore, the introduction of special listing segments, Level 1, Level 2, and New Market, by the Brazilian stock exchange in 2000 seems to have contributed to the increase in the number of companies with shareholder coalitions.

Figure 2 shows that shareholder coalitions appear in companies with basic corporate governance standards and in companies from the New Market special listing segment. It is noted that, starting in 2010, the number of companies with shareholder coalitions began to predominate in the New Market, and after 2010, control coalitions (NM_Control) outnumbered shareholder coalitions in companies with basic corporate governance standards (Basic).

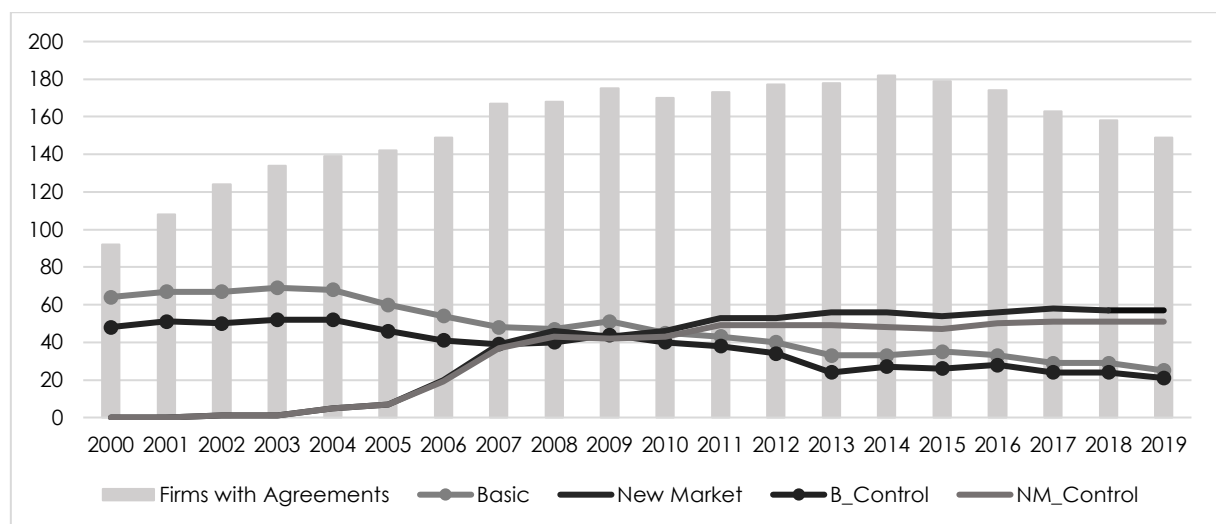


Figure 2 – Companies with shareholder coalitions by listing segment (2000-2019)

Note: The shareholder coalitions of companies listed in the over-the-counter market and in the special listing segments Level 1 and Level 2 were excluded from the figure due to their small number.

Source: Prepared based on the research data.

According to Black et al. (2009), companies in the special listing segments commit to adopting a set of additional corporate governance practices, distinguishing themselves from those with basic standards that meet only the minimum legal requirements. The special listing segments show progressive differentiation among themselves. The New Market segment, in particular, is characterized by stricter corporate governance practices. In this segment, companies are required to ensure the tag-along rights for 100% of the controlling block, maintain a free float of at least 25% of the capital, ensure 25% of independent board members, and issue only voting shares, among other requirements.

Between 2004 and 2007, the Brazilian capital market saw a significant number of initial public offerings (IPOs). Approximately 70% of the companies that decided to go public during this period were listed on the New Market segment (Aldrighi, Afonso, Capparelli, & Santos, 2010; Verne, Santos, & Postali, 2009). From 2000 to 2008, the number of companies with only one class of shares tripled (Bortolon, 2013), and by 2011, just over 50% of listed companies issued exclusively voting shares (Leal, 2011).

Gorga (2009) conducted a detailed analysis of property-related clauses and the exercise of voting rights in shareholder agreements of companies in the special listing segments. The analysis suggested that the issuance of two classes of shares may have been replaced by shareholder agreements aimed at the exercise of joint control in New Market companies. Moreover, the study by Silva et al. (2015) demonstrated that the likelihood of shareholder agreements is higher when there is lower ownership concentration.

4.2 Control Coalitions

The analysis of shareholder agreements revealed that, within control coalitions, interaction was guided by distribution, prior meeting, and transfer of shares clauses, as well as preference in acquiring them.

The distribution clauses specify the size and composition of the board of directors. These clauses represent the commitment made by the control coalition to elect the directors nominated by the cooperating parties, and even pre-determined individuals for the positions of chief executive officer and chairman of the board. Baglioni and Colombo (2013) also highlighted this fact regarding shareholder agreements in Italy.

The distribution clauses have repercussions on the prior meeting clauses. Indeed, this is another sensitive aspect in analyzing the interaction among cooperating parties in a control coalition, guiding joint action in decision-making. Gorga (2009) and Gorga and Gelman (2012) assessed that the prior meeting creates the prerogative for the coalition to decide in advance how to vote on strategic matters at the general assembly, and even by the directors elected by the cooperating parties. Furthermore, Gorga and Gelman (2012) emphasized that these clauses do not always specify the matters to be reviewed in advance by the cooperating parties, with the voting link of the directors being utilized in a specific or indiscriminate manner.

In this context, it is assessed that the control coalition achieves disproportionate representation on the board of directors compared to non-member shareholders, demonstrating that Brazilian corporate legislation established, as clarified by Carvalhosa (2003, p. 273), "an absolute hegemony of the controllers over the board of directors." Therefore, it is presumed that shareholder agreements with distribution and prior meeting clauses that do not specify the voting terms may frustrate opposition initiatives from shareholders external to the control coalition (negative externality). The control coalition, by determining in advance how the majority of the directors must vote, substantially reduces the incentives for promoting in-depth discussions in the board of directors,

highlighting the presence of the obedience-to-authority behavior problem discussed by Morck (2008).

It should be noted that the voting criteria for the prior meeting may also contribute to the analysis of each cooperating party's influence within the coalition, as unanimity is not always required in voting on matters. Conversely, strategic decisions may be made by a majority or by qualified quorums of the coalition. According to Baglioni (2011), only a unanimous decision indicates that the largest shareholder intends to diminish their influence over the other coalition members.

To ensure control power, cooperating parties also include clauses related to the transfer of ownership and the preference to acquire it in shareholder agreements (Gorga, 2009; Gorga & Gelman, 2012). Among the main clauses found, the following stand out: (i) the right of first refusal, which restricts the transfer of equity interests to an external investor outside the coalition; (ii) the tag along right, which prevents association with a third party acquiring a significant equity interest in the coalition, offering the other parties the option to join the sale under the same terms offered by the seller; (iii) the drag along obligation, which favors not only the transfer of control but also the realization of a control premium, as it establishes the duty for joint sale or exit; (iv) the lock-up period, which expresses the contracting parties' interest in maintaining the shares linked to the agreement, adjusting the interests of the parties during critical moments, such as pre- and post-IPO phases, to prevent any party from exiting the coalition in case of insider trading for personal gain; (v) the call option, which guarantees compliance with the obligations assumed in the agreement, allowing one party to purchase equity interest at a certain time or at any time, subject to pre-established conditions; and (vi) the put option, which enables the exit of one of the coalition members. Unlike the call option, a put option grants one party the right to sell its interest to another party, which, in turn, is obliged to purchase it under the pre-established conditions.

According to Chemla et al. (2007), shareholder agreements that restrict the negotiability of ownership when sharing control, such as in a joint venture, are a way for the coalition to maximize incentives for efficient ex ante investments and, consequently, minimize incentives for transfers that destroy value ex post. This occurs because shareholder agreements with these clauses prevent unrestricted negotiations among agents, referred to as dynamic moral hazard. Gomes and Novaes (2005) also referred to shareholder agreements as the means by which the controlling coalition avoids ex post renegotiations that may destroy corporate value in control-sharing arrangements.

However, it should be noted that property-related clauses, by preventing dilution of ownership and undesirable changes in corporate structure, can also significantly reduce the liquidity of the controlling block's shares (Bolton & Thadden, 1998; Maug, 1998), raising the control premium (Dyck & Zingales, 2004) and complicating company acquisitions (Gianfrate, 2007).

Control coalitions were identified in direct ownership structures, both with and without a majority shareholder. Table 1 provides a perspective on these two patterns based on measures that allow for some comparisons.

Panel A of Table 1 shows that in direct ownership structures with a majority shareholder (voting rights $\geq 50\%$), there is a reduced number of blockholders, averaging 2.2 blockholders who account for 90.2% of the direct voting rights. In these ownership structures, the largest, second largest, and third largest shareholders hold, on average, 69.4%, 20.9%, and 6.3% of the direct voting rights, respectively. The sum of the direct voting rights of the second and third largest shareholders is 24.9%, and the difference between the two largest shareholders is 42.5%. According to Bloch and Hege (2001), this small difference in the stakes of the main shareholders indicates weak contestability of control.

Despite evidence of negative interdependence among blockholders (Hadlock & Schwartz, 2020; Wang, 2017; Zwiebel, 1995), in 40% of control coalitions, the majority shareholder is present. In the presence of the majority shareholder (Panel B of Table 1), the coalitions average 5.2 shareholders but can have as many as 76 members when linked to indirect control exercised by families. These coalitions concentrate 86.7% of the direct voting rights. The largest shareholder in the coalition increases their percentage of direct voting rights by 0.384 times, thereby strengthening their control power without the need for a greater effective stake in the company.

Panel A of Table 1 highlights that control coalitions occur in direct ownership structures without a majority shareholder (voting rights $< 50\%$). These structures have, on average, 4.4 blockholders who collectively hold 72.6% of the direct voting rights. The largest, second largest, and third largest shareholders hold, on average, 29.3%, 19.4%, and 11.8% of the direct voting rights, respectively. The combined voting rights of the second and third largest shareholders average 31%, exceeding the direct voting rights of the largest shareholder. The difference between the direct voting rights of the two largest shareholders averages 9.9%, indicating that other large shareholders hold significant ownership stakes. This difference in ownership stakes does not occur in direct ownership structures with the presence of a majority shareholder in the control coalition. In this context, following the perspective of Bloch and Hege (2001), it is possible that the second and third largest shareholders, by not being part of the control coalition, are in a position to compete for control.

Panel B of Table 1 shows that control coalitions in direct ownership structures without a majority shareholder (voting rights $< 50\%$) comprise, on average, 8.85 members, who concentrate 70.2% of the direct voting rights, a percentage that approaches the total voting rights held by all blockholders in the ownership structure. These coalitions are predominant in companies within the New Market special listing segment, which have committed to issuing only voting shares and maintaining a free float of at least 25% of the ownership (Black et al., 2009). Considering the level of free float in this listing segment, it is observed that control coalitions tend to concentrate as many direct voting rights as possible.

It is also noted that the largest shareholder in the coalition doubles their influence in corporate decisions without making a proportional investment, as the leverage measure is approximately twice the percentage of direct voting rights they hold individually. The leverage of the voting rights of the cooperating parties, especially in structures without a majority shareholder, can have similar effects to

Table 1

Distribution of direct voting rights of control coalitions

	Voting rights $\geq 50\%$					Voting rights $< 50\%$					Total				
	Obs.	Avg.	Med.	Min.	Max.	Obs.	Avg.	Med.	Min.	Max.	Obs.	Avg.	Med.	Min.	Max.
Panel A. Direct Ownership Structure															
Number of blockholders	1062	2,198	2,000	1,000	5,000	1529	4,415	4,000	1,000	12,000	2591	3,506	3,000	1,000	12,000
Voting rights of blockholders	1062	0,902	0,972	0,500	1,000	1529	0,726	0,765	0,054	1,000	2591	0,798	0,871	0,054	1,000
Difference between the voting rights of blockholders and the largest blockholder	1062	0,208	0,200	0,000	0,500	1529	0,433	0,453	0,000	0,889	2591	0,341	0,365	0,000	0,889
Voting rights of the largest shareholder	1062	0,694	0,627	0,500	1,000	1529	0,293	0,288	0,052	0,499	2591	0,457	0,429	0,052	1,000
Voting rights of the second largest shareholder	849	0,209	0,193	0,000	0,500	1527	0,194	0,189	0,017	0,499	2376	0,199	0,189	0,000	0,500
Voting rights of the third largest shareholder	597	0,063	0,059	0,000	0,250	1496	0,118	0,108	0,000	0,333	2093	0,102	0,094	0,000	0,333
Difference between the voting rights of the two largest shareholders	849	0,425	0,448	0,000	1,000	1527	0,099	0,061	0,000	0,469	2376	0,215	0,148	0,000	1,000
Voting rights of the second and third largest shareholders	597	0,249	0,232	0,000	0,500	1496	0,310	0,307	0,033	0,667	2093	0,293	0,291	0,000	0,667
Panel B. Control Coalitions															
Number of agreement shareholders	1062	5,220	4,000	2,000	76,00	1529	8,859	6,000	2,000	56,000	2591	7,368	5,000	2,000	76,000
Voting rights of agreement shareholders	1062	0,867	0,970	0,287	1,000	1529	0,702	0,664	0,111	1,000	2591	0,769	0,788	0,111	1,000
Voting rights of the largest agreement shareholder	1062	0,668	0,610	0,207	1,000	1529	0,286	0,287	0,027	0,499	2591	0,442	0,422	0,027	1,000
Voting rights of the second largest agreement shareholder	835	0,203	0,199	0,000	0,500	1513	0,183	0,179	0,000	0,499	2348	0,190	0,185	0,000	0,500
Voting rights of the third largest agreement shareholder	481	0,072	0,070	0,000	0,250	1380	0,105	0,093	0,000	0,333	1861	0,096	0,085	0,000	0,333
Leverage of the voting rights of the largest agreement shareholder ¹	1062	0,384	0,248	0,000	3,320	1529	2,151	1,468	0,000	17,075	2591	1,427	0,949	0,000	17,075

Note: ¹The measure is calculated by the difference between the direct voting rights of the coalition and those of the largest shareholder, divided by the latter's voting rights (López-Iturriaga & Santana-Martín, 2015). Ownership structure data, since 1997, obtained from the CVM website. Source: Prepared by the authors.

issuing two classes of shares (Bennedsen & Wolfenzon, 2000; Villalonga & Amit, 2009). In this regard, Baglioni (2011) and López-Iturriaga and Santana-Martín (2015) provide evidence that coalitions are a mechanism to leverage the control power of the largest cooperating blockholder.

The predominance of control coalitions in structures without a majority shareholder reinforces the idea that blockholders tend to form control coalitions when they individually lack the ability to unilaterally decide the outcome of a vote (Bennedsen & Wolfenzon, 2000; Gomes & Novaes, 2005; Russino et al., 2019; Zwiebel, 1995). These coalitions achieve greater control over corporate wealth, capturing the benefits of concentrated control without fully paying for it, exercising control in a permanent manner while not relinquishing the benefits of diversification.

It is noteworthy that the two largest shareholders in the control coalitions, regardless of the presence of a controlling shareholder, belong to the same type, namely non-financial entities (individuals, families, holding companies, governments, corporations), with a predominance of families. The literature on coalitions suggests that the heterogeneity between the two largest types of blockholders would hinder the formation of control coalitions (Laeven & Levine, 2008; Maury & Pajuste, 2005; Sauerwald & Peng, 2013), which aligns with the results obtained. Moreover, the cooperative interaction among shareholders can be quite complex in family-controlled companies, where different subgroups and internal conflicts exist (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001; Sauerwald & Peng, 2013). According to Sauerwald and Peng (2013), a formal coalition may be extremely necessary to achieve collective decisions, even if informal arrangements are feasible when ownership is mainly distributed among members of the same family.

The presence of financial shareholders is also significant in control coalitions, including pension funds from state-owned enterprises and BNDESPAR, which, due to the obligations, responsibilities, and organizational structure imposed by law, represent government participation. In particular, the way the government integrates into the control block of various companies seems to have been delineated during the formation of mixed consortia in privatized companies (Anuatti-Neto; Barossi-Filho, Carvalho, & Macedo, 2003; Paula, Ferraz, & Ito, 2002). It is observed that the government, as part of a control coalition, subjects its shareholding to clauses regarding the transfer of ownership or the preference to acquire it, an aspect that is sensitive to the liquidity of shares in the event of disinvestment.

Furthermore, by being in the control block, the government has significant influence over corporate decisions without needing to maintain the status of a controller in the apparent ownership structure. The government's participation in control coalitions may also create an environment conducive to obtaining information about economic policy and accessing other resources under advantageous conditions, facilitated by political connections (Arantes, Dicko, & Soares, 2023; Claessens & Yurtoglu, 2013; Frynas, Mellani, & Pigman, 2006).

Although one might speculate that the formation of control coalitions among different categories of shareholders would facilitate direct monitoring of management (Sauerwald & Peng, 2013), the precise extent of the likely monitoring

activity is difficult to gauge, as the roles of controllers and monitors are not clearly separated and depend on the negotiation process within the group (Gomes & Novaes, 2005). The study by De-la-Hoz & Pombo (2016) showed that the presence of institutional blockholders is associated with higher corporate value (Tobin's Q), suggesting that these blockholders mitigate the principal-principal agency conflict in companies in some Latin American countries. However, this effect is not homogeneous. In contrast to what is typically observed in developed capital markets, the authors found that the overall effect of pension funds and insurance companies is negative on company value.

4.3 Mutual Understanding Coalitions

Shareholder agreements that characterize the formation of mutual understanding coalitions commonly include a governance package, comprising clauses that grant the cooperating minority shareholder the right to veto certain matters, the right to appoint a representative to the board of directors, information rights, as well as clauses of a property-related nature that regulate liquidity and dilution of ownership.

These agreements do not contain clauses that require the minority shareholder to vote in the general assembly or the board of directors in conjunction with the controlling shareholder, and they solely reserve rights for the protection of minority participation in the company. In other words, the cooperating minority shareholder does not have control power.

The controlling shareholder commits to ensuring the election of a person nominated by the minority party to the board of directors, and the minority party may require the continuous functioning of the fiscal council, including the appointment of one of its members, and even the creation and establishment of specific committees. Furthermore, the cooperating minority party often assumes a non-competition obligation, while the controlling shareholder commits to maintaining control during the term of the agreement.

The veto right ties certain decisions of the controlling shareholder to the will of the minority shareholder. Thus, notwithstanding the voting rights guaranteed to the minority shareholder by law, the controlling shareholder agrees that certain matters may only be voted on in the general assembly or the board of directors with the prior consent of the cooperating minority party. Frequently, the veto right applies when voting on dividend reductions, changes to the maximum limits of indebtedness, the establishment of reserves, funds, or accounting provisions that affect the rights and interests of minority shareholders, changes to the number of board members, mergers, splits, incorporations, or changes in corporate structure, any amendments to the bylaws, and capital increases or decreases, among others.

Among the property-related clauses, there is a prevalence of the right of first refusal by the cooperating minority shareholder in acquiring the shares of the controlling shareholder, as well as the option to require that the sale of shares included in the control block encompass all shares owned under the same terms as the offer (tag along). Clauses for joint sale obligations (drag along) are also included, which will only be exercised at the initiative of the cooperating minority

shareholder, along with lock-up, call option, and put option clauses. In line with Chemla et al. (2007), it is likely that these clauses reduce the dynamic moral hazard risk of the contractual relationship in mutual understanding coalitions.

The direct ownership structure of companies with mutual understanding coalitions (Panel A of Table 2) is quite concentrated, with few blockholders. On average, there are 2.65 blockholders who hold 85.1% of the total direct voting rights. The difference in direct voting rights between the blockholders and the largest blockholder is 24.4%, while the difference in direct voting rights between the two largest shareholders is 42.5%, on average.

Table 2

Distribution of direct voting rights of coalitions of mutual understanding

	Obs	Agv.	Med.	Min.	Max.
Panel A. Direct Ownership Structure					
Number of blockholders	539	2,648	2,000	1,000	8,000
Voting rights of blockholders	539	0,851	0,903	0,253	1,000
Difference between the voting rights of blockholders and the largest blockholder	539	0,244	0,253	0,000	0,653
Voting rights of the largest shareholder	539	0,607	0,577	0,103	1,000
Voting rights of the second largest shareholder	518	0,174	0,154	0,000	0,494
Voting rights of the third largest shareholder	444	0,067	0,064	0,000	0,270
Difference between the voting rights of the two largest shareholders	518	0,425	0,354	0,000	1,000
Voting rights of the second and third largest shareholders	444	0,237	0,236	0,000	0,600
Panel B. Coalitions of Mutual Understanding					
Number of agreement shareholders	638	4,987	3,000	2,000	64,00
Direct voting rights of agreement shareholders	539	0,807	0,850	0,136	1,000
Direct voting rights of the largest agreement shareholder	539	0,608	0,577	0,044	1,000
Direct voting rights of the second largest agreement shareholder	518	0,154	0,133	0,000	0,494
Direct voting rights of the third largest agreement shareholder	281	0,067	0,057	0,000	0,270
Direct voting rights of the minority shareholder(s) in the agreement	533	0,140	0,132	0,000	0,499

Note: Ownership structure data, since 1997, obtained from the CVM website.
Source: Prepared by the authors.

These percentage differences may not be sufficient to contest the controlling power of the largest blockholder (Bloch & Hege, 2001), unless the smaller counterpart can exert pressure for the sale of its participation (Edmans, 2009). However, the formation of mutual understanding coalitions signals that it is up to the smaller counterpart to apply pressure for monitoring the company's management. Furthermore, these coalitions prevail in companies with two classes of shares.

Panel B of Table 2 shows that mutual understanding coalitions consist, on average, of 4.9 shareholders. The cooperating parties account for 80.7% of the direct voting rights, representing practically the direct voting rights of all

blockholders in the direct ownership structure. The largest, second largest, and third largest shareholders in the coalition hold, on average, 60.8%, 15.4%, and 6.7% of the direct voting rights, respectively. On average, cooperating minority shareholders possess 14% of the direct voting rights, although some may not even hold direct participation with voting rights in companies that issue two classes of shares.

The position of controlling shareholder in mutual understanding coalitions is generally held by non-financial shareholders, representing families or the government. Financial shareholders (financial institutions in general, investment funds, pension funds) hold a minority position in these coalitions and appear to be committed to overseeing management actions. However, the widely mentioned ability of these agents to reduce uncertainties may vary depending on their type, as shown in some studies (Chen, Hobdari, & Zhang, 2009; Clifford & Lindsey, 2016; De-la-Hoz & Pombo, 2016). Cases where the cooperating parties are of the same type are rare.

The formation of mutual understanding coalitions seems to coincide with the increasing presence of institutional investors in listed companies in Brazil (Andrade et al., 2016). Investment funds appear as minority investors in 34 of the 99 companies with these coalitions. Additionally, BNDESPAR figures as a cooperating minority shareholder in 32 of the 99 companies with mutual understanding coalitions.

The strategic investor position held by BNDESPAR in mutual understanding coalitions is achieved through direct investment or through the acquisition of fixed-income securities, specifically debentures. Through BNDESPAR, the government maintains a minority position in companies in the electric power, paper and cellulose, steel and metallurgy, textile, chemical, and food industries, among others. These associative strategies frequently appear in markets characterized by credit restrictions, such as the Brazilian market. In these markets, the government not only promotes large-scale, long-term investments but also provides support to companies when nothing else seems promising (Rodriguez, Diniz, & Ferrer, 2007; Oliver & Holzinger, 2008).

Previous research, such as Carvalhal (2012), Gorga (2009), and Gorga and Gelman (2012), does not mention the existence of shareholder agreements that enable the formation of mutual understanding coalitions. These coalitions deconstruct the idea that shareholder agreements are used to obtain corporate control and are symptomatic of the need for company financing and the difficulty outsiders face in evaluating investment opportunities. The interaction that occurs between the cooperating parties reallocates part of the decision-making power to a specific minority shareholder, usually a non-financial one. The special conditions previously agreed upon align the interests of the cooperating parties and have the potential to reduce the cost of obtaining information for the minority investor, thus mitigating information asymmetry. In this way, these conditions seem to stimulate management monitoring activity in direct ownership structures that, according to Bloch and Hege (2001), would not signal such potential on the part of minority shareholders.

However, it is emphasized that the formation of mutual understanding coalitions may not be sufficient to shape management monitoring activity.

Monitoring the voting of the cooperating minority shareholder in the minutes of the general assembly and the board of directors, on sensitive corporate governance issues such as management compensation and related party transactions, can bring new elements to the analysis of how the cooperation relationship between the controlling shareholder and the minority shareholder works, going beyond what was originally agreed upon.

5 CONCLUSIONS

This study highlights the differences between control coalitions and mutual understanding coalitions in the Brazilian capital market. These differences encompass objectives, the number of cooperating shareholders, voting rights, and the identity of the shareholders involved.

The results indicate that in ownership structures with multiple blockholders, the strategic interaction among them predominantly aims to establish and secure control, potentially undermining the positive effects expected from independent monitoring activities intended to mitigate principal-agent and principal-principal conflicts. Conversely, mutual understanding coalitions are formed by the controlling shareholder (or control block) and one or more minority shareholders with strategic capital investments, facilitating monitoring activities in concentrated ownership structures.

Shareholder agreements generally incorporate clauses related to voting rights and property-related matters, regardless of their purpose. Regarding voting rights, control coalitions are guided by the pre-meeting clause, while mutual understanding coalitions are characterized by granting the minority shareholder veto rights. Thus, a quality indicator of shareholder agreements, such as that proposed by Carvalho (2012), may present inconsistencies as it may not align with the agreements' intended purpose.

In situations where researchers face a lack of clarity regarding specific phenomena, challenges arise in qualifying or measuring them. In this context, this study represents the first step toward understanding the complexity of corporate control structures. Studies of this nature have the potential to contribute to the principal-principal segment of agency theory and to market agents, providing elements that allow for the reevaluation of some issues related to the distribution of control.

Although the results highlight the attributes of the coalitions, it is essential to acknowledge the limitations of this study, such as the difficulty in generalizing the findings to different markets, as well as not extending the analysis to indirect ownership structures and not delving into the effect of coalitions on corporate governance. Future research could address these limitations and explore the role of shareholder coalitions in issues such as maintaining economic groups, financing and investment decisions, information provision, and board structure.

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