

# Shareholder agreements and firm value: Evidence from French listed firms

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## Abstract

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Keywords: Shareholder agreements, large shareholders, corporate governance

EFM Classification: 150

JEL Classification: G32, G34

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## **Abstract**

In listed companies, some shareholders can be signatories to agreements that govern their relations. This paper investigates the effects of such agreements on the valuation of firms. I use a sample of French firms that is well suited for my analysis insofar as French law requires the disclosure of the shareholder agreements' clauses. In line with previous literature, a negative relationship between firm value and the dispersion of voting rights across major shareholders is observed. However, the existence of a shareholder agreement tends to offset this negative effect. This countervailing effect is more pronounced when a "concerted action" provision is in force and/or the contracting shareholders are of the same type. Shareholder agreements thus appear as efficient coordination mechanisms rather than expropriation mechanisms.

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## 1. Introduction

Recent empirical work has shown that many listed companies have a complex ownership structure that involves multiple large shareholders (La Porta et al., 1999; Claessens et al., 2000; Faccio and Lang, 2002). Agency conflicts arising from such ownership structures are different from those observed in widely held firms or firms solely controlled by a large shareholder. Consequently, the market value of firms with multiple blockholders should differ from that of other firms. Laeven and Levine (2007) and Maury and Pajuste (2005) validate this intuition. Moreover, they show that firm value is significantly affected by the distribution of the stakes across large shareholders: valuation decreases as the control of the largest shareholder becomes less contestable.

Beyond this evidence, little is known about the interactions between large shareholders who may have close ties. This is particularly true if they are signatories to a shareholder agreement. Shareholder agreements are explicit contracts by which contracting parties grant each other special financial rights and often organize effective control over the firm. In European countries<sup>1</sup>, the use of shareholder agreements is far from anecdotal: Roosenboom and Schramade (2006) notice that over the period 1993-1999 26.4% of French IPOs featured a shareholder agreement while Volpin (2002) observes that an agreement is in force in 15% of his sample of Italian listed companies.

Such agreements are extensively used by venture capitalists in order to regulate their relations with owner-managers of growing firms (see for instance Kaplan and Strömberg, 2003). However, for listed companies, the literature looking into the “black box” of shareholder agreements is scarce: most studies only note the existence of agreements without precisely analysing their clauses. In this paper, I try to fill this gap and provide new insights about the prevalence of shareholder agreements, the clauses contained in such agreements, and the characteristics of the contracting shareholders.

Theoretical predictions about shareholder agreements have been limited. On one hand these agreements can be analysed as efficient coordination mechanisms (Chemla et al., 2007) that provide the contracting parties with (1) the incentives to make *ex-ante* investments and (2) a protection against *ex-post* adverse wealth transfer. On the other hand they can also be viewed as means of securing control over the firm and hence impeding value-enhancing takeovers. Bennedsen and Wolfenzon (2000) stipulate a negative “coalition formation effect”.

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<sup>1</sup> I am not aware of any paper that describes the use of shareholder agreements in North American listed companies.

In their model, shareholders compete to form coalitions. In cases where the stakes of the shareholders are unevenly distributed, a controlling coalition can emerge with a small number of cash flow rights. In such situations, shareholders of the controlling coalition are prone to extract private benefits at the expense of non-participating shareholders. Analysing this effect is not necessarily an easy task since it requires an identification of the coalitions. Crespi-Cladera and Renneboog (2003) and Gutierrez and Tribo (2004) choose to study possible coalitions. Contrary to these studies, I analyse explicit agreements between large shareholders and hence examine real coalitions.

In this paper, I try to disentangle positive and negative effects of shareholder agreements through an analysis of valuation. Following the methodology adopted in earlier studies (e.g. Morck et al., 1988), I explore the relation between firm valuation and the existence of an agreement between its blockholders. The association between firm value and characteristics of the agreement (contained clauses, types of its signatories) is also investigated.

My analysis relies on a sample of 300 French listed companies over the period 2000-2005. In France, shareholder agreements must be disclosed to the AMF (the French equivalent to SEC) in the five days following their signature as soon as they concern at least 0.5% of the securities or voting rights. The study is focused on the interactions and the agreements between large shareholders that I define as owning at least 10% of the voting rights. In other words shareholder agreements within complex ownership structures are analysed.

The first result refers to the prevalence of complex ownership structures: 37.60% of French listed firms have at least two large shareholders. In 43.75% of complex ownership structures, an agreement (whatever its type) is in force between the two major shareholders. Most of the agreements contain a “concerted action” provision specifying that contracting parties agree to vote together and express a common point of view at the general meeting.

In line with previous empirical tests, my investigations demonstrate a negative relationship between firm valuations and the dispersion of the voting rights across large shareholders. However, this negative effect tends to disappear if the large shareholders are kept together by an explicit agreement. Shareholder agreements thus appear as countervailing mechanisms that offset the negative impact of unevenly distributed stakes. This countervailing effect is even more pronounced if the agreement contains a “concerted action” provision and/or its signatories are of the same type (e.g. two families or two widely held financial institutions). I interpret these results as a validation of the efficient view of shareholder agreements.

The paper is organized as follows. Section 2 describes shareholder agreements and institutional framework. Hypotheses related to the relation between shareholder agreements and firm valuation are discussed in section 3. Section 4 presents the data and provides descriptive statistics. In section 5, empirical results and robustness checks are exposed. Section 6 concludes the paper.

## 2. Shareholder agreements: clauses and French institutional framework

### 2.1) Definition, clauses and the notion of “concerted action”

In many French corporations, shareholders are kept together by an explicit agreement (hereafter “shareholder pact” or “shareholder agreement”). According to Boubaker (2005), this is a prevalent phenomenon insofar as 170 of 510 French listed firms (i.e. one third) have such an agreement.

I simply define shareholder pacts as agreements between all or part of the shareholders. According to Moulin (2002), the purpose of these pacts is to take, retain and organize effective control over the firm. As this paper is focused on listed companies, it is worth mentioning that these pacts are extra-statutory and only concern a small number of shareholders.

The shareholder pact can contain a large number of clauses. According to Daigre et al. (2002), it is possible to distinguish three main categories:

- **financial provisions** are related to the purchase, the sale and the transfer of securities. The most widespread financial clause is the pre-emptive buying right. If such a clause exists, a contracting shareholder wishing to sell her stake is required to offer it to the other contracting shareholders. In other words, the latter have a priority buying right over the shares to be sold.
- **management provisions** organize a distribution of powers and a control over the firms’ decisions. For instance, a clause can prescribe board composition between large shareholders.
- **miscellaneous provisions** mainly concern the “smooth functioning” of the pact. For instance, a referee can be *ex-ante* designated in order to solve possible *ex-post* problems. Termination clauses can also be included: they precisely define *ex-ante* the situations that will lead *ex-post* to the cancellation of the agreement.

Following this classification, appendix A describes the most common clauses of shareholder pacts. It should be noted that this typology is far from exhaustive. The imagination of lawyers is the only limit to the clauses of shareholder pacts. In my analysis of French shareholder agreements, I have indeed come upon nearly 200 different provisions. Therefore, appendix A only describes the most widespread ones.

An important question arises from the signing of an agreement: can it be described as a concerted action? According to French law, an “agreement concluded to acquire or sell voting rights or to exercise these voting rights so as to implement a common policy towards the company” is characteristic of concerted action. The most important feature of a concerted action is the fact that contracting shareholders express a common will and vision about the firm’s strategic decisions.

Depending on their clauses, some shareholder pacts will be described as concerted action and some others will not. For example, a shareholder pact which only contains pre-emptive rights will not necessarily be considered as a concerted action. If the same agreement also includes the obligation for the contracting parties to meet before the general meeting in order to decide on vote orientation, it will constitute a concerted action. In certain cases no financial / management / miscellaneous provisions are written but nevertheless the parties agree to a concerted action and disclose it to the regulator and the investors. I define this situation as “Simple Concert” in appendix A.

Appendix B provides an example of a shareholder pact in order to illustrate the diversity of the clauses. This agreement concerns the cosmetics world leader L’OREAL and was concluded in 2004. Its contracting parties were L’OREAL’s two major shareholders: the Bettencourt Family and the widely held corporation NESTLE who respectively owned 29% and 28% of the voting rights. Following my classification, the pact contains: (1) pre-emptive rights (PREMUT), (2) clauses that govern the cession and the acquisition of securities insofar as contracting parties agree neither to sell nor to buy shares (CAP + FLOOR), (3) provisions regarding board representation (BOARD), (4) an improvement of corporate governance (GOV, with the creation of a specialized board committee) and lastly (5) a concerted action (CONCERT).

## **2.2) Legal obligations and sanctions**

Each shareholder pact must be disclosed to the AMF (the French stock exchange regulator) in the five days following its signature as soon as it concerns at least 0.5% of the

securities or voting rights. This rule allows to know precisely the contracting shareholders, their stakes and above all the agreement's provisions. Since the adoption of a new regulation in 2001, the non-disclosure of the agreement is strictly sanctioned in period of takeover: clauses that are likely to influence the offer price will be considered as null and void.

Concerted action implies specific obligations. French law contains notification procedures that apply to shareholders crossing  $1/20$ ,  $1/10$ ,  $1/5$ ,  $1/3$ ,  $1/2$  and  $2/3$  of the cash flow or voting rights. When shareholder X and shareholder Y are bound by a concerted action, they must jointly disclose their stake. For example, if X owns 25% of the shares and Y rises its stake from 7% to 12%, then (1) Y must disclose the crossing of the  $1/10$  threshold and simultaneously (2) X and Y must disclose the crossing of the  $1/3$  threshold. This obligation is far from insignificant in the French context where the crossing of the  $1/3$  threshold entails a mandatory bid for the acquisition of all existing securities.

These legal disclosure requirements govern the relationships between contracting parties and other investors. It is important to mention the obligations that bind the contracting shareholders. According to French civil law, shareholders pacts are ordinary private contracts (Daigre et al., 2002). Consequently, the failure to comply with the clauses of the agreement might only lead to damage payments.<sup>2</sup>

Due to this specific legal framework, shareholder agreements are difficult to enforce according to Bloch and Hege (2001). Since the only threat is damage payments, there are too many incentives for a contracting shareholder to free-ride and deviate from the *ex-ante* defined obligations.

### 3. Literature and hypotheses

Sharing of control is a question recently addressed by several theoretical papers. Zwiebel (1995) analyses situations from which a complex ownership structure could emerge. Dhillon and Rossetto (2006) argue that the presence of a second large shareholder can shift the voting outcome of the general meeting toward riskier investment projects that minority shareholders prefer. In Bolton and Von Thadden's (1998) liquidity-control trade-off, the presence of a second large blockholder can be detrimental to firm value if she absorbs liquidity without providing any offsetting monitoring effort. In many of these papers (e.g. Pagano and Roëll,

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<sup>2</sup> Consider the following case: shareholder X, who has granted shareholder Y a pre-emptive right, sells her shares to a third person T without giving priority buying right to Y. In such a case, the injured party Y can go to court but can only expect damage payments from X. The cancellation of the transaction is indeed out of the question.

1998), the second large shareholder is analysed as a potential monitor of the first one. In case of shareholder agreements, the former appears a possible ally of the latter. The impact of shareholders' alliances on firm value is an empirical challenge. In order to address this issue, I build my analysis on previous literature that connects firm value and ownership structure (especially the difference in stakes between the shareholders).

### 3.1) Firm value and difference in sizes of the largest owners

In Bloch and Hege's (2001) model, two large shareholders compete for the control over a firm. As neither of them has enough power, these blockholders must attract the votes of minority shareholders. At the shareholders' meeting, each of them proposes a strategic plan that contains a binding commitment concerning private benefits consumption. Bloch and Hege (2001) demonstrate that private benefits rise with the difference between the cash flow rights of the two large shareholders. In situations of low control contestability (i.e. in cases where the first shareholder holds cash flow rights that significantly exceed those of the second shareholder), minority shareholders should anticipate expropriation. They consequently agree to buy the shares only if those shares are sold at a discount (La Porta et al., 2000). Hence, following this model, we assume that **firm value should decrease as the size difference between major shareholders increases**. Lehman and Weigand (2000), Maury and Pajuste (2005) and Laeven and Levine (2007) validate this assumption by using different measures of ownership concentration and contestability (Herfindahl index, Shapley value, wedge between cash-flow rights of the first and the second shareholder).

### 3.2) Shareholder agreements and difference in sizes of the largest owners

Bennedsen and Wolfenzon (2000) analyse the impact of cash-flow and voting rights that are unevenly distributed among shareholders of a closely held firm. In such situations, shareholders find it easy to form coalitions ("*coalition formation effect*") and seize control over the firm while their financial participations are minimal. In this context, shareholders of the coalition are less prone to internalize the costs of their actions and more attracted by the consumption of private benefits. The following example illustrates this point: suppose there are only three shareholders and compare two possible ownership structures. The first structure is  $\{1/3, 1/3, 1/3\}$  and the second  $\{45\%, 35\%, 20\%\}$ . In both situations, two shareholders can share control (because they own more than 50% of voting rights). In the first case this "winning coalition" pools 2/3 of the voting rights while in the second case a winning coalition

could emerge with only 55%. This last situation would be potentially more detrimental to minority shareholders, because the more shares it owns the more a coalition is willing to maximise firm value (“*alignment effect*”).

The existence of a shareholder pact clearly characterizes the existence of a coalition between contracting parties. If a shareholder agreement is in force between two shareholders whose stakes are very disparate in size, the situation is such that the coalition formation effect is maximal. For instance a large shareholder could have signed the agreement with a small shareholder in order to secure an effective control over the firm with the smallest possible cash flow stake. The agreement then appears as an expropriation tool. This argument leads to the following hypothesis:

**H1: A shareholder agreement intensifies the negative impact on firm value of a large difference in sizes of the major shareholders.**

Some empirical findings tend to validate this hypothesis. Gutierrez and Tribo (2004) study possible coalitions among shareholders of Spanish corporations and conclude that firm performances are better when the stakes of the participating members are of similar size. It should be noted that this paper relies on possible coalitions, whereas in my study I am able to identify real coalitions thanks to actual shareholder agreements. Moreover, using an event-study methodology, Gianfrate (2007) notices a negative and significant abnormal return when an agreement is signed and disclosed to the market while the announcement of an agreement termination is associated with positive and significant abnormal return. These results tend to validate the idea that shareholder agreements are expropriation devices.

On the contrary, some authors suggest that shareholder agreements have a positive impact. Chemla et al. (2007) theoretically<sup>3</sup> show that these agreements can induce the parties to make *ex-ante* investments and prevent *ex-post* transfers (the so-called “hold up problem”). They also precisely describe and analyse the qualities of a large number of clauses in terms of protection of shares value. In another theoretical model, Gomes and Novaes (2005) assume bargaining between the members of a coalition that sometimes leads the firm to give up investment projects that are detrimental for minority shareholders. This should have a positive effect on firm valuation.

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<sup>3</sup> To my knowledge, this paper is the only one to provide such theoretical analysis.

The extensive use of shareholder agreements by venture capitalists (see Kaplan and Strömberg, 2003) may be considered as a straightforward proof of their validity. As venture capitalists' behaviour is often viewed as guided by value maximisation, shareholder pacts may be thought as value-enhancing tools.<sup>4</sup>

The link between firm valuation and shareholder agreements has been addressed in previous literature. Based on a sample of 299 French companies conducting an IPO over the period 1993-1999, Roosenboom and Schramade (2006) document a higher valuation for firms that have a shareholder agreement. In Boubaker's (2005) study, the coefficient of a dummy variable "voting pact or in concert action" is positive and sometimes significant, what invalidates his hypothesis of expropriating collusion. Finally, Villalonga and Amit (2007) conclude that voting agreements<sup>5</sup> can not be analysed as means of extracting private benefits. Firm value is indeed enhanced when such mechanisms are used.

Volpin (2002) documents a higher sensitivity of CEO turnover to poor performance when the shareholders of the firm are kept together by an explicit agreement. As a conclusion, such agreements can be seen as efficient governance mechanisms. This is also the point of view adopted by Mancinelli and Ozkan (2006) who analyse the dividend payout policy of Italian firms. They observe a higher payout in firms whose shareholders have signed an agreement, what is interpreted as a conclusive proof of a less severe agency conflict between large and minority shareholders.

To sum up, the literature provides mixed evidence: on one hand shareholder agreements appear as expropriation tools, on the other hand as efficient coordination mechanisms. I try to disentangle these two opposing effects in my empirical analysis.

### **3.3) Characteristics of shareholder pacts**

Concerted action is the main characteristic of some shareholder pacts. By acting in concert, contracting shareholders agree to express a common view about firm's strategic decisions. It is a strong commitment that involves (for instance) the same voting strategy at the general meeting or the adoption of a common position in the case of a hostile takeover. I then expect a stronger effect when the shareholder agreement contains a concerted action. If

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<sup>4</sup> It should be noted that Kaplan and Stömberg (2003) and Chemla et al. (2007) study shareholder agreements within privately-held companies. They describe clauses (e.g. drag along rights) that are not used in listed firms.

<sup>5</sup> Under this type of agreement, a shareholder transfers her voting rights to another shareholder. In my sample, I never come upon such transfer of power. Nevertheless, it is a special means of sharing control.

the purpose of shareholder agreements is an expropriation of minority shareholders, this expropriation should be greater if a concerted action is in force. I then hypothesize:

**H2: The effect of shareholder agreements on firm valuation is more pronounced when a concerted action is in force.**

The type of contracting shareholders is another interesting issue. To my knowledge, there is no theory making the connection between shareholders' types and shareholder pacts. Nevertheless, one could suggest the following intuition which consists in analysing the types<sup>6</sup> of blockholders as a coordination mechanism. It is indeed maybe easier for two families to coordinate their actions than it is for a family and a widely held corporation. Furthermore, shareholders of the same type typically have the same fiscal concerns. Consider an ownership structure with two large blockholders of the same type (e.g. two families): the existence of an agreement between them appears as a "second seatbelt". As they were of the same types, the two shareholders maybe were on the same wavelength concerning firm's strategic decisions. Nevertheless, by signing an agreement, they explicitly make sure of future cooperation. This leads us to the following hypothesis:

**H3: The impact of shareholder agreements on firm valuation is more pronounced when the contracting parties are of the same type.**

Taking into account the types of the shareholders is also an important control process. If contracting shareholders always were of the same types, then the "agreement effect" could in fact be a "type effect". Laeven and Levine (2007) evaluate the impact of differences in sizes and in types between large shareholders and demonstrate that a large wedge between shareholders' stakes negatively impacts firm value, this effect being more pronounced when the two shareholders are of the same type. This result validates the existence of a type effect. It should be noted that the tests of Maury and Pajuste (2005) support another view (same sype leads to lower valuation) whereas Zaabar (2005) does not find any clear relationship.

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<sup>6</sup> "Type" refers to the identity of the shareholder: Family, widely held corporation, widely held financial firm, state...

## 4. Data, methodology, and descriptive statistics

### 4.1) Database construction

For my investigations, I use the SBF 250 firms. The SBF 250 index weights on average (median) 86% (89%) of the whole French market capitalisation over the period 2000-2005.

Over the period 2001 to 2005, I selected all the companies that were quoted as components of the SBF 250 index as of December 31 of those years. I excluded financial corporations (SIC code 6000 - 6999) due to the difficulty of calculating profitability and valuation data. Because of numerous changes in the composition of the index, the sample contains 301 non financial firms.

For each firm, I collected ownership data over 6 years (2000 to 2005). This database is collected manually from firms' annual reports.<sup>7</sup> Although this manual collection is a slow process, it is necessary to the extent that the commercial databases do not provide accurate information.<sup>8</sup> For instance, the ownership component of Thomson One Banker only supplies percentages of capital which can strongly differ from percentages of voting rights. In France, the charter of the firm can indeed authorize double voting rights for registered shares that have been held for a defined number of years (between 2 and 4 years).<sup>9</sup> For example, the main shareholder of LVMH is a holding company which holds only 42.4% of cash flow rights but 60.2% of voting rights. According to Ginglinger and Hamon (2007), 68% of the French listed firms authorize double voting rights. Consequently, this special mechanism deserves strong attention.

I also manually collected data about shareholder agreements. These are easily accessible through a dedicated section in the annual report but also through designated pages on the AMF website. These filings always contain the signature date, the identity of contracting shareholders and the content of the agreement.

Accounting and financial data were collected from Datastream and Worldscope. I eliminate all firms for which required ownership and accounting data are missing. Hence, my sample covers 300 firms and contains a total of 1592 observations. Due to new listings, mergers and delisting, the panel is an unbalanced one.

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<sup>7</sup> These filings are downloadable from the AMF (the French equivalent to SEC) website ([www.amf-france.org](http://www.amf-france.org))

<sup>8</sup> Here, this lack of accuracy does not stem from mistakes in the commercial databases (as mentioned by Dlugosz et al., 2006) but from the fact that French specificities of governance and ownership are not well taken into account.

<sup>9</sup> About this mechanism, see also Bloch and Kremp (2001) and Ginglinger and Saddour (2006).

## 4.2) Methodology

The literature about ultimate ownership, which starts with Laporta et al. (1999), describes precisely the means of enhancing control. Pyramids, dual-class shares, cross-holdings and double voting rights (in the French institutional setting) allow a shareholder to own control rights that strongly exceed cash flow rights. In accordance with this literature, cash flow rights are calculated as the product of ownership stakes along a control chain whereas voting rights are measured as the weakest link (i.e. the minimal voting stake) in this control chain.

The purpose of this study is to analyse the relationships and the interactions between large shareholders. I define a large shareholder as an individual or an entity owning at least 10% of the voting rights of the company. For each large shareholder, I then use the ultimate owner methodology at the 20% and 10% thresholds. For instance, consider a company (firm X) whose main shareholder is the firm Y with 18% of cash flow and voting rights. If the main shareholder of Y is the family F with 15% of cash flow and voting rights, I will say that:

- at the 10% threshold, the ultimate owner of firm X is the family F with 2.7% (=18%\*15%) of cash flow rights and 15% (=min{18%, 15%}) of voting rights.
- at the 20% threshold, the ultimate owner of firm X is the widely held firm Y with 18% of cash flow and voting rights.

It is worth mentioning that my methodology slightly differs from those adopted by Faccio and Lang (2002). With this latter methodology we would say that at the 20% threshold firm X has no controlling owner. Nevertheless, at the 10% threshold, the two methodologies lead to the same results.

In accordance with La Porta et al. (1999), the ultimate owners are classified into five categories: (1) an individual or a family (I add the stakes of shareholders who carry the same family name), (2) the State, (3) a widely held financial institution such as bank or insurance company, (4) a widely held corporation, or (5) miscellaneous such as non-profit organisation, employees...

## 4.3) Variables

Following earlier studies (e.g. Morck et al., 1988; Claessens et al., 2002), I use Tobin's Q, proxied by the market to book ratio, as a measure of firm valuation. I compute this measure as the ratio (Total Assets – Book Value of common equity + Market Capitalisation) / Total

Assets. To reduce the impact of extreme values, I censor the Tobin's Q at the 99<sup>th</sup> percentile. The statistical analysis is hence conducted on a sample of 1576 (=1592\*0.99) firm-years.

Ownership variables are the following. CFR1 denotes the cash flow rights of the first shareholder. This measure is computed at the 20% and 10% thresholds using the ultimate owner methodology. The role of the largest blockholder is ambiguous. On one hand, Shleifer and Vishny (1986) argue that a large shareholder can remedy the free-rider problem emphasized by Grossman and Hart (1980), but on the other hand she might generate a value-destroying overmonitoring (Burkart et al., 1997). Consequently, the sense of the relationship between firm value and first shareholder's stake is not really clear (Holderness, 2003).

I also calculate the ultimate voting rights of each shareholder holding at least 10% of firms' voting rights. This calculation is made at the 20% and 10% threshold. Let  $VR_i$  be the ultimate percentage of the voting rights of the large shareholder  $i$ . The whole sample contains 2168 values for  $VR_i$  as I come upon 2168 shareholders whose direct percentage of voting rights is greater than 10%. For widely held companies (i.e. firms without any large shareholder), I set  $VR_1 = VR_2 = \dots = 0$ .

In order to evaluate the dispersion of powers between the largest blockholders, I compute the measure  $VR_1 - VR_2$ .<sup>10</sup> Following Laeven and Levine (2007),  $VR_1 - VR_2 = 0$  when the firm does not have two shareholders with at least 10% of voting rights. I also create a dummy variable (LOW CONTES) which takes the value of one when  $VR_1 - VR_2$  is greater than its median value<sup>11</sup> and zero otherwise. A negative impact of these variables on firm valuation would be in line with previous studies (Laeven and Levine, 2007; Maury and Pajuste, 2005) which tend to demonstrate the validity of theoretical model (e.g. Bloch and Hege, 2001).

Previous related literature addresses the question of a large discrepancy between cash flow rights and voting rights of the first shareholder. According to Bebchuk et al. (2000), the separation of ownership and control can lead to severe agency conflicts between minority shareholders and the controlling owner. A measure of the wedge between voting rights and cash flow rights of the first shareholder ( $VR_1 - CFR_1$ ) is thus included. Following theoretical and empirical literature (Claessens et al., 2002), I expect a negative relationship between this measure and Tobin's Q.

To test the hypotheses concerning shareholder agreements, I use dummy variables. AGREEMENT (CONCERT) takes a value of one if there are two large shareholders who are

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<sup>10</sup> I exclusively focus on the stakes of the two largest shareholders insofar as most of ownership structures with at least 2 large shareholders (i.e. complex ownership structures) seldom involve more than 2 large owners.

<sup>11</sup> I take the median value for the sample of complex ownership structures (n=592, median=14.03%).

kept together by a shareholder pact (concerted action). In order to test for any type effect, I include a dummy variable that indicates whether the two large shareholders are of the same type (SAME TYPE).

Following previous studies, variables that can influence the valuation of the firm are included. These control variables are the size of the company (SIZE, proxied by the logarithm of the book value of the assets), its growth rate (GROWTH calculated for the year  $t$  as  $\text{Net Sales}_t / \text{Net sales}_{t-1} - 1$ ), its financial leverage (LEVERAGE, ratio Total Debts / Assets) and the tangibility of the assets (TANGIBILITY defined as the ratio of Tangible Assets on Total Assets). Dummy variables are also included in order to take into account sector effect (7 sectors corresponding to 7 primary SIC codes as I exclude financial companies with SIC code 6) and time effect (a dummy variable for each year of observation).

All variables used in this study are described in appendix C.

#### 4.4) Descriptive statistics

##### *Dependent and control variables*

In table 1 (panel A), the observations are classified by year and by industry. Not surprisingly, Tobin's Q was at its highest level in 2000. The distribution of the observations appears homogenous over the 6 years of the study.

The panel B provides descriptive statistics for the variables used in the analysis. On average (median), Tobin's Q is equal to 1.648 (1.335). In the whole sample (including widely held firms with  $\text{CFR1}=\text{VR1}=0$ ), the main shareholder owns 34.7% of cash flow rights and 44.3% of voting rights. Due to pyramids and double voting rights<sup>12</sup>, there is a wedge between voting and cash-flow rights of nearly 9.5%.

[ Insert table 1 here ]

Strikingly, the minimum value for (VR1-CFR1) is negative. This is due to the mechanism of double voting rights. A new shareholder who enters the company does not have this double voting right. If other shareholders are long-term ones, they have earned this special voting

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<sup>12</sup> I observe the presence of double voting rights in 71% of the total sample.

right. In such situations, the number of voting rights is therefore greater than the number of shares and a new shareholder will own fewer voting rights than cash flow rights.

### *Ownership structures and prevalence of shareholder agreements*

Table 2 provides insights into the ownership structures and the distribution of power among large shareholders. First of all and consistent with numerous previous studies (Bloch and Kremp, 2001; Faccio and Lang, 2002), France appears as a concentrated ownership country. Only 9.4% of the observations are widely held firms (i.e. firms without any large shareholder holding at least 10% of the voting rights). Secondly, I notice a complex ownership structure (with at least two large blockholders) in 37.6% of the sample. Excluding widely held firms, the probability that the first shareholder is alone is 58.5%.<sup>13</sup> That is to say that a second large shareholder is a possible monitor of the main shareholder in 41.5% of the firm-years. Complex ownership structures are mainly structures with two large blockholders (in 77% of the cases). The “most complex” ownership structure exhibits 5 large shareholders but is a rare phenomenon (only one firm-year).

[ Insert table 2 here ]

Firms with only one large shareholder are on average fully controlled: there is a majority shareholder with 47.3% of cash flow rights but 56.4% of voting rights. The opposite situation is that of complex ownership structures, where the first shareholder does not hold controlling power and has to bargain with other large shareholder(s). On average, the voting rights of the second shareholder are two times smaller than those of the first shareholder (19.4% against 38.1%).

Shareholder agreements appear as a prevalent mechanism. In complex ownership structures, the two largest shareholders are kept together by an explicit agreement (whatever its type and its clauses) in 43.8% of the cases. When an agreement exists, it mainly expresses the will of acting together (there is a concerted action in 88% of the cases). In 32 firm-years (i.e. 2% of the whole sample), the major shareholders are kept together by an explicit agreement but not a concerted action. FI.AGREEMENT refers to this simple agreement that only contains financial provisions.

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<sup>13</sup> This statistic is comparable to those of Faccio and Lang (2002): in their study, the first shareholder is alone in 64.75% of the French firms with concentrated ownership.

### *Clauses of the shareholder agreements*

In this study, the focus is on large shareholders. I thus describe the agreements whose signatories are large (owning at least 10% of the voting rights). It should be noted that this methodological choice excludes certain agreements, for instance contracts between two small shareholders.

First of all, most of the agreements are in force over several years. For instance, the agreement described in the appendix B is the same in 2004 and 2005. It is worth mentioning that some agreements contain a duration clause whereas others do not. Certain shareholder pacts are described as being “in force as long as the signatories agree to its terms”. In my database, I observe an agreement for 259 firm-years. These 259 observations in fact correspond to 93 different agreements. If the agreement changes over the period 2000-2005 due to new contracting shareholders and/or new provisions, I take it into account. For instance, over the period 2000-2005, the French listed firm COMPAGNIE DES ALPES always had the same major shareholder (the French state) but the second largest shareholder changed 3 times. At each change, a new pact was signed. For this peculiar firm, AGREEMENT=1 over the 6 years and 3 different filings are analysed. From 93 original agreements, 26 replace or render more precise an existing agreement. Within the whole sample of 300 firms, 67 (i.e. 22%) had during at least one year two large shareholders who were signatories to an agreement. In table 3, a description of the clauses contained in these 93 agreements is provided.

[ Insert table 3 here ]

The first conclusion is about prevalence of each type of provision: a financial provision is in force in 78% of the agreements. Two thirds of the agreement specifies pre-emptive buying rights (mutual or unilateral). The number of financial clauses, which could be a proxy for sophistication of the agreement, is 2 on median. If we split the agreements between those that include a concerted action (81) and those that do not (FLAGREEMENT, 12), we observe a larger prevalence of the financial clauses in the latter sample. Management provisions are as widespread as financial provisions to the extent that 81% of the agreements specify a management provision. Strikingly, it should be noted that shareholder agreements can contain a board representation clause (BOARD) even if the signatories are not parties to a concerted action. In fact, this situation arises when a new shareholder enters into the firm, for instance

through private placement, but do not want to influence the running of the company. This was the case in 1999 for the firm HIGH CO in which the company WPP entered through private placement. An agreement specifies that the major shareholder will vote in favour of the nomination of WPP at the board of directors, however WPP does not act in concert with the main shareholder. The objective of the clause is to allow WPP the possibility to have correct information about firm's strategic decisions.

It is worth noting that only 11% of the studied agreements contain the CONTROL provision. It tends to prove that contracting parties are not especially concerned by a possible free-riding of other signatories. Signatories seem to trust each other and do not need any mechanism that would ensure adherence to the signed obligations. Contrary to Bloch and Hege's (2001) predictions, the threat of free-riding does not appear to be an important concern for contracting shareholders. In panel B of table 3, the "complexity" of shareholder agreements is analysed by studying the combination of the clauses. 38% of the agreements are very complex in that they include financial, management and miscellaneous provisions. 79% of the agreements specify at least a financial provision.

In table 4, I try to link ownership structure and shareholder agreements. Within the sample of 592 complex ownership structures (with at least two large blockholders), I distinguish between firms that are concerned by an agreement (259) and firms that are not (333). The percentage of the voting rights held by the major shareholders are described, as well as their joint stakes and the dispersion of their voting stakes. The emerging fact is that the second shareholder holds significantly more rights in instances where she is signatory to an agreement. Nevertheless, the dispersion of the voting stakes does not significantly differ. This descriptive statistic leads us to the conclusion that shareholder agreements do not specially bind shareholders owning very different stakes. If the major shareholder of the company was guided by an expropriation of minority shareholders, she maybe would choose a contracting shareholder that will allow her to seize control over the firm (with a joint stake very close to 50%). However, I notice that the shareholders bound by an agreement control 61.0% of the voting rights whereas those that are not own 54.8%. For a coalition, an expropriation of minority shareholders is more interesting if it owns 54.8% of the voting rights and 45% of the cash flow rights than if these percentages are respectively 61.0% and 49.1%. This simple statistic tends to invalidate the intuition that shareholder pacts act as expropriation mechanisms.

[ Insert table 4 here ]

### *Large shareholders' types*

In panel A of table 5, the types of large shareholders are described. I am only interested here in ownership structures with at least two large shareholders, that is why the sample only contains 592 observations.

[ Insert table 5 here ]

The first shareholder is a family in 63.5% of the observations.<sup>14</sup> In 46.1% of complex ownership structures, the two blockholders are of the same type. When the first shareholder is a family, the probability that the second shareholder is also a family is 64.1%. The other types of large owners (State, Widely Held Company, Widely Held Financial Firm, Miscellaneous) seldom share power with a blockholder of the same type.

In order to address the link between signatories' types and clauses of the agreements, the whole sample is sub-divided into two groups: (1) a sample of firms whose largest shareholders are of the same type (273 firm-years) and (2) a sample of firms whose largest shareholders are not (319 firm-years). In panel B of table 5, the prevalence of each clause (from my typology) is described using dummy variables. For instance, *PREMU* takes a value of one if, during a particular year, the studied firm has at least two large shareholders who grant each other a pre-emptive buying right. From this panel, it can be noted that shareholders of the same type are more prone to enter into a concerted action. On the contrary, simple financial agreements more easily emerge when the two large shareholders are of different types. Concerning the clauses, I observe a larger prevalence of financial and management provisions when the two shareholders are of the same type. This conclusion also holds for the most widespread clause (mutual pre-emptive buying right, *PREMUT*). Pre-emptive buying rights appear as a means of securing a stable control over the firm: by exercising her pre-emptive right, a contracting shareholder prevents the arrival of a new shareholder. This provision may be considered as a protection clause. The sub-sample "same type shareholders" mainly contains families, and maybe families are more prone to consider the arrival of a new shareholder as a threat and want to prevent it. Another interesting feature is the fact that shareholders of the same type use more "complete contract" containing situations (*CASES*) in which coordination is required.

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<sup>14</sup> The first shareholder is a family in 76.6% of the firms with only one large shareholder (unreported statistic).

## 5. Multivariate analysis

In this section, the empirical evaluation of the relationship between firm value and shareholder agreements is presented. The main model is an ordinary least squares (OLS) with sector and year dummies; regressions are run on a sample of 1576 firm-years. As the sample includes a temporal aspect (historical data for 6 years), it allows for panel specifications. I discuss these specifications in the next section dedicated to robustness checks. Here, the following model is estimated:

$$Q_{i,t} = \alpha_{i,t} + \sum_{j=1}^4 \beta_j CONTROL_{i,t,j} + \sum_{t=1}^5 \delta_t YEAR_t + \sum_{i=1}^6 \varphi_i INDUSTRY_i + \sum_{o=1}^n \rho_o OWNERSHIP_{i,t,o}$$

where:

- $Q_{i,t}$  denotes Tobin's Q for firm i at the end of year t
- the four "CONTROL" variables are firms' size, leverage, growth and tangibility of the assets
- YEAR and INDUSTRY are dummy variables
- OWNERSHIP variables refer to the characteristics of the ownership structure: stake of the first shareholder, difference in sizes between the two largest shareholders...

### 5.1) Low contestability, shareholder agreements and firm valuation

First of all, the impact on firm valuation of a large dispersion of voting rights across shareholders is evaluated. In regressions (1) and (2) of table 6, I use continuous (VR1-VR2) and dummy (LOW CONTES) measures. This leads us to the following result: Tobin's Q (a proxy for firm valuation) is negatively related to the difference in stakes between large shareholders. Furthermore, Tobin's Q is lower in case of a low contestability (i.e. when VR1-VR2 is greater than its median value). These regressions highlight the negative impact of a low contestability of first shareholder's power and hence validate Bloch and Hege's (2001) model. This result is in line with previous empirical studies. It should be noted that the economic impact is significant: a one standard-deviation increase in the difference in stakes (VR1-VR2) induces a 0.775 decrease of Tobin's, or a decrease of 6% of its median value.

In regression (1) the cash-flow rights and the wedge between voting and cash flow rights of the first shareholder are also included. Consistent with previous studies (Claessens et al., 2002), the coefficient of the variable (VR1-CFR1) is significantly negative. This is in line with the model of Bebchuk et al. (2000): the use of pyramids and double voting rights appear

as an entrenchment device. Concerning the coefficient of the variable CFR1, it should be noted that it becomes insignificant (1) on the sample of concentrated ownership (n=1428) or (2) if the regression includes a dummy variable that takes a value of one if there is no large shareholder.<sup>15</sup> In regression (1), the negative and significant coefficient may thus be due to the fact that widely held firms are included. Be that as it may, my results tend to validate the idea that the sense of the relationship between firm value and the cash flow rights of the main shareholder is not clear (Holderness, 2003). The regression (1) also leads to the following conclusion: for outside investors, a high discrepancy between voting rights of the major shareholders is of similar importance to a high discrepancy between voting and cash flow rights of the first shareholder (as demonstrated by very close coefficients).

[ Insert table 6 here ]

I now turn to the analysis of shareholder agreements' impact. I interact my measures of control contestability with a dummy variable that takes a value of one if the major shareholders are kept together by an explicit agreement (and 0 otherwise). The results are presented in regressions (3) to (5) in table 6.

Tobin's Q decreases as the contestability decreases (i.e. VR1-VR2 increases) but this effect tends to disappear when the major shareholders are contracting parties of a shareholder pact (regression (3)). In other words, the negative impact of a high wedge between the voting stakes of the major shareholders seems to be exclusively driven by those observations that are not concerned by an agreement (regression (4)). This conclusion holds when using the dummy measure (regression (5)). As further checks, in regressions (6) and (7), I run the regressions on the "complex ownership" sample (592 observations) and sub-divide it into two groups: firms that are concerned by a shareholder agreement and firms that are not. The negative impact of low contestability only appears in second sample. This analysis tends to invalidate hypothesis H1. Rather than expropriation devices, shareholder agreements appear as coordination mechanisms. Even in situations of high wedges between large shareholders' power, shareholder agreements seem to ensure a cooperation that is not detrimental to firm value. Since the first hypothesis is not validated, it is necessary to think about the non negative effect of shareholder agreements. One could interpret them as means of binding the first shareholder to take into account other (contracting) shareholders' expectations. In a case

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<sup>15</sup> For the sake of brevity, these results are not reported here but are available upon request.

of low contestability of her power, the first shareholder may be prone to expropriate minority shareholders (even large shareholders with at least 10% of the voting rights). Nevertheless, when a shareholder agreement is in force, the first shareholder tends to internalize the costs of her bad decisions. As analysed by Gomes and Novaes (2005), decisions are taken in light of the coalition's stake. These regressions may be a validation for an alignment effect but not for a coalition formation effect (Bennedsen and Wolfenzon, 2000).

## **5.2) Concerted action and blockholders' types**

The purpose of shareholder agreements might depend on the provisions they contain. When a concerted action provision is in force, large shareholders pledge to express a common view about firm's important decisions. This commitment is very strong; I therefore expect that its effect on firm value is more pronounced than that of a simple financial commitment. Hypothesis H2 relies on this intuition. From previous regressions we deduce that shareholder pacts do not lead to lower valuation and thus can not be considered as expropriation mechanisms. This should particularly be true when the agreement contains a concerted action provision.

In order to test for this intuition, I distinguish between agreements that are constitutive of concerted action (CONCERT) and those that are not (FI.AGREEMENT). The large majority of the shareholder pacts matches the first category. In regression (1) of table 7, I interact these dummy variables with my measure of dispersion of voting stakes. This test tends to validate the hypothesis H2: whereas a simple financial agreement does not significantly countervail the negative impact of a low contestability of the first shareholder's power, concerted action does. Concerted action seems to preclude the largest shareholder from an expropriation of other shareholders.

[ Insert table 7 here ]

Another important feature of shareholder agreements is the identity of its signatories. We assume a possible more pronounced effect of the shareholder agreement if the contracting parties are of the same types (e.g. two families or two banks). Following Laeven and Levine (2007), I start with a test of a possible type effect (regression (2)). Like shareholder pacts, common types seem to compensate for the negative effect of a large dispersion of the voting stakes. This is in line with Laeven and Levine's (2007) study. One could argue that a

shareholder agreement is a substitute for the natural coordination device provided by common types. In regression (3), I try to disentangle the possible “type” and “agreement” effects by creating three interaction variables. From this analysis, I conclude that shareholder agreements and common types are both means of countervailing the negative effect of a large dispersion of the stakes between the two major shareholders. When two large shareholders are kept together by a concerted action and are of the same types, the negative effect of a large dispersion fully disappears. This is a validation for the hypothesis H3.

At this point, my analysis of the shareholder agreements can be summarized as follows:

- (1) rather than expropriation devices, these agreements appear as coordination mechanisms that mitigate the agency conflict arising from a large dispersion of the powers. Hypothesis H1 is rejected.
- (2) the positive effect of shareholder pacts is greater when the contracting shareholder are kept together by a concerted action. This validates the hypothesis H2.
- (3) the positive effect of shareholder pacts is more pronounced in situations where the signatories are of the same type. This validates the hypothesis H3.

### **5.3) Concerted action and other clauses**

It could also be worth analysing the impact of each type of clause. One of the difficulties is that agreements typically contain numerous clauses; it is consequently difficult to disentangle the effect of each clause. In line with my previous results, I assume that concerted action has a strong explanatory power. Consequently, I try to evaluate the impact of a peculiar clause by interacting it with the concerted action provision. This is done in regressions (4) to (6) of table 7. In regression (4), a dummy variable that indicates whether the agreement contains a financial clause (whatever its type) is included. In regression (5), the impact of pre-emptive right is evaluated. Regression (6) investigates the effect of a special management provision regarding board representation (BOARD).

These regressions lead to the conclusion that a concerted action is a good coordination mechanism in cases where it is combined with a financial clause. This is in line with the theoretical model of Chemla et al. (2007) which focuses on the positive effects of financial clauses. This is especially true for pre-emption rights (regression (5)). I repeat such analysis for the other financial clauses and notice similar results for clauses specifying a threshold under which the percentage of voting or cash flow rights must not pass (FLOOR). On the contrary, an agreement containing a concerted action provision and another financial clause

(CAP or JOINT or DILU) does not appear to be a value-enhancing mechanism.<sup>16</sup> From regression (6), I conclude that a simple concerted action provision is better than a combination of a concerted action and a clause regarding board composition.

These results are not necessarily easy to interpret. The allocation of board seats between contracting shareholders can be viewed as a means of securing control over the firm. If it allows the controlling coalition to own a percentage of seats that is greater than its percentage of cash flow rights then this coalition will be more interested in extracting private benefits. The result is in line with that of Villalonga and Amit (2007) who demonstrate a negative relationship between firm value and disproportional board representation.

#### **5.4) Robustness checks**

In this section, I address 4 issues of robustness. Firstly, the question of control thresholds arises. In previous regressions, CFR1, VR1, VR2 are calculated at the 20% threshold. I re-run my regressions using data computed at the 10% threshold. At the 10% threshold, my methodology completely fits (see above) that adopted by Faccio and Lang (2002). My results will thus be directly comparable to those of Laeven and Levine (2007). In regression (1) of table 8, I do not point out any results opposing those observed in tables 6 and 7. The shareholder agreement tends to mitigate the agency conflict that could arise from a high dispersion of the stakes.

Secondly, contestability metric could be differently computed, for instance as a ratio rather than a difference. In regression (2), dispersion is calculated as the ratio VR1/VR2 (this ratio is set equal to 0 when the firm does not have at least two large shareholders). As an additional check, I include in regression (2) two dummy variables : WIDELY HELD is set equal to 1 if the firm does not have any shareholder with at least 10% of the voting rights; MAJORITY takes a value of one if the first shareholder holds at least 50% of the voting rights. These variables are included in order to control for the specificities of these two types of extreme ownership structures (Laeven and Levine, 2007). Using these specifications, the main conclusions hold.

Thirdly, another measure of shareholder power could be used. In my previous empirical analysis I rely on voting rights percentages. The Shapley value provides another interesting metric of the power of each shareholder as it reflects her ability to influence the result of a

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<sup>16</sup> For the sake of brevity, these results are not reported

voting game. It measures the extent to which this shareholder is pivotal to the voted decision.<sup>17</sup>  $SV_i$  denotes the Shapley value for shareholder  $i$ ; it is equal to 0 in cases where there are no large shareholders. For listed companies, the computation of this index is a complex task because the stakes of many shareholders (forming the free float) are not known. As this study is especially focused on the power of large blockholders, it will be assumed that all the shareholders who do not own at least 10% of voting rights do not have any power in the voting game. The Shapley value is calculated as its continuous version for oceanic games (Milnor and Shapley, 1978). In order to evaluate the dispersion of powers between the two largest blockholders, the measure  $SV_1 - SV_2$  is computed. From regression (3), I also conclude that the negative effect of a large dispersion of voting rights across large shareholders is fully compensated by a “shareholder agreement effect”.

[ Insert table 8 here ]

Lastly, another econometrical analysis using panel specifications is conducted. As it contains historical data over 6 years, my database allows for such econometrical analysis. In regression (4) to (7), panel data fixed effect specifications are performed. It should be noted that the Hausman test leads us to prefer fixed effects rather than random effects. Similarly, Tobin’s  $Q$  decreases as the difference ( $VR1 - VR2$ ) increases; however a shareholder pact tends to offset this negative effect. This countervailing effect is greater if the large shareholders act in concert (validation of hypothesis H2). The hypothesis H1 is invalidated, which leads to analyse the agreements as coordination tools rather than expropriation mechanisms.

## 6. Conclusion

Using a sample of 300 French listed firms, I analyse shareholder agreements within complex ownership structures (i.e. ownership structures that involve at least two large shareholders). The main finding is that the shareholder agreements tend to mitigate the conflict that could arise from a large dispersion of powers across large shareholders. A possible interpretation is that shareholder agreements act as an efficient coordination mechanism preventing an extraction of private benefits by the largest shareholder. Shareholder agreements possibly force the first shareholder to take into account the expectations of her partners and hence to limit her expropriating behaviour.

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<sup>17</sup> Further details about Shapley value can be found in Zingales (1994) or Nenova (2003). See also Leech (2002) and Prigge (2007) for a discussion about the relevance of this index.

Be that as it may, this paper highlights the value of devoting considerable attention to this special governance issue. Many questions indeed arise from the empirical evidence. Why do some large shareholders choose to be kept together by an explicit agreement whereas others do not? Are financial decisions of firms controlled by coalitions of shareholders different from those of other firms? Should the agreement be analysed as an endogenous process that emerges in response to a special environment? All of these questions seem promising avenues for further research.

## Appendix A: A classification of shareholder pacts' clauses

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### *Financial Provisions*

Mutual pre-emptive buying right <b>PREMUT</b>	Shareholder X (Y) wishing to sell her shares is required to offer these shares to shareholder Y (X). Hence, X grants Y a priority buying right of her shares.
Unilateral pre-emptive buying right <b>PREUNI</b>	Similar to mutual pre-emptive except that only one of the contracting parties grants to others the priority buying rights of her shares. For instance X can freely sell her stake whereas Y is required to offer it to X.
Joint exit <b>JOINT</b> (often referred as tag along right)	In case shareholder X (Y) sells her stake to a third party T, shareholder Y (X) has the right to join the deal and sell her shares at the same price and conditions X (Y) obtained. As for pre-emptive right, this clause can be mutual or unilateral.
<b>FLOOR</b>	Contracting shareholder is committed not to let her percentage of shares and/or voting rights pass below an ex-ante defined threshold (floor).
<b>CAP</b>	Contracting shareholder is committed not to let her percentage of shares and/or voting rights exceed an ex-ante defined threshold (cap).
Anti dilution protection <b>DILUTION</b>	According to this clause, contracting shareholders are protected against the dilution of their voting power. For instance shareholder X agrees not to favour an SEO or any financial operation which would dilute and weaken shareholder Y.

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### *Management provisions*

Board representation <b>BOARD</b>	Shareholder X (Y) agrees to favour the election of shareholder Y (X) as member of the board of directors. The allocation of board seats can also be prescribed by such a provision.
<b>CONCERT</b>	Shareholder X and shareholder Y are bound by a concerted action.
Concerted situations <b>CASES</b>	Shareholders X and Y are kept together by a concerted action, moreover a clause specifies the situations in which this concerted action emerges (e.g. before any important financial operation, in case of a hostile takeover, before a general meeting...)
<b>SIMPLE CONCERT</b>	No explicit agreement exists between shareholder X and shareholder Y but they are committed to act together and hence have disclosed a concerted action.

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### *Miscellaneous provisions*

<b>CONTROL</b>	This category pools all the clauses that are likely to ensure a harmonious functioning of the agreement: nomination of a "manager" (whose role is to make sure that each contracting shareholder respects her obligations), nomination of a referee in case of disagreement...
<b>TERMINATION</b>	Situations that will lead to the termination of the agreement are listed <i>ex-ante</i> . For instance, the termination of the shareholder pact can be imposed in case of a shareholder passing below a defined threshold.
<b>GOVERNANCE</b>	This category pools all the clauses that prescribe actions likely to enhance the governance of the company: creation of an audit committee, withdrawal of double voting rights...

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**Appendix B: an instance of shareholder agreement**  
(source : L'Oréal's investors website, [www.loreal-finance.com](http://www.loreal-finance.com))

*(Here: simplified version of the provisions. Source: press release, February 3<sup>rd</sup>, 2004)*

- The Bettencourt family and Nestlé have agreed to keep all of their L'Oréal shares for a period of 5 years [...]. However, should there be a public tender offer for L'Oréal shares by a third party, the Bettencourt family and Nestlé would have the right to tender their shares or to make a counter-offer.
- The Bettencourt family and Nestlé have agreed not to increase, either directly or indirectly, their respective shareholdings in L'Oréal, during the lifetime of Mrs. Liliane Bettencourt, and in any case during a period of at least 3 years [...].
- The Bettencourt family and Nestlé have mutually agreed to mutual rights of pre-emption on their respective shareholdings in L'Oréal for a period of 10 years. The Bettencourt family has the option of substituting a third party, notably L'Oréal.
- A shareholders meeting will be asked to approve the nomination of three board members designated by the Bettencourt family and three board members designated by Nestlé [...]. At the board of directors of L'Oréal, the election of 2 Vice Chairmen, one nominated by the Bettencourt family and one nominated by Nestlé will also be proposed.
- The Board of Directors of L'Oréal will also be asked to create a Committee for Strategy and Implementation, made up of 6 members, including the CEO of L'Oréal who will be Chairman. 2 members of this committee will be proposed by the Bettencourt family, 2 by Nestlé and 1 independent board member will also be included. It will meet 6 times a year. As in the case of the other Board committees, it will have a role of advice and recommendation, with the Board retaining all of its responsibilities.

*(Other elements from the 2004 annual report)*

**Duration**

Unless otherwise stipulated, the Agreement will remain in force for five years from April 29<sup>th</sup> 2004, and in all cases until a period of six months has elapsed after the death of Mrs Bettencourt.

**Concerted action between the parties**

The parties have declared that they will act in concert for a period of five years from April 29<sup>th</sup> 2004 onwards.

### Appendix C: Definition of the variables used in the study

<b>Dependent variable</b>	
Tobin's Q	= (Total Assets – Book Value of Common Equity + Market Capitalisation) / Total Assets
<b>Control variables (Source : DATASTREAM / WORLDSCOPE)</b>	
SIZE	= Log (Total Assets expressed in millions euros)
GROWTH	= [Net Sales(t) / Net Sales(t-1) – 1 ] for year t
LEVERAGE	= Total Debts / Total Assets. Total Debts is the sum of long and short term debts.
TANGIBILITY	= Tangible Assets / Total Assets. Tangible assets is proxied by the item “Property, plants and equipments”.
<b>Ownership variables (Source: Firms' annual reports)</b>	
CFR1 (2) (3)	Cash Flow Rights of the first (second) shareholder. If there is no large shareholder with at least 10% of the voting rights, CFR1=CFR2=CFR3=0. The calculation of these variables is made at the 10% and 20% thresholds.
VR1 (2) (3)	Voting rights of the first (second) (third) shareholder. Zero if no large shareholder. The calculation of these variables is made at the 10% and 20% thresholds.
VR1 - VR2	The difference between voting rights of the first and the second shareholders. Computed if there are at least two large shareholders, 0 otherwise.
SV1	Shapley value of the voting rights of the first shareholder. Zero if there is no large shareholder.
SV2	Shapley value of the voting rights of the second shareholder. Zero if there is no large shareholder and zero if the first shareholder holds a percentage of voting rights greater than 50%.
SV1 - SV2	The difference between Shapley values of the first and the second shareholder. Computed if there are at least two large shareholders, 0 otherwise.
<b>Ownership dummy variables (Source: Firms' annual reports and AMF website).</b>	
AGREEMENT	Dummy variable that takes a value of 1 if there are two large shareholders (each holding at least 10% of voting rights) bound by a shareholder agreement; 0 otherwise.
CONCERT	Dummy variable that takes a value of 1 if there are two large shareholders kept together by a concerted action; 0 otherwise.
FI.AGREEMENT	Dummy variable that takes a value of 1 if there are two large shareholders kept together by an explicit agreement (for instance a simple pre-emptive buying right) but not by a concerted action; 0 otherwise.
SAME TYPE	Dummy variable that takes a value of 1 if the two large shareholders are of the same type (e.g. two families), 0 otherwise.
LOW CONTES	Dummy variable that takes a value of 1 if VR1-VR2>0.1403.

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**Table 1: Descriptive statistics**

In panel A, the 1576 observations of the sample are classified by sectors (rows) and years (columns). For each combination Year/Sector, the average Tobin's Q is given. There are 7 sectors corresponding to 7 one-digit SIC codes since financial sector (SIC 6) is excluded.

**Q** is calculated as the ratio [(Assets - Book value of common equity + Market capitalization) / Assets]; **SIZE** as the logarithm of total assets (expressed in millions euros); **GROWTH** for year t as the growth rate of net sales between years t-1 and t; **LEVERAGE** as the ratio of the sum of long and short term debts on total assets; and **TANGIBILITY** as the ratio of Tangible Assets on Total Assets. **CFR1 (VR1)** represents the cash-flow rights (voting rights) of the largest shareholder. Both variables take a value of 0 if there is no large shareholder owning at least 10% of the voting rights. Both variables are computed at the 20% threshold. **VR2** is the ultimate voting rights of the second largest shareholder (at the 20% threshold). The variable **VR1 – VR2** takes a value of 0 if the firm does not have at least two large shareholders.

**Panel A : Classification by sectors and years**

Sector	Year	2000		2001		2002		2003		2004		2005		Sample	
	n	Mean	n	Mean	% of Total										
1	9	1,33	10	1,22	8	1,23	8	1,31	8	1,94	10	1,61	53	1,44	3,4%
2	43	1,65	47	1,76	42	1,52	42	1,59	41	1,66	41	1,63	256	1,64	16,2%
3	59	1,88	63	1,57	62	1,22	63	1,39	64	1,51	61	1,63	372	1,53	23,6%
4	24	2,58	27	1,66	27	1,50	25	1,67	26	1,58	28	1,68	157	1,77	10,0%
5	50	1,71	55	1,47	54	1,33	52	1,36	49	1,40	45	1,48	305	1,46	19,4%
7	47	3,02	54	1,78	54	1,31	54	1,59	52	1,69	48	1,70	309	1,83	19,6%
8	16	3,51	21	2,51	22	1,31	22	1,56	22	1,63	21	1,85	124	1,99	7,9%
Total	248	2,17	277	1,69	269	1,34	266	1,49	262	1,58	254	1,64	1576	1,65	100%
% of Total	15,7%		17,6%		17,1%		16,9%		16,6%		16,1%		100%		

**Panel B : Descriptive statistics for the variables used in the analysis**

	Mean	Median	Min	Max	Std Dev.
Q	1,648	1,335	0,577	7,555	0,978
SIZE	2,927	2,764	0,997	5,228	0,852
GROWTH	0,155	0,069	-1,000	10,184	0,463
LEVERAGE	0,246	0,244	0,000	1,690	0,168
TANGIBILITY	0,204	0,157	0,004	0,966	0,174
CFR1	0,347	0,313	0,000	0,994	0,240
VR1	0,443	0,425	0,000	1,000	0,263
VR1 - CFR1	0,095	0,072	-0,078	0,583	0,109
VR2	0,073	0,000	0,000	0,473	0,105
VR1 - VR2	0,070	0,000	0,000	0,664	0,137

**Table 2: Ownership structures**

I allow for three types of ownership structures: **Widely Held** (no shareholder with at least 10% of the voting rights), **One Controlling Shareholder** (only one large shareholder with at least 10% of the voting rights) and **Multiple Large Shareholders** (at least two large shareholders, each of them owning at least 10% of the voting rights). **CFR [VR] (1), (2), (3)** denotes the cash flow [voting] rights of the first (second) (third) large shareholder. These variables are computed at the 20% threshold. Average and median values (in parentheses) are given.

**AGREEMENT** takes a value of one if the two largest blockholders are kept together by an explicit shareholder agreement (whatever its type) and 0 otherwise. **CONCERT** takes a value of one if the two largest blockholders are kept together by a concerted action and 0 otherwise. **FLAGREEMENT** takes a value of one if the large shareholders are bound by a shareholder pact which is not constitutive of concerted action.

Ownership Structure	Prevalence		Equity Ownership and Control (%)					
	n	% sample	CFR1	VR1	CFR2	VR2	CFR3	VR3
Widely Held	148	9,4%	-	-	-	-	-	-
One Controlling Shareholder	836	53,0%	43,72 (46,60)	56,45 (63,21)	-	-	-	-
Multiple Large Shareholders	592	37,6%	30,71 (29,41)	38,12 (34,4)	16,07 (14,25)	19,37 (16,90)	2,75 (0)	3,34 (0)
- of which 2 large	456	28,9%	32,92 (31,70)	40,33 (39,68)	15,90 (13,31)	19,32 (16,42)	-	-
- of which 3 large	124	7,9%	23,56 (23,46)	31,03 (30,36)	16,85 (16,45)	19,80 (18,83)	11,84 (10,82)	14,63 (13,47)
- of which 4 or more large	12	0,8%	20,59 (19,72)	27,68 (26,45)	14,37 (15,63)	16,75 (15,86)	13,26 (13,09)	13,62 (12,66)
- of which AGREEMENT	259	16,4%						
- of which CONCERT	227	14,4%						
- of which FLAGREEMENT	32	2,0%						
Total	1576	100%	34,73 (31,29)	44,27 (42,50)	6,04 (0,00)	7,28 (0,00)	1,03 (0,00)	1,26 (0,00)

**Table 3: Shareholder agreements' clauses**

In my total sample, 259 firm-years have at least two large blockholders who are kept together by a shareholder agreement. These 259 “agreement-years” correspond to 93 original shareholder agreements’ filings. Following appendix A, the clauses (panel A) and the combinations of these clauses (panel B) are described. The sample of 93 agreements is also subdivided in order to distinguish agreements that specify “concerted action” (**CONCERT**) and agreements that do not (**FI. AGREEMENT**).

Explanations for panel A: when a financial (management) (miscellaneous) provision is in force, **Financial (Management) (Miscellaneous) Provision** takes a value of one. **Number of Provisions** is the sum of the dummy variables related to each clause. (e.g. if a mutual pre-emptive right and an anti-dilution clause are observed then Financial Provision=1 and Number of Provisions=2).

Explanations for panel B: I allow for three categories of clauses (Financial/management/miscellaneous) and analyse their combinations. For instance, in 22% of the cases of concerted action, the agreement simultaneously contains a financial clause and a management clause.

<b>Panel A: Description of the clauses</b>		<b>Agreement</b> n=93	<b>Concert</b> n=81 (87%)	<b>Fi.Agreement</b> n=12 (13%)
Financial provision		78%	75%	100%
PREMUT	Mutual pre-emptive buying right	49%	48%	58%
PREUNI	Unilateral pre-emptive buying right	18%	15%	42%
CAP	A clause specifies a cap for the percentage of cash flow or voting rights	26%	26%	25%
FLOOR	A clause specifies a floor for the percentage of cash flow or voting rights	45%	44%	50%
JOINT	Joint exit (tag-along right)	28%	30%	17%
DILUTION	Anti-dilution protection	10%	10%	8%
Number of Provisions: Mean (Median)		1.76 (2.00)	1.73 (2.00)	2.00 (2.00)
Management provision		81%	84%	50%
SIMPLE	There is no formal agreement but the contracting parties agree to vote together	19%	22%	0%
CONCERT BOARD	A certain number of board seats is granted to each contracting shareholder	48%	48%	50%
CASES	The agreement specifies <i>ex-ante</i> the situations in which a concerted action is required.	35%	40%	0%
Number of Provisions: Mean (Median)		1.03 (1.00)	1.10 (1.00)	0.5 (1)
Miscellaneous Provisions		43%	42%	50%
CONTROL	Clauses that are likely to ensure a smooth functioning of the agreement	11%	10%	17%
TERMINATION	A clause specifies situations that will lead to the agreement’s termination	31%	28%	50%
GOVERNANCE	A clause specifies an improvement of firm’s corporate governance	18%	20%	8%
Number of Provisions: Mean (Median)		0.60 (0.00)	0.58 (0.00)	0.75 (0.50)
<b>Panel B: Combination of provisions</b>				
One type		35%	37%	25%
Only financial clause		14%	12%	25%
Only management clause		20%	23%	0%
Only miscellaneous clause		1%	1%	0%
Two types		27%	25%	42%
Financial & Management		23%	22%	25%
Financial & Miscellaneous		4%	3%	17%
Management & Miscellaneous		0%	0%	0%
Three types		38%	38%	33%

**Table 4: Agreements and stakes of the largest blockholders**

The sample consists of 592 firm-years whose ownership structure is “complex” (i.e. with at least two large shareholders holding at least 10% of voting rights). This sample is divided according to the existence of a shareholder pact between the two largest shareholders. **CFR[VR]1(2)** denotes the ultimate cash flow (voting) rights of the first (second) shareholder at the 20% threshold.

Student t-statistics and Wilcoxon Z-statistics test for the difference in means (medians) between the two categories.

Asterisks denote statistical significance at the 1% (\*\*\*), 5% (\*\*), or 10% (\*) level, respectively.

	With agreement (n=259)		No agreement (n=333)		Test for Diff. in	
	mean	median	mean	median	means (t-stat)	medians (z-stat)
CFR1	0,315	0,314	0,301	0,259	1,105	2,624 ***
VR1	0,393	0,386	0,372	0,330	1,551	2,966 ***
CFR2	0,176	0,163	0,149	0,128	4,123 ***	4,884 ***
VR2	0,217	0,202	0,175	0,155	6,742 ***	7,171 ***
CFR1+CFR2	0,491	0,502	0,450	0,430	2,769 ***	3,369 ***
VR1+VR2	0,610	0,611	0,548	0,514	4,130 ***	4,380 ***
VR1-VR2	0,175	0,164	0,197	0,138	-1,579	0,956

**Table 5: Types of the two largest shareholders**

From the whole sample I sort the 592 firm-years having at least two shareholders, each holding at least 10% of voting rights. In panel A, the types of each shareholder are analysed at the 20% threshold and classified into five groups: **FAMILY** (individuals), **STATE**, **FINANCIAL** (a financial company with no controlling shareholder at the 20% threshold), **WHCO** (a non financial firm with no controlling shareholder at the 20% threshold) and **MISC** (miscellaneous, for instance employees or non profit organisation...). The column headings provide information on the type of the largest shareholder; the row headings display the type of the second shareholder. Statistics are in number and percentages.

In panel B, two groups are created: (1) firms whose two largest blockholders are of the same type and (2) firms whose two largest shareholders are of different types. Definitions for each of the clauses are given in appendix A. Student t-statistics test for the difference in means between the two categories.

Asterisks denote statistical significance at the 1% (\*\*\*), 5% (\*\*), or 10% (\*) level, respectively.

**Panel A : Types of the largest blockholders**

	The largest blockholder is :					TOTAL
	FAMILY	STATE	FINANCIAL	WHCO	MISC	
n	376	65	71	50	30	592
% of Total	63,5%	11,0%	12,0%	8,4%	5,1%	100%
<b>Second largest blockholder is :</b>						
FAMILY	241	13	42	28	15	339
STATE	7	13	4	7	5	36
FINANCIAL	61	10	17	10	2	100
WHCO	31	22	1	0	6	60
MISC	36	7	7	5	2	57
FAMILY	64,1%	20,0%	59,2%	56,0%	50,0%	57,3%
STATE	1,9%	20,0%	5,6%	14,0%	16,7%	6,1%
FINANCIAL	16,2%	15,4%	23,9%	20,0%	6,7%	16,9%
WHCO	8,2%	33,8%	1,4%	0,0%	20,0%	10,1%
MISC	9,6%	10,8%	9,9%	10,0%	6,7%	9,6%

**Panel B : Types and shareholder agreements' provisions**

	Sample (n=592)	Same Types (n=273)	Different Types (n=319)	Diff. in means	T-stat
AGREEMENT	259	0,546	0,345	0,201	5,008 ***
CONCERT	227	0,527	0,260	0,267	6,921 ***
FL.AGREEMENT	32	0,018	0,085	-0,066	-3,590 ***
<i>FINANCIAL PROVISION</i>	191	0,370	0,282	0,088	2,285 **
PREMUT	130	0,282	0,166	0,116	3,424 ***
PREUNI	38	0,048	0,078	-0,031	-1,522
CAP	55	0,040	0,138	-0,098	-4,131 ***
FLOOR	96	0,136	0,185	-0,049	-1,627
JOINT	57	0,143	0,056	0,086	3,586 ***
DILUTION	14	0,018	0,028	-0,010	-0,789
<i>MANAGEMENT PROVISION</i>	175	0,344	0,254	0,090	2,411 **
SIMPLE CONCERT	36	0,092	0,034	0,057	2,913 ***
BOARD	98	0,128	0,197	-0,069	-2,267 **
CASES	93	0,201	0,119	0,082	2,758 ***
<i>MISCELLANEOUS PROVISION</i>	88	0,132	0,163	-0,031	-1,061
CONTROL	25	0,029	0,053	-0,024	-1,447
TERMINATION	62	0,070	0,135	-0,065	-2,593 ***
GOVERNANCE	33	0,070	0,044	0,026	1,359

**Table 6: Shareholder agreements and dispersion of voting stakes**

This table presents regressions of Tobin's Q on ownership variables and various control variables for the total sample and two subsamples. The dependent variable in all models is Tobin's Q, measured as market value of equity plus book value of total assets minus book value of equity, all divided by book value of total assets. **CFR[VR]1** is the ultimate percentage of cash-flow [voting] rights of the first shareholder. **VR2** is the ultimate percentage of voting rights of the second largest shareholder and is set equal to 0 if the firm does not have at least two large shareholders. CFR1, VR1, VR2 are calculated at the 20% threshold. **LOW CONTES** is a dummy variable that takes a value of one if **VR1-VR2** is greater than 14.03%. The dummy variable **AGREEMENT** indicates whether the two large shareholders are signatories to a shareholder agreement (whatever its type). **SIZE** is the logarithm of total assets; **GROWTH** is the percentage change in sales year on year; **LEVERAGE** is total financial debt over total assets; and **TANGIBILITY** is the ratio property, plants and equipments/total assets. All regressions are OLS regressions which include year and industry indicators. **n** is the number of firm-year observations. All t-statistics are corrected for heteroskedasticity using White's (1980) correction and are in parentheses. Asterisks denote statistical significance at the 1% (\*\*\*), 5% (\*\*), or 10% (\*) level, respectively.

	<i>Whole Sample</i>					<i>With</i>	<i>No</i>
	(1)	(2)	(3)	(4)	(5)	<i>agreement</i>	<i>agreement</i>
CFR1	-0.162 * (-1.783)		-0.165 * (-1.789)	-0.159 * (-1.753)		1.036 (1.054)	1.105 (1.355)
VR1-CFR1	-0.622 *** (-4.082)		-0.647 *** (-4.207)	-0.635 *** (-4.163)		0.967 (0.893)	0.850 (0.794)
VR1-VR2	-0.568 *** (-3.568)		-0.835 *** (-4.475)			-1.121 (-1.613)	-1.705 * (-1.882)
AGREEMENT			-0.039 (-0.341)				
(VR1-VR2)*AGREEMENT			0.839 * (1.820)	-0.116 (-0.455)			
(VR1-VR2)*(1-AGREEMENT)				-0.826 *** (-4.435)			
LOW CONTES		-0.165 *** (-2.808)					
LOW CONTES*AGREEMENT					-0.077 (-0.954)		
LOW CONTES*(1-AGREEMENT)					-0.240 *** (-3.081)		
GROWTH	0.273 * (1.894)	0.282 ** (1.971)	0.276 * (1.916)	0.275 * (1.912)	0.284 ** (2.000)	-0.029 (-0.130)	0.165 (0.880)
SIZE	-0.231 *** (-6.724)	-0.210 *** (-6.236)	-0.234 *** (-6.718)	-0.233 *** (-6.779)	-0.214 *** (-6.249)	-0.188 (-1.601)	-0.239 ** (-2.355)
LEVERAGE	-0.946 *** (-4.476)	-0.947 *** (-4.458)	-0.958 *** (-4.539)	-0.957 *** (-4.527)	-0.952 *** (-4.493)	-2.604 *** (-3.590)	-0.434 (-1.108)
TANGIBILITY	-0.501 *** (-3.787)	-0.498 *** (-3.759)	-0.500 *** (-3.788)	-0.502 *** (-3.809)	-0.497 *** (-3.764)	0.032 (0.081)	-1.264 *** (-4.139)
CONSTANT	3.047 *** (15.592)	2.891 *** (15.686)	3.065 *** (15.486)	3.060 *** (15.636)	2.902 *** (15.659)	2.221 *** (3.977)	3.059 *** (6.199)
n =	1576	1576	1576	1576	1576	259	333
R <sup>2</sup>	0.222	0.214	0.225	0.225	0.215	0.263	0.285
Adjusted R <sup>2</sup>	0.213	0.206	0.215	0.215	0.207	0.208	0.244

**Table 7: Characteristics of the agreements**

This table presents regressions of Tobin's Q on ownership variables and various control variables for the total sample. The dependent variable in all models is Tobin's Q, measured as market value of equity plus book value of total assets minus book value of equity, all divided by book value of total assets. **CFR[VR]1** is the ultimate percentage of cash-flow [voting] rights of the first shareholder. **VR2** is the ultimate percentage of voting rights of the second largest shareholder and is set equal to 0 if the firm does not have at least two large shareholders. CFR1, VR1, VR2 are calculated at the 20% threshold. The dummy variable **AGREEMENT** indicates whether the two large shareholders are signatories to a shareholder agreement (whatever its type). The dummy variable **CONCERT** indicates whether the two large shareholders act in concert. The dummy variable **FLAGREEMENT** indicates whether the two large shareholders are signatories to a simple financial agreement. **SIZE** is the logarithm of total assets; **GROWTH** is the percentage change in sales year on year; **LEVERAGE** is total financial debt over total assets; and **TANGIBILITY** is the ratio property, plants and equipments/total assets. All regressions are OLS regressions which include year and industry indicators. In regressions (4) to (6), the impact of certain clauses is evaluated. **FLCLAUSE** indicates whether the pact contains a financial clause. **PRE** indicates whether a pre-emptive buying right is in force, **BOARD** indicates whether a provision regarding board representation is in force. **n** is the number of firm-year observations. All t-statistics are corrected for heteroskedasticity using White's (1980) correction and are in parentheses. Asterisks denote statistical significance at the 1% (\*\*\*), 5% (\*\*), or 10% (\*) level, respectively.

			<i>CLAUSE</i>	<i>CLAUSE</i>	<i>CLAUSE</i>	
			=FI.CLAUSE	=PRE	=BOARD	
	(1)	(2)	(3)	(4)	(5)	(6)
CFR1	-0.158 *	-0.165 *	-0.162 *	-0.165 *	-0.163 *	-0.155 *
	(-1.738)	(-1.812)	(-1.787)	(-1.817)	(-1.796)	(-1.704)
VR1-CFR1	-0.646 ***	-0.651 ***	-0.656 ***	-0.661 ***	-0.664 ***	-0.641 ***
	(-4.232)	(-4.243)	(-4.266)	(-4.311)	(-4.329)	(-4.198)
VR1-VR2	-0.825 ***	-1.046 ***	-1.211 ***	-0.816 ***	-0.815 ***	-0.804 ***
	(-4.432)	(-6.713)	(-7.789)	(-4.670)	(-4.665)	(-4.598)
(VR1-VR2)*CONCERT	0.805 **					
	(2.450)					
(VR1-VR2)*(FI.AGREEMENT)	0.204					
	(0.492)					
(VR1-VR2)*SAME TYPE		0.929 ***				
		(3.440)				
(VR1-VR2)*CONCERT*SAME TYPE			1.265 ***			
			(3.536)			
(VR1-VR2)*CONCERT*(1-SAME TYPE)			0.979 *			
			(1.946)			
(VR1-VR2)*(1-CONCERT)*SAME TYPE			0.964 ***			
			(2.661)			
(VR1-VR2)*CONCERT* <i>CLAUSE</i>				1.033 ***	1.158 ***	0.539
				(2.772)	(2.914)	(1.436)
(VR1-VR2)*CONCERT*(1- <i>CLAUSE</i> )				-0.178	-0.177	0.955 **
				(-0.522)	(-0.597)	(2.182)
GROWTH	0.276 *	0.276 *	0.276 *	0.274 *	0.272 *	0.276 *
	(1.911)	(1.937)	(1.939)	(1.903)	(1.895)	(1.913)

SIZE	-0.234 *** (-6.787)	-0.226 *** (-6.677)	-0.230 *** (-6.765)	-0.235 *** (-6.816)	-0.235 *** (-6.817)	-0.230 *** (-6.639)
LEVERAGE	-0.951 *** (-4.496)	-0.902 *** (-4.295)	-0.904 *** (-4.300)	-0.957 *** (-4.531)	-0.952 *** (-4.520)	-0.945 *** (-4.483)
TANGIBILITY	-0.496 *** (-3.768)	-0.506 *** (-3.822)	-0.503 *** (-3.796)	-0.496 *** (-3.746)	-0.498 *** (-3.762)	-0.494 *** (-3.753)
CONSTANT	3.057 *** (15.631)	3.031 *** (15.686)	3.047 *** (15.686)	3.065 *** (15.654)	3.067 *** (15.668)	3.041 *** (15.445)
n =	1576	1576	1576	1576	1576	1576
R <sup>2</sup>	0.225	0.227	0.229	0.227	0.228	0.225
Adjusted R <sup>2</sup>	0.215	0.218	0.219	0.217	0.218	0.216

**Table 8: Robustness checks**

This table presents regressions of Tobin's Q on ownership variables and various control variables for the total sample. Regressions (1) to (3) are OLS regressions whereas regressions (4) to (7) are panel specifications (with fixed effects). The dependent variable in all models is Tobin's Q, measured as market value of equity plus book value of total assets minus book value of equity, all divided by book value of total assets. **CFR[VR]1** is the ultimate percentage of cash-flow [voting] rights of the first shareholder. **VR2** is the ultimate percentage of voting rights of the second largest shareholder and is set equal to 0 if the firm does not have at least two large shareholders. CFR1, VR1, VR2 are calculated at the 10% threshold in regression (1) and (7) whereas the calculation is made at the 20% threshold in regressions (2) to (6). SV1 (2) is the Shapley value for the votes of the first (second) shareholder. The dummy variable **AGREEMENT** indicates whether the two large shareholders are signatories to a shareholder agreement (whatever its type). The dummy variable **CONCERT** indicates whether the two large shareholders act in concert. The dummy variable **FLAGREEMENT** indicates whether the two large shareholders are signatories to a simple financial agreement. **MAJORITY** takes a value of one if the first shareholder holds more than 50% of the voting rights; **WIDELY HELD** takes a value of one if the firm does not have any shareholder with at least 10% of the voting rights. **SIZE** is the logarithm of total assets; **GROWTH** is the percentage change in sales year on year; **LEVERAGE** is total financial debt over total assets; and **TANGIBILITY** is the ratio property, plants and equipments/total assets. OLS regressions include year and industry indicators. **n** is the number of firm-year observations. All t-statistics are corrected for heteroskedasticity using White's (1980) correction and are in parentheses. Asterisks denote statistical significance at the 1% (\*\*\*) , 5% (\*\*), or 10% (\*) level, respectively.

Specification	OLS			PANEL : FIXED EFFECTS			
	10%	20%		20%			10%
Threshold	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CFR1	-0.136 (-1.498)	-0.244 (-1.216)	-0.166* (-1.795)	0.152 (0.546)	0.172 (0.612)	0.160 (0.568)	0.269 (0.909)
VR1-CFR1	-0.650 *** (-4.240)	-0.748 *** (-2.806)	-0.677 (-4.387)	0.449 (0.940)	0.403 (0.846)	0.391 (0.820)	0.356 (0.762)
VR1-VR2	-0.731 *** (-3.987)			-0.516 ** (-2.384)	-0.727*** (-3.284)	-0.726 *** (-3.284)	
VR1/VR2		-0.085 *** (-4.549)					
SV1-SV2			-0.337 *** (-4.096)				-0.308 *** (-2.813)
(VR1-VR2)*AGREEMENT	0.602 ** (2.010)				0.837 ** (2.357)		
(VR1/VR2)*AGREEMENT		0.059 ** (1.964)					
(SV1-SV2)*AGREEMENT			0.444 ** (2.210)				0.250 ** (2.048)
(VR1-VR2)*CONCERT						0.934 *** (2.632)	
(VR1-VR2)*FI.AGREEMENT						0.157 (0.215)	
WIDELY HELD		0.012 (0.118)					
MAJORITY		0.037 (0.379)					

GROWTH	0.274 * (1.900)	0.279 * (1.924)	0.276 * (1.916)	0.430 *** (3.802)	0.431 *** (3.798)	0.431 *** (3.800)	0.430 *** 3.811
SIZE	-0.230 *** (-6.680)	-0.238 *** (-6.709)	-0.230 *** (-6.627)	-1.227 *** (-5.460)	-1.243 *** (-5.525)	-1.237 *** (-5.480)	-1.228 *** (-5.434)
LEVERAGE	-0.950 *** (-4.506)	-0.958 *** (-4.593)	-0.950 *** (-4.491)	-1.304 *** (-3.790)	-1.287 *** (-3.747)	-1.289*** (-3.752)	-1.302 *** (-3.745)
TANGIBILITY	-0.506 *** (-3.834)	-0.512 *** (-3.881)	-0.504 *** (-3.792)	0.578 (1.204)	0.522 (1.087)	0.537 (1.113)	0.540 (1.125)
CONSTANT	3.031 *** (15.647)	3.116 *** (15.259)	3.048 *** (15.439)				
n =	1576	1576	1576	1576	1576	1576	1576
R <sup>2</sup>	0.223	0.225	0.224	0.626	0.627	0.627	0.627
Adjusted R <sup>2</sup>	0.213	0.215	0.214	0.536	0.537	0.537	0.536