Is shareholder democracy a myth? Shareholder agreements and contracting corporate control

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ABSTRACT

Agency theory predicts that firms with “good governance” practices provide representative voting rights to equity stakes—one share, one vote. There are, however, corporate governance mechanisms that deviate from this practice to provide disproportionate control rights to certain shareholders. This study examines over 290 shareholder agreements of publicly listed firms and reveals the use of such contracting practices that bind together corporate control of voting, decision rights, and board of directors, defying the agency theory notion of separation between ownership and control. I find such governance mechanisms most commonly in business group affiliated firms, firms making an IPO with founder’s shares, international joint ventures, and firms with dual-class shares for which lock-in governance arrangements are the norm.
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INTRODUCTION

The hallmark of agency theory is shareholder democracy, represented by voting rights proportional to equity stakes, a practice commonly known as “one share, one vote” (Jensen and Meckling, 1976). However, recent trends in the US capital markets reveal a decline in this practice. Twenty percent\(^1\) of newly listed companies offer dual-class stocks, which create disproportionate control rights to equity stakes for select shareholders, often referred to as the corporate wedge (Villalonga & Amit, 2009). Thus, what once were anomalies in the US capital markets—companies such as Nike and Berkshire Hathaway—have become the norm; recent dual-class initial public offerings (IPOs) include Google (now Alphabet), Uber, Lyft, Snap, Dropbox, Facebook and Zoom. The concern this raises amongst scholars of global corporate governance studying capital markets is that dual-class shares are associated with governance hazards such as control premiums, managerial entrenchment, and the private benefits of control (Dyck & Zingales, 2004; Morck, Wolfenzon, & Yeung, 2005; Nenova, 2003). While the extant literature has dutifully focused on the problems of disproportionate corporate control, little attention has been given to an important causal mechanism: shareholder agreements. These are corporate ownership contracts that legally bind together the corporate actions of the controlling shareholders. Consider for example, three founders who legally tied their voting rights together in a contract clause to allow them to control the company’s direction, until the death or legal incapacitation of any one of them resulting in his decision rights passing to the other.\(^2\) Although such governance contract clauses are common in shareholder agreements of publicly listed firms, their impact on firms’ strategic outcomes is another underexplored topic in strategic management. Strategy scholars tend to agree that contracts lead to transaction efficiency (Williamson, 1973), but few have explored the content of those contracts—such as joint ventures, strategic alliances, licensing agreements, technology sharing

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\(^1\) The Council of Institutional Investors tracks all companies that go public on US stock exchanges; the percentage of IPOs offering dual-class stocks was 19% in 2017, 11% in 2018, and 26% in 2019. In 2017, these IPOs made up nearly half (49%) of the IPO market capitalization.

\(^2\) This example comes from the Natura Cosmetics SA shareholder agreement submitted to the Brazilian securities and exchange commission upon the firm’s initial public offering in 2004.
agreements, and shareholder agreements—which provide detailed insights on firm-level strategy (Argyres, Bercovitz, & Mayer, 2007; Hegde, 2014; Reuer & Ariño, 2007).

Using a hand-collected dataset of 291 contracts involving publicly listed firms, I address a two-part research question: what strategic contract clauses are used to ensure governance control and which ownership structures are most likely to use shareholder agreements? Shareholder agreements are underexplored by scholars of corporate governance because they are often created when firms are still privately held and have therefore been much less accessible to researchers (Bebchuk & Kastiel, 2017). This study, however, examines an institutional context, the BOVESPA stock exchange in Brazil, in which filing requirements mandate the disclosure of shareholder agreements to the national securities and exchange commission (Brazil Federal Law 6.404/76, Article 118, 1976)—transparency that is not required in the US. Over 5,800 pages of contract clauses were analyzed, representing 4,330 firm-year observations from 2000–2008. I find that shareholder agreements designed to reinforce corporate control are far more commonly used on capital markets than the agency theory conception of shareholder democracy suggests. Over 30 percent of the publicly listed firms in my sample have shareholder agreements designed to strategically maintain corporate control. The firms most likely to contract governance are firms making an IPO with founder’s shares; business group affiliated firms; interorganizational firms such as strategic alliances and international joint venture partners, particularly those with technology transfers outside of their home country; and firms with dual-class shares.

The primary contributions of this paper are to (a) provide new insights on a causal mechanism underlying corporate ownership and control and (b) distinguish the ownership contexts in which this mechanism helps account for the effect of governance structure and decision-making processes on firm-level strategy.

**THEORY AND HYPOTHESES**
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What are shareholder agreements and how do they differ from the one-share, one-vote model of corporate governance? Agency theory makes three assumptions about shareholder democracy: voting rights are conferred proportionally to equity stakes; ownership shares have free transferability (which in theory makes it less relevant who any one shareholder actually is); and there is separation between ownership and control. These establish the incentives by which firms operate in Jensen and Meckling’s metaphorical “black box” (1976, pp. 306-307). In practice however, shareholder agreements support quite different corporate governance incentives. These contracts regulate the relationship between select shareholders, binding their corporate governance behaviors regarding voting rights, the transferability of voting shares, and decision rights concerning who will govern the company (Mock, Csach, & Havel, 2018). Although shareholder agreements, like company bylaws, articles of incorporation, and strategic alliance contracts, are enforced by corporate and contract law, they differ from these significantly. In defiance of agency theory’s premise of separation between ownership and control, shareholder agreements closely align ownership and control. In defiance of agency theory’s premise of voting rights being proportional to equity stakes, shareholder agreements bind only select shareholders, giving them the power to decide what actually entails the boundaries of the firm (Coase, 1937). In fact, the primary reason shareholders create these contracts is just what it appears to be—to keep corporate control.

Certain corporate ownership structures lend themselves to need contracts for corporate governance arrangements found in shareholder agreements. Firms with a known overlap between ownership and agency roles require greater contract specificity in the governance requirements needed to execute firm strategy. Without such provisions, the owner-managers might lose decision rights and control of assets to other shareholders. Below, I hypothesize which firms are most likely to need such protections in the form of shareholder agreements.

Initial public offerings
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Often, when firms go public, the founder is still engaged in daily strategic operations and is the primary owner (Nelson, 2003), undermining separation of ownership and control. The primary governance goal then is to lock in control for long enough to ensure that the business model is imprinted and the strategic vision is fulfilled. For example, when Gol, Brazil’s first low-cost airline, had its IPO in 2004, the founders and controlling shareholders created a shareholder agreement that specified a “locked-up [agreement] for a period of twelve months following the date of the public offering” to ensure that the CEO, who was also the board chairman and main shareholder, remained in all three roles (Gol Shareholder Agreement, Clause 28.2, 2004). Another objective of IPOs is to ensure, by restricting the free transferability of shares, that the founders collectively maintain ownership and thus decision rights. In Gol’s case, the transferability restriction clause specified that “each shareholder undertakes not to transfer its shares, in whole or in part” (Gol Shareholder Agreement, Clause 9) to limit other shareholders from penetrating the control block. Nelson (2003) shows that founders are often an organization’s longest-tenured managers. One mechanism that legally binds the founder-firm relationship is to specify the governance terms in the shareholder agreement. Gol’s agreement states that the contract “shall remain valid until the earlier of the occurrence of a qualified public offering or a 20-year period” (Gol Shareholder Agreement, Clause 53, 2004). Such “sunset clauses” guarantee that the founding leadership is there to guide the firm’s strategic direction.

**Hypothesis 1.** Initial public offerings (IPOs) are more likely than seasoned equity offerings (SEOs) to use shareholder agreements to maintain corporate control.

**Business-group-affiliated firms**

Business groups are a ubiquitous ownership form globally and perhaps most infamous for their “parasitic” potential for expropriation schemes (Khanna & Yafeh, 2007; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999; Perkins, Morck, & Yeung, 2014). These conspicuous ownership structures behave

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3 All clauses referenced are available in the online appendix.
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differently than the conventional widely-held standalone firms depicted by Jensen and Meckling (1976), due to, among other things, highly concentrated ownership and the overlapping roles of the owners, board members, and managers (Lazzarini, 2011). Zingales (1994) suggests that the primary driver of their behavior is desire for the private benefits of control. Khanna and Rivkin (2001) suggest that group firms can overcome insufficient jurisprudential development by constructing loose intra-group regulatory schemes and imposing internal sanctions for opportunism among affiliates. Shareholder agreements are often used by business groups, especially those with pyramid structures, to legally tie together several listed and unlisted firms controlled, directly or indirectly, by the apex firm. This ownership chain allows the controlling owner(s) of the apex firm to maximally leverage their capital by disproportionately distributing it in a downward net of listed firms that draw in minority shareholders, while exposing the ultimate owner to minimal risk (La Porta et al., 1999). For example, the shareholder agreement of Ripasa, one of the largest paper and pulp companies in Brazil, stated that the sole purpose of the contract was to bind together voting control of the three family-owned business groups holding the controlling shares into a single holding company, which had direct control of the publicly listed firm Ripasa and indirect control of its four subsidiaries (Ripasa Shareholder Agreement, Clauses 4 and 8.1.2, 1993).

Ultimately, for firms at the bottom of the business group pyramid structure, if the owner at the apex has a perplexingly negligible share of cash-flow rights, the opportunities for expropriation of minority shareholders are ripe (Bebchuk, Kraakman, & Triantis, 2000). The controlling owner can benefit from private gains by such means as (a) engaging the firm in suboptimal transactions that afford preferential terms to other companies that he or she owns, (b) employing related parties within the firm and rewarding them with excessive compensation and perks, (c) siphoning information and assets to related companies within the pyramid, or (d) using the company as a guarantor for other related companies—opportunistic practices collectively known as “tunneling” (Bae, Kang, & Kim., 2002; Joh, 2003; Johnson, Lopez-de-Salines, & Shleifer, 2000). Shareholder agreements can mitigate tunneling by restricting the use of third-
party transitions, by offering assurances of tagalong rights to minority shareholders lacking both decision rights and voting control or by restricting the firm from being used as a source of outside collateral. For example, the shareholder agreement for Pão de Açúcar, Brazil’s largest grocery chain, gives minority shareholders the “option to tag along” and sell their shares at the same price offered to the majority shareholder should a third-party offer arise (Clause 12.1, 1999). Tagalong clauses are designed as anti-tunneling assurances, usually for minority shareholders, so that the majority shareholder will not sell shares to a third party at favorable terms to the majority shareholders as a way to siphon off profits from the minority shareholders. Other anti-tunneling clauses combat self-dealing and mitigate expropriation of minority shareholders. Pão de Açúcar’s shareholder agreement grants veto rights to the minority-appointed board member for any corporate decision related to guarantees or liens on company assets (Clause 9.5). Such contract clauses directly combat self-dealing through tunneling.

**Hypothesis 2.** Business groups are more likely than other corporate ownership types to use shareholder agreements to maintain both direct and indirect control.

**International joint ventures**

Interfirm collaborations such as international joint ventures (IJVs) allow firms to strategically acquire new customers and to gain access to natural resources, new knowledge combinations, and often new technologies by competing globally (Harrigan, 1988; Khan, Lew, & Sinkovics, 2015; Lane, Salk, & Lyles, 2001; Tsang, 2002). However, these gains do not come without risks; IJVs have high failure rates, largely driven by the difficulty of finding the right balance amongst the partners (Franko, 1971; Makino, Chan, Isobe, & Beamish, 2007; Merchant, 2014; Reuer, & Koza, 2000). By collaborating with a local firm that already has a powerful presence in an unfamiliar market, a foreign firm can mitigate its exposure to so-called “liability of foreignness” (Zaheer, 1995; Zaheer & Mosakowski, 1997). However, such partnerships often expose the foreign firm to unanticipated corporate governance risks (Perkins, Morck, & Yeung, 2014; Reuer, Klijn, van den Bosch, & Volberda, 2011). Perkins et al. (2014), for example, show that IJVs that do not
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strategically mitigate the corporate governance and ownership structure differences amongst their IJV partners are more likely to fail. Luo (2002) argues that successful IJVs must focus both on ongoing cooperation between partners and contract specificity that preempts partnership dilemmas. Shareholder agreements, different and separate from joint venture agreements, are a governance mechanism to address such concerns directly by assigning shared corporate control amongst joint venture partners. For example, the shareholder agreement for an IJV involving Arcelor Mittal, one of the world’s largest steel producers, included clauses solidifying its role on the IJV’s governing board and specifying how, when, and where conflicts would be mitigated. Clause 2.1 states that “[t]he Board of Directors of Acesita [the IJV] shall be composed of up to eleven members [of which] four directors shall be appointed by Arcelor, being one of them the Vice-Chairman of the Board,” while Clause 8.0 states that “[t]he parties hereto agree that any dispute resulting from this [agreement] shall be resolved by arbitration in the city of Rio de Janeiro, RJ, according to the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC, Paris, France)” (Acesita Shareholder Agreement, 2005).

Hypothesis 3. International joint ventures are more likely than other corporate ownership types to use shareholder agreements to maintain corporate control.

Dual-class shares

Firms with dual-class shares already have a legal obligation to honor the disproportions in voting rights assigned to each stock-listing class. Dual-class shares, on the rise in the US, are common in many capital markets around the world (Bebchuk, Kraakman, & Triantis, 2000; Dyck & Zingales, 2004; Nenova, 2003). In Brazil, for example, over 47% of companies listed on the BOVESPA have offered dual-class shares, where common shares confer voting rights while preferred shares do not. But beyond these explicit differences between owner classes, the more naïve observer typically doesn’t know who has rights to own the voting-class shares and whether those owners will vote collectively. Shareholder agreements can provide specificity on these related questions. For example, the shareholder agreement of Ambev, Brazil’s largest
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brewery and soft drink company, requires shareholders to vote as a block: “Each shareholder undertakes their right to exercise their vote at the shareholders meetings … in single block with the other shareholder” (Ambev Shareholder Agreement, Clause 5.5.1, 1999).

Shareholder agreements also offer provisions such as anti-freeze-out and anti-squeeze-out clauses to alleviate minority or nonvoting shareholder expropriation risks. Ambev’s agreement specifies that any change to the dividend payout plans requires the approval of both the minority and majority shareholder (Ambev Shareholder Agreement, Clause 5.4, 1999). A freeze-out generally occurs when a majority uses its voting power to force a merger with a separately controlled company under terms which require the minority shareholders to sell their shares for an unfairly low price. A squeeze-out results when a majority uses its voting power to strip minority shareholders of any possible return on their investments and force them to sell their shares back to the majority for an unreasonably low price. For example, the majority might direct the board to declare little or no dividends, depriving the minority of income from their ownership stakes, while paying the majority and their affiliates high salaries. Ambev’s shareholder agreement includes liquidation, dissolution, and shareholder dilution clauses to protect either of the controlling owners from being squeezed out. These governance concerns are exacerbated in firms with dual-class shares.

Hypothesis 4. Dual-class stock firms are more likely than one-share, one-vote firms to use shareholder agreements to maintain corporate control.

DATA AND METHODS

The hand-collected dataset includes the contents of 291 shareholder agreement of BOVESPA publicly listed firms from 2000–2008. To identify which public firms did and did not have shareholder agreements, I obtained the annual disclosures to the Brazilian securities and exchange commission (Comissão de Valores Mobiliários (CVM)) or each listed firm during the time of this study and recorded whether the firm had any contracts on file for each firm-year. The disclosure regulation requires that all listed firms submit new shareholder agreements, amendments to the existing shareholder agreement, and
cancelations. Three hundred and forty-six shareholder agreements were collected. Fifty-five were excluded from the contract clause analysis because the IPO was beyond the scope of this study (13%), the submitted disclosure was a cancelation (e.g., termination agreements) (5.5%), or the disclosure was a duplicate of a contract disclosed in a previous year (81.5%). The remaining 291 shareholder agreements were included in the analysis. These disclosed contracts were from 169 listed firms (see Table 1), which make up 48 percent of the 352 firms listed on the BOVESPA. On average, each firm filed 1.8 contracts. Forty-nine percent of the firms with shareholder agreement specified a contract duration ranging from 10 to 20 years. Contracts that did not specify a term remain—according to the law—enforceable for the life of the firm. The sample includes 4,337 firm-year observations. Firm-level data were also collected from Economatica, CVM ITR, and Valor Economico Grandes Grupos.

The goal is to understand what contract clauses firms are using strategically to maintain corporate control and which ownership types are most likely to use shareholder agreements. With the assistance of a team of Brazilian lawyers and a research assistant with a legal background in contract law, I developed a schema indexing all the enforceable types of contract clause found in the shareholder agreements. There were 71 types (see online appendix). Using this schema, each contract was coded for whether or not it included each type of clause (1=yes/ 0=no). We analyzed 5,800 pages of contract content, with each initial contract averaging 22 pages. To achieve both consistency of contract clause types and inter-rater reliability, each contract was analyzed and validated by at least three coders.

--INSERT TABLE 1 ABOUT HERE--

To identify the ownership type and corporate governance characteristics for each publicly listed firm, I assessed each of the controlling shareholders listed as signatories in the shareholder agreement and triangulated this data with the Economatica stock class and shareholders database and the Grandes Grupos list of Brazil’s largest business groups to determine whether the firm is an IPO, a dual-class shares firm, a business-group–affiliated firm, or an international joint venture. An indicator variable (0/1) is created for
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each type. Control variables at the firm-year level are included for firm size (using sales revenues as a proxy), whether the firm is family owned (Anderson & Reeb, 2004; Villalonga & Amit, 2006, 2009), geographic distance from the home country if one of the controlling shareholders is from a host country, control premiums (Dyck & Zingales, 2004; Nenova, 2003), and whether or not the firm adopted a BOVESPA corporate governance reform (e.g., Novo Mercado, Level 1 or 2). I use logistic regression to analyze, for each firm-year observation, the binary choice of whether a firm has a contractually binding shareholder agreement.

RESULTS

Table 2 provides descriptive data on the 10 most frequent clauses used in shareholder agreements. Of the two most common, both found in 75 percent of the contracts, one is rights granted to the controlling shareholders to select the board of directors. These clauses stipulate how many members each shareholder can appoint and which board positions each member will hold (such as chairman and vice-chairman). The allocation of the number of seats is most frequently based on the percentage of voting rights. Equally common are rights of first refusal. When voting shares are being sold by a departing shareholder, other controlling shareholders have the right to purchase them in order to preserve the control block’s power. This restriction to keep transferability within the circle of controlling owners reinforces the wedge between ownership classes. The third-most common provision, found in 67 percent of the contracts, is that shareholders joining the control block are bound to the terms of the exiting shareholder agreement. Another important element in two of the top five clauses is the rules governing dispute resolution. Seventy percent of the contracts have a clause to specify the legal forum and the laws to be used to adjudicate disputes. Similarly, 67 percent of the contracts specify arbitration as a remedy, providing the rules and location. These two clauses are often used in tandem, attempting first to settle disputes through nonbinding arbitration and, if shareholders still cannot resolve their differences, letting the courts become a secondary and stronger
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enforcement arm of the contract clauses. Though it may be expected that the controlling shareholders vote as a block, I find block voting clauses in only 50 percent of the contracts. The remaining most-frequent clauses grant decision rights to the controlling shareholders to either approve or restrict strategic actions such as mergers, acquisitions, liquidations, and changes to the corporate purpose and rightful use of the firm. The online Appendix lists all 71 types of clauses.

---INSERT TABLE 2 ABOUT HERE---

Table 3 provides results for Hypotheses 1-4. The logit regression results for each governance structure provide the likelihood that shareholder agreements are used more frequently by that ownership type, compared to other listed firm ownership types. Accounting for firm-level corporate governance and ownership controls and industry fixed effects tested in Model 1, Model 2 reveals that IPOs are significantly more likely than SEOs to use shareholder agreements, which supports Hypothesis 1. This supports the notion that shareholder agreements are a frequently used governance mechanism for younger firms with founder-owners seeking to lock in their control. Model 3 supports Hypothesis 2 that business-group–affiliated firms are more likely than standalone firms to use shareholder agreements. Model 4 supports Hypothesis 3 that international joint ventures are more likely than all other firm ownership types to use shareholder agreements. Model 5 supports Hypothesis 4 that dual-class stock firms are more likely than one-share, one-vote firms to use shareholder agreements to maintain corporate control. The results show international joint ventures to be, by far, the ownership structure and stock listing type most likely to use a shareholder agreement. Figure 1 shows that this governance type has the highest marginal effects among all governance types. Overall, these results suggests that there is variation in firms’ motivation to seek corporate governance strategies to lock in long-term corporate control.

---INSERT TABLE 3 ABOUT HERE---

DISCUSSION AND CONCLUSION
This study explored how shareholder agreements are used as a corporate governance mechanism to contractually help the controlling shareholders maintain control. The corporate governance view of shareholder democracy—one share, one vote—has limited ability to explain the governance mechanisms incentivized by many corporate ownership types; namely, IPOs, firms with business-group affiliations, international joint ventures, and firms with dual-class shares. This study opens a black box—the rarely studied content of strategic contracts—by analyzing specific corporate governance clauses. It sheds light on how firms can use contracts strategically to reinforce corporate control.

The implications of this governance causal mechanism are many. Understanding how controlling shareholders protect their voting and decision rights can help us understand why strategic alliances have such high failure rates. My findings also suggest that when alliance partners have different governance incentives, there is a greater need for such contracts to design the best governance practices and incentive structures amongst shareholders. Those firms that do not recognize the use of shareholder agreements as a safeguard against shareholder conflict are more susceptible to expropriation.

The implication for IPOs is that shareholder agreements allow for tractability on how long founders have a contractual obligation to stay with the firm. Examining these disclosures allows a deeper understanding of the effect of the founder’s presence on a firm’s productivity and value. Shareholder agreements can be a useful lens onto an understudied phenomenon—the duration of sunset clauses. Future studies examining the founder’s participation in firm governance might therefore do well to examine the strategic use of shareholder agreements.

Finally, this study provides insight on the mechanism that binds business groups. Prior explanations mainly focus on the social ties, such as family, that bind pyramids; this study shows that legal ties may be just as significant. Business groups that use shareholder agreements defy our understanding of the definition of business groups; that is, that each member is a separate legal entity and that the ties that bind them are social (Granovetter, 1994; Khanna & Rivkin, 2001). Further research could trace the use of contracts
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throughout the business group structure to explore whether social and legal ties exert different influences. Future studies could examine more deeply the mechanisms of corporate governance and ownership structure so as to more clearly unpack their influence on firm performance.

As a field, we must reconcile how these causal mechanisms shape corporate governance and ownership structures. Understanding the incentives that motivate controlling shareholders will increase our understanding of how their behaviors shape corporate strategy.
REFERENCES


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Table 1. Shareholder Agreements of Listed Firms on the BOVESPA

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Frequency</th>
<th>Length</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Shareholder Agreement</td>
<td>169</td>
<td>22</td>
<td>10-25 years (average)</td>
</tr>
<tr>
<td>First Amendment or new shareholder agreement</td>
<td>69</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Second Amendment</td>
<td>28</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Third Amendment</td>
<td>15</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Fourth Amendment or greater*</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>291</td>
<td>5,840</td>
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</tr>
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</table>

*Note: Maximum is 8 amendments
<table>
<thead>
<tr>
<th>Clause Type</th>
<th>Description</th>
<th>Percent of Contracts Containing Clause</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors Appointments</td>
<td>Clauses granting specific shareholders decision rights to appoint board members to represent their interests.</td>
<td>75%</td>
</tr>
<tr>
<td>Right of First Refusal on Shares Sold</td>
<td>Clauses granting rights to the control block voting shareholders to purchase the shares of exiting shareholders.</td>
<td>75%</td>
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<tr>
<td>Law Forum Selection</td>
<td>Clauses specifying the courts and location where shareholder disputes will be adjudicated.</td>
<td>70%</td>
</tr>
<tr>
<td>Binds Shares Later Acquired to the Shareholder Agreement</td>
<td>Clauses guaranteeing future voting shares acquired by existing shareholders will also be bound to the terms of the contract.</td>
<td>67%</td>
</tr>
<tr>
<td>Dispute Resolution through Arbitration</td>
<td>Clauses that specify dispute resolution procedures for arbitration, including arbitration rules and/or jurisdiction.</td>
<td>67%</td>
</tr>
<tr>
<td>Mergers and Reorganizations</td>
<td>Clauses requiring approval of mergers or reorganization of the control structure.</td>
<td>54%</td>
</tr>
<tr>
<td>Acquisition/Sale of Assets</td>
<td>Clauses concerning approval processes/policies for the firm’s acquisition of assets, including property and technology.</td>
<td>51%</td>
</tr>
<tr>
<td>Block Voting Rules</td>
<td>Clauses committing the shareholders to vote as one voice in company meetings.</td>
<td>50%</td>
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<tr>
<td>Approval for Dissolution or Liquidation of the Company/Subsidiaries</td>
<td>Clauses concerning the approval processes/policies for liquidating or dissolving the company or any of its subsidiaries, including liquidation rights.</td>
<td>50%</td>
</tr>
<tr>
<td>Approval for Changing the Corporate Purpose</td>
<td>Clauses requiring approval before changes can be made to the corporate purpose or business mission.</td>
<td>49%</td>
</tr>
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Table 3. Logit Regression - Shareholder Agreements By Ownership Type

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1 Controls</th>
<th>Model 2 H1</th>
<th>Model 3 H2</th>
<th>Model 4 H3</th>
<th>Model 5 H4</th>
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<tbody>
<tr>
<td>Sales Revenue - (log)</td>
<td>0.146***</td>
<td>0.172***</td>
<td>0.171***</td>
<td>0.163***</td>
<td>0.152***</td>
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<tr>
<td></td>
<td>(0.013)</td>
<td>(0.015)</td>
<td>(0.015)</td>
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<td>Geographic Distance</td>
<td>0.000</td>
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<td>-0.000</td>
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<td>(0.000)</td>
<td>(0.000)</td>
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<tr>
<td>Control Premium</td>
<td>0.014</td>
<td>-0.002</td>
<td>0.012</td>
<td>0.018</td>
<td>0.022</td>
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<td></td>
<td>(0.074)</td>
<td>(0.080)</td>
<td>(0.080)</td>
<td>(0.081)</td>
<td>(0.077)</td>
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<td>Family (Main Shareholder)</td>
<td>0.135</td>
<td>0.197</td>
<td>0.119</td>
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<td>-0.088</td>
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<td></td>
<td>(0.101)</td>
<td>(0.104)</td>
<td>(0.107)</td>
<td>(0.109)</td>
<td>(0.109)</td>
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<td>Adopted Corporate Governance Reform</td>
<td>0.748***</td>
<td>0.192</td>
<td>0.184</td>
<td>0.193</td>
<td>0.169</td>
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<tr>
<td></td>
<td>(0.169)</td>
<td>(0.180)</td>
<td>(0.181)</td>
<td>(0.181)</td>
<td>(0.181)</td>
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<tr>
<td>IPO</td>
<td>1.278***</td>
<td>1.313***</td>
<td>1.372***</td>
<td>1.501***</td>
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</tr>
<tr>
<td></td>
<td>(1.11)</td>
<td>(1.11)</td>
<td>(1.12)</td>
<td>(1.18)</td>
<td></td>
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<tr>
<td>Business Group Affiliated</td>
<td></td>
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Source: CVM, Brazil, 2000-2008
Industry fixed effects included but not reported.