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Complex ownership structures, corporate governance and firm performance: The French context.

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ABSTRACT

This study seeks to understand the leading role played by the blockholders and their true governance mechanism, in the French context, characterised by complex ownership structures. We focus on the role that second-tier shareholders can play in the optimal governance of companies and in their capacity to solve both principal/agent and principal/principal agency conflicts. Using a sample of 2118 observations between 2000 and 2009, we find that second-tier shareholders exercise effective additional monitoring when power is contestable but increase principal/principal agency costs in the presence of a controlling owner. We also show that shareholder homogeneity reduces agency conflicts. Our results demonstrate that the level of control contestability is essential in the understanding of governance mechanisms. Such contestability is to be found simultaneously at institutional level, at the level of the balance of power between blockholders, and according to the nature of the shareholders. Thus, the usual agency theory conclusions are debateable when the legal framework offers little protection of minority shareholders, and when ownership structure is complex and heterogeneous in nature. The study of corporate governance must therefore encompass a twofold analytical perspective, namely, an institutional and a socio-organisational one. The analysis and findings could be particularly useful in assessing corporate governance in the context of several European countries with a similar self-dealing legal environment to the French one, including Italy and Greece.

1. Introduction

The role of ownership structure in resolving agency costs arising from the separation of ownership and control within firms has been the focus of extensive literature for many years. Analyses initially focused on principal/agent agency conflicts between shareholders and managers (Jensen and Meckling, 1976). It is taken for granted that large shareholders internalise the costs of monitoring managers' actions due to their considerable cash flow rights (Shleifer and Vishny, 1986; La Porta et al., 1999). Ownership concentration in the hands of the main shareholder is thus expected to foster the alignment of the managers' interests with those of the firm (Demsetz, 1983; Shleifer and Vishny, 1986; Denis et al., 1997). Many studies also suggest that certain types of shareholders are more apt at taking on this monitoring role than others, but without drawing firm conclusions as to which would take pre-eminence. The analysis framework then spread to principal/principal agency conflicts between majority and minority shareholders due to the potential for collusion between the main shareholder and

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the manager (Denis and McConnell, 2003; Holderness, 2003) or the appropriation of private control benefits by the main shareholder to the detriment of the minority shareholders (La Porta et al., 1998) and the firm's interests. Finally, institutional mechanisms are acknowledged to be an important part of corporate governance (Zattoni and Van Ees, 2012). Legislators have long been concerned about protecting companies' interests by limiting the potential for managers or majority shareholders to use their position or influence to engage in tunnelling, related-party transactions or any other act prejudicial to the interests of the minority shareholders. The regulations governing self-dealing therefore impose a protective legal framework that defines the methods and terms of execution of transactions involving conflicts of interest (ex ante private enforcement), giving minority shareholders the means to control the transactions effected (ex post private enforcement) and enabling offenders to be held civilly or criminally liable. In order to avoid any instances of improper use of minority powers that could paralyse a company's management, a minimum voting rights threshold is generally required for most ex post private enforcement methods to be exercised. This strengthens the minority shareholders' power to challenge self-dealing.

In this study, we focus on the role that second-tier shareholders[1] can play in the optimal governance of companies and in their capacity to solve both principal/agent and principal/principal agency conflicts. Bennedsen and Wolfenzon (2000) and Bloch and Hege (2001) thus consider that second-tier shareholders contribute to the enhanced control of managers, alongside the principal shareholder. Conversely, Zwiebel (1995) and Kahn and Winton (1998) believe that large, non-majority shareholders do not offer added control benefits and could actually be a source of additional costs. We support the idea that second-tier shareholders may, under certain circumstances, constitute an efficient mechanism for monitoring not only managers but also majority shareholders. In our view, the effectiveness of this control depends simultaneously on the division of power between shareholders, the similarity between the controlling shareholders, and the legal prerogatives granted to minorities to exercise their rights with regard to the management of the company. Consequently, the influence of minority shareholders is twofold. When a company's capital is concentrated in the hands of a majority shareholder, it is possible that other blockholders offer no added benefit in terms of control due to their relatively low level of influence (Zwiebel, 1995). Conversely, the legal framework in France gives certain shareholders, albeit minority ones, the possibility to block certain decisions if they disagree with a strategy or believe it is contrary to their interests. In the case of conflicts of interest, minority shareholders can therefore prevent proposed projects from being implemented. The greater the protection afforded by the law to minority interests, the greater the dissension costs arising from second-tier shareholders. On the other hand, the sharing of power leads to better dialogue between shareholders, simultaneously fostering control over the manager and more harmonious management of eventual conflicts of interest. Lastly, we support the hypothesis that the convergence of interests of shareholders of the same nature decreases the probability of conflicts arising between shareholders. The effectiveness of the challenging power of second-tier shareholders is therefore dependent on their proximity to the principal shareholder.

In this paper, we empirically test the impact of second-tier shareholders' control over a sample of French companies. Ownership in French companies is typically highly concentrated (Faccio and Lang, 2002), generating not only traditional principal/agent conflicts but also fierce principal/principal agency conflicts (Ginglinger and Lher, 2006). Moreover, La Porta et al. (1999) and Ginglinger (2002) stress that, with regard to the French market, there is little active market for corporate control, reinforcing the role of large shareholders as a governance mechanism. Lastly, the French 'complain and explain' type of legal framework is specific in that its ex ante private enforcement affords few constraints (Djankov et al., 2008), fostering costly ex post control by blockholders. Our results confirm that the primary shareholder constitutes an effective mechanism for monitoring managers and aligning interests. The firm's value is thus increasingly dependent on the principal shareholder's equity up to a certain threshold; when control can no longer be challenged, there are no additional control benefits to an increase in her ownership. Secondly, the presence of other blockholders is not sufficient in itself to guarantee additional control over the managers or the principal shareholder. Indeed, the monitoring activity of blockholders is less pronounced when they are of the same kind as the principal shareholder. Conversely, when they are of a different type, second-tier shareholders play their controlling role to the full. Our results therefore support the principle of the use of different control methods depending on how much influence the second-tier shareholders have. When power cannot be challenged, ex post private enforcement is the only recourse available to minority shareholders. This leads to high control costs that reduce the firm's value, to the detriment of the rest. Conversely, when challenging power is an option, ex ante private enforcement can be a valuable and inexpensive means of resolving principal/principal agency conflicts.

To our knowledge, no corporate governance scholars have conducted a simultaneous analysis of the impact of ownership concentration, similarity between shareholders and the institutional context to date. Current corporate governance studies focus not only on the governance environment (Aguilera and Jackson, 2003), but also on the characteristics of the organisations (Love, 2010) or the overlapping between governance mechanisms (Zattoni and Van Ees, 2012). Our study also follows this line and contributes to the literature on several fronts. First, we take a comprehensive approach to agency conflicts, not only between shareholders and managers (principal/agent), but also between majority and minority shareholders (principal/principal). Second, we adopt an analysis framework which encompasses corporate governance on three distinct fronts. To our knowledge, we are the first to demonstrate that the monitoring role of large minority shareholders is simultaneously contingent on the regulatory context, the balance of power and the similarity between the controlling shareholders. Third,

[1] We will be using the terms s̈econd-tier shareholdersör l̈arge minority shareholdersïnterchangeably to designate the large shareholders who come after the principal shareholder in terms of cash flow rights.

we put forward an explanation for the costs of good governance by second-tier shareholders. Our results indicate that the consonance between the benefits and cost of governance depends on the institutional context and the balance of power between shareholders. Fourth, we help to bridge the gap between institutional corporate governance and behavioural literature by studying the behaviour of actors playing monitoring roles. Last but not least, our findings have clear-cut public policy implications: the introduction of restrictive ex ante private enforcement constitutes a means of improving corporate governance while avoiding ex post monitoring costs. Our analyses and results could also be particularly useful in assessing corporate governance in the context of several European countries that have a similar self-dealing legal environment to the French one, including Italy and Greece.

The remainder of the article is organised as follows: the next section describes the institutional context in France and, in particular, the private enforcement methods encompassing self-dealing. In section two, we review the literature and expound our hypotheses. The research method is explained in the third section. In section four, we present our findings together with a discussion of corporate governance issues and public policy implications. The fifth and final section summarises and concludes.

2. The French legal environment in self-dealing

The effectiveness of corporate governance is highly dependent on the national regulatory context (Schleifer and Vishny, 1997; La Porta et al., 2000; Aguilera and Jackson, 2003). In a regulatory framework that does little to protect minority interests, managers and blockholders have greater freedom to pursue their own private interests. Conversely, a more restrictive framework gives minority shareholders the effective means to align the stakeholders' interests with those of the company. A minority protection legal framework comprises two components: ex ante private enforcement and ex post private enforcement. Ex ante private enforcement encompasses the legal requirements in terms of information and approval prior to the undertaking of transactions involving conflicts of interest, whereas ex post private enforcement refers to the resources deployed to address completed transactions prejudicial to the interests of the shareholders. The possibility to put the latter into practice depends very much on the strength of the former. A regulatory legal framework restricting transactions involving managers as stakeholders would reduce the likelihood of such avenues of recourse being used. This would be less damaging to a company in the same proportion as the direct and indirect costs (respectively: procedural costs, and the time and means spent defending the decisions taken) are higher than those of disclosing the information. Conversely, an ex post control, which is restrictive and costly for managers, could encourage firms to opt for a voluntary ex ante declaration of transactions, to obtaining shareholder approval and avoiding ex post litigation costs. The same positive impact can be seen on the value of the company.

A framework encompassing so-called 'regulated agreements' within public limited companies has long existed in French law (Article L225-38 and subsequent articles in the Commercial Code). The legislator's initial goal is to protect shareholders from value destroying actions by managers (office holders, administrators and the like) by prohibiting them from engaging in any operation that could jeopardise the principle of duty of loyalty to the company. Control of agreements entered into by managers depends on the categories defined by the legislator. Transactions conducted between managers and the company with a bearing on day-to-day management operations undertaken in normal circumstances are not restricted. Others must be authorised by the board of directors, which submits them for opinion to the external auditor with a view to approval at the general shareholders' meeting. The scope was subsequently extended to include shareholders with more than 5% of the voting rights (act of 15 May, 2001) and then 10% (act of 1 August, 2003), regardless of administrator or managerial status. In effect, such shareholders are so influential that they are in a position to take advantage of private benefits to the detriment of the minority shareholders and the firm's value, in exactly the same way as the managers. In the event of dispute, the law provides minority shareholders with several means of defence. One or more shareholders representing at least 5% of the share capital may submit written questions on one or more of the company's management operations, and the external auditor must be informed of the reply. If no reply or satisfactory explanation is forthcoming within a month, the shareholders in question may take part in a special hearing to request that one or several management experts be appointed and the relevant fees be charged to the company (Article L225-231). The shareholders may also request that a temporary administrator be appointed so as to block majority shareholding abuse which could put the company's interests at risk. Lastly, the normal resources against abuse of the company's assets and power may be set in motion by the minority shareholders.

We can use the study by Djankov et al., 2008 as a reference to assess the strength of French law enforcement to protect minority shareholders. The authors calculate an index to measure the legal protection of minority shareholders' interests against the expropriation of private benefits for 72 countries with varying institutional contexts. Their study focuses on private enforcement mechanisms, such as ex ante disclosure or approval and ex post litigation. According to the authors, the minority shareholder protection index in the French regulatory framework is below average, with the specific weakness of its ex ante private enforcement contrasting with the strength of its ex post private enforcement. However, the French legal framework is not very effective in addressing self-dealing by managers, and is even less so in the case of majority shareholders due to the difficulty minority shareholders have in proving fraud or holding the stakeholders criminally liable. Furthermore, only regulated agreements may be submitted for prior approval by the board of directors, and these are sent to the external auditor and submitted for approval by the shareholders' meeting. Transactions that are beyond the scope of regulated agreements are totally devoid of control. This is all the more likely if the nature of the agreements is determined at the discretion of the instigator of the transactions. Even if a transaction does come within the frame of regulated agreements,

the obligation to inform does not apply to commitments made by the board of directors itself. Disapproval by the board or the general shareholders' meeting has no effect at present; the unauthorised agreement remains valid. Lastly, for improper use of majority powers to be recognized, it must be proven that the majority shareholder is pursuing third party interests to the detriment of those of the company, and that they are clearly disproportionately damaging in respect to the other shareholders, which tends to make the ex post private enforcement constraints little more than show. To summarise, in the French legal context of the 'complain and explain' type, both kinds of private enforcement impose little in the way of constraints. A manager may feel tempted not to engage in the ex ante information procedure and run the risk of bearing ex post control costs if he or she believes that there is little likelihood of appeals either being made or being successful. This behaviour can also apply to the main shareholder, all of which can lead to significant agency conflicts. A study by Renders and Gaeremynck (2012) gives us an idea of the magnitude of the problem: according to these authors, French companies are the most prone to severe principal/principal agency conflicts from a panel of 14 European countries. Taking the context into account is therefore a determining factor in understanding the role played by large shareholders in controlling the actions of managers and, more especially, of second-tier shareholders in monitoring the main shareholder.

3. Review of the literature and formulation of hypotheses

Most theoretical and empirical studies on the influence of ownership structure on performance focus on the distinction between control either by a large shareholder or by the management team (Jensen and Meckling, 1976; Demsetz and Villalonga, 2001; Villalonga and Amit, 2006). Recent studies highlight greater complexity in firms' ownership structures, calling this dichotomy into question. Holderness (2009) is prolific in this sense, challenging the myth of dispersed ownership in American companies: 96% of companies have blockholders who own over 10% of the capital, with their average share of the capital amounting to 39%. Outside the United States, Barca and Becht (2001) demonstrate that the presence of multiple blockholders is common, and Laeven and Levine (2008) reveal that a third of European companies have multiple blockholders. Similarly, the focus on shareholders' identities gives rise to studies on the differentiated impact of large shareholders (Holderness and Sheehan, 1988; Burkart et al., 2003). The governance environment is a third important factor in research on modes of governance, since it sets the legal framework for protecting the interests of minority shareholders (Aguilera and Jackson, 2003).

We consider all of these factors important in assessing the role second-tier shareholders play in reinforcing the control of the primary shareholder or, on the contrary, counterbalancing her supposed dominance. As we see it, the degree of control contestability is an essential factor in understanding governance mechanisms. This contestability is to be found simultaneously at institutional level, at the level of the division of power between blockholders, and in the light of the nature of the shareholders. Thus, traditional agency theory conclusions are debateable in the French context (poor protection for minorities, ex ante and ex post mechanisms affording few constraints and severe agency conflicts). We adopt this multiple analysis grid to firstly present the arguments that the main shareholder and the minority shareholders contribute in different ways to the effective monitoring of managers and, secondly, to focus on the role of the blockholders in principal/principal conflict management. Finally, we sum up our analysis.

3.1. Principal/agent agency conflicts

Agency theories (Jensen and Meckling, 1976) and theories on ownership rights (Alchian and Demsetz, 1972) regarding the separation of cash flow rights and control rights have laid the foundation for an analysis of the relationship between corporate performance and the firm's ownership structure. In a situation of information asymmetry, ownership concentration might be expected to provide better control over managers and the alignment of their decisions in the interest of maximising the firm's value (Jensen and Meckling, 1976; Villalonga and Amit, 2006). This role of effective monitoring of managers could, however, be counterbalanced by the costs that can arise from ownership concentration due to the appropriation of private benefits (Holderness and Sheehan, 1988; Shleifer and Vishny, 1997) or even collusion with the management (Burkart and Panunzi, 2006).

Zwiebel (1995), Bennedsen and Wolfenzon (2000), Bloch and Hege (2001) and Maury and Pajuste (2005) all demonstrate the theoretical importance of taking into account multiple large shareholders, the complexity of control, and the balance of power between large shareholders in an analysis of their influence on the firm's value. Furthermore, the authors stress that since their models focus on the study of multiple blockholders, the formation of control coalitions and power struggles, their conclusions may not be applicable to firms owned by a single major shareholder or with dispersed ownership. This calls the classic empirical results into question. For example, a frequently used method for calculating ownership concentration is the sum of the top five shareholders' equity. However, empirical studies using this method come to widely diverging conclusions; the influence of ownership concentration is variously seen as positive (Perrini et al., 2008), insignificant (Demsetz and Villalonga, 2001; Welch, 2003), negative (Gedajlovic and Shapiro, 1998), or even non-linear (Miguel et al., 2005; Hu and Izumida, 2008). The use of such a unilateral method of calculating ownership concentration implies that shareholders act in concert. The reality, however, is far more complex since blockholders can either oppose or align with the main shareholder, or even take no part in the latter's position of dominance (Zwiebel, 1995). Adopting an empirical stance, Earle et al. (2005) conclude that in the presence of a primary shareholder, the marginal contribution made by other blockholders in respect to monitoring managers is insignificant and, in fact, the other shareholders' contribution can actually reduce the positive influ-

ence of the primary shareholder. More generally, Laeven and Levine (2008) demonstrate that the analysis of their influence depends on the kind of corporate ownership structure (majority ownership; multiple blockholders; multiple blockholders, each with minority ownership). In other words, the mere presence or absence of blockholders is not enough; we also need to consider the way in which power is shared between the controlling shareholders. Thus, Bennedsen and Wolfenzon (2000) and Bloch and Hege (2001) specifically analyse intermediate ownership structures, characterised simultaneously by the absence of a shareholder with sufficient weight to exercise absolute control and the presence of several large shareholders with sufficient counterbalancing power who can monitor the managers' actions. The authors conclude that the blockholders' influence on a company's value is twofold: positive in terms of aligning interests and negative in terms of the costs involved in forming the coalition.

Moreover, corporate governance scholars agree that the shareholders' identity is an important factor in understanding corporate governance (Holderness and Sheehan, 1988; Volpin, 2002; Claessens et al., 2002; Burkart et al., 2003) insofar as blockholders cannot be considered as a homogenous group of shareholders (Choi et al., 2012). Cronqvist and Fahlenbrach (2008) argue that the fact that blockholders are not considered as heterogeneous is partly responsible for the conflicting results in terms of their influence on a firm's value. The analysis of corporate governance therefore naturally extends towards the study of the impact of large shareholders' identities on company performance (Thomsen and Pedersen, 2000; Perrini et al., 2008; Jara-Bertin et al., 2008). However, the empirical results do not enable conclusions to be drawn with respect to the existence of any hierarchy between types of shareholders. Their analysis of the way various corporate policies operate (investment, financing and remuneration) leads Cronqvist and Fahlenbrach (2008) to point out that by their very nature, large shareholders have differing preferences, beliefs and competences. These authors believe that it is more relevant to take the blockholders' homogeneity into account than to consider only the identity of each shareholder. From this perspective, the degree of homogeneity between the controlling shareholders and their role in managing the balance of power between shareholders is of particular interest. Thus, Bloch and Hege (2001) uphold the idea that control is more effective when exercised by a coalition of two shareholders of differing natures. Given that shareholders of the same type possess the same competences in terms of control and that their strategies are also likely to be similar, control exercised by two shareholders of the same nature becomes redundant. Conversely, the heterogeneity of large shareholders offers complementary competences in terms of monitoring managers' activity, thereby enhancing the firm's value. Notwithstanding, the authors are of the opinion that this type of complementarity of competences is optimal when the controlling power is shared equally between the two primary shareholders, a required condition for each to be attentive to the other's expectations. At the same time, when there are shareholders of the same type, one large shareholder is preferable, since the greater the shareholder's weight in the firm's capital, the keener she will be to make an optimal effort. Kandel et al. (2011) argue precisely the opposite. Assuming that shareholders of the same type react in a similar way to any new information, managers would be all the more eager to meet expectations in view of the general dissatisfaction and risk of being fired that would undoubtedly be the outcome of bad news. Conversely, in circumstances where the shareholders differ in nature, the diversity of their reactions would reduce the risk of there being a consensus of opinion unfavourable to the manager. The authors conclude that homogenous shareholders constitute a more effective mechanism for controlling a manager's actions than governance by heterogeneous shareholders. Kandel et al. (2011) measure shareholder homogeneity in terms of proximity of age, but the same reasoning could be used for the nature of the shareholders.

Following this analysis of the blockholders' role in the management of principal/agent agency conflicts, we suggest the following test hypotheses:

Hypothesis 1. *A firm's performance is dependent to an increasing degree on the concentration of cash flow rights in the hands of the main shareholder.*

Hypothesis 2. *a: Does the presence of second-tier blockholders offer any benefits in lowering principal/agent costs through management monitoring?*

Hypothesis 2. *b: Is this affected by the ownership structure and balance of power between shareholders?*

Hypothesis 2. *c: Do heterogeneous shareholders contribute to a better extent in monitoring managers than homogeneous ones?*

Confirming Hypothesis 1 would also confirm the standard argument whereby the larger the stake of the main shareholder, the greater her desire to control the manager. If, on the contrary, Hypothesis 1 were to be invalidated, this would mean that either the relationship between the concentration of the firm's capital and its performance is not linear, or that the costs of ownership concentration, such as the appropriation of private benefits by the main shareholder or collusion with the management, are higher than the benefits to be gained by aligning interests.

Hypothesis 2 questions what manager-monitoring benefits might or might not be forthcoming from second-tier shareholders. Our argument is that this would depend on their power of influence and the balance of control within the firm (Hypothesis 2b), and also on their type in comparison to that of the main shareholder (Hypothesis 2c).

3.2. Principal/principal agency conflicts

According to Bennedsen and Wolfenzon (2000) and Maury and Pajuste (2005), a complex ownership structure characterised by the presence of several blockholders can lead to two opposing effects. Insofar as control can be contested, a second

major shareholder would not only be encouraged but would also have the means to exercise active control over the main shareholder, resulting in a positive alignment of interests. On the other hand, the second shareholder could also choose to form a coalition with other blockholders: this would cause the controlling coalition shareholders to incur expropriation costs that would be detrimental to the minority shareholders. Empirical studies addressing the influence of the presence of blockholders are relatively few, and far from conclusive. Maury and Pajuste (2005) do not find the presence of a second shareholder (≥10%) significant, whereas for Attig et al. (2009), this same variable has a positive impact. According to Zwiebel (1995), the level of control exercised by a blockholder depends on the strategic importance that her share represents in the formation of a controlling coalition with other shareholders. The author argues that in a company with a majority shareholder, it is likely that a more modestly-sized blockholder would add no further control benefits. Conversely, this same blockholder would have greater power of influence in a context of dispersed ownership and would constitute a more effective governance mechanism. To quote Zwiebel (1995: 163), '*large investors will create their own space*'. The author underscores the existence of a shareholding threshold above which a large shareholder would not be challenged. Bennedsen and Wolfenzon (2000) consider optimal, the control either by a majority shareholder, or by a coalition of shareholders with evenly distributed equity holdings, these being the only forms of control capable of minimising expropriation costs while still allowing the alignment of interests. Bloch and Hege (2001) also consider a homogeneous division of power as having a positive impact; in the absence of a majority shareholder, the disciplinary power exercised by the secondary shareholder over the primary shareholder is all the more important insofar as the former possesses real counterbalancing power, capable of constituting a credible threat of expropriation of control. Thus, the mere presence of blockholders does not, in itself, constitute the conditions required for monitoring the main shareholder, but the importance of their counterbalancing power must be taken into consideration. To our knowledge, the only empirical studies dealing with contestability of control are those by Laeven and Levine (2008) in Europe and Attig et al., 2009 in East Asia. Their research shows that a significant difference between the shareholdings of the two primary shareholders has a negative impact on a firm's value, thus confirming the importance of the balance of power between shareholders.

Lastly, empirical studies addressing the issue of the impact of shareholder homogeneity are few in number. According to Zaabar (2005), homogeneous shareholder coalitions would actually have a positive effect on a firm's value. Laeven and Levine (2008) envisage no significant impact except when the balance of power between blockholders is taken into consideration. The authors conclude that shareholder heterogeneity has a negative influence when it is weighted by a difference in cash flow rights between the two primary shareholders, signifying that where the division of power is unbalanced, cooperation becomes more difficult when the blockholders are of different types.

We therefore put forward the following test hypotheses on the management of principal/principal agency conflicts:

Hypothesis 3. *a: Does the presence of second-tier blockholders offer any benefits in lowering principal/principal costs through main shareholder monitoring?*

Hypothesis 3. *b: Is this affected by the ownership structure and balance of power between shareholders?*

Hypothesis 3. *c: Do blockholders contribute to monitoring the main shareholder to a better extent if they are of a different type to the latter?*

Hypothesis 3 raises the issue of the effectiveness of the governance mechanism constituted by second-tier shareholders in the management of principal/principal type agency conflicts. We consider that both the balance of power (Hypothesis 3b) and the homogeneity of the shareholders (Hypothesis 3c) play a moderating role in the level of agency costs.

4. Data and research design

4.1. Descriptive data

The test sample comprises non-financial companies listed on the NYSE Euronext Paris stock exchange for the period 2000–2009. The financial data are taken from the Thomson Reuters database and are calculated at the end of period t, while the ownership structure is identified at the end of period t-l from the Thomson One Banker database. In line with Laeven and Levine (2008) and Attig et al., (2009), we extend the analysis of corporate ownership structure by incorporating the influence of large shareholders. Companies where no large shareholder is identified at the 10% shareholding threshold are removed from the sample, as are those where the data is missing for at least one set of variables. The final sample thus comprises 2118 observations over the period 2000–2009.

We test the influence of ownership structure on company performance using Tobin's Q:

$$Tobin's\ Q = \frac{Book\ \ Value\ \ ofAssets - Shareholder's\ \ Equity + Market\ \ \ Value\ \ \ of\ \ \ Equity}{Book\ \ \ Value\ \ \ ofAssets}$$

The following performance determinants are used for our control variables, namely: size measured by the logarithm of the total assets (*Log Assets*), financial leverage measured by the *Debt to Equity* ratio (*D/E*), the proportion of tangible assets over total assets (*Asset Tangibility*), the rate of sales growth (*Sales Growth*), and the volatility of the stock returns as a risk measure (*Volatility*).

Table 1
Definition of Variables.

Variable	Description
Tobin's Q	Tobins' Q
Total Assets (M€)	Company size measured in terms of total assets
Leverage	Financial leverage measured in terms of the Debt-to-Equity Ratio
Asset Tangibility	Tangible assets as a percentage of total assets
Sales Growth	Sales growth as a percentage
Volatility	Standard deviation of weekly stock returns for period t
Majority (0/1)	Binary variable on the presence of a majority shareholder at the 50% threshold
Second Lge.Sh. (0/1)	Binary variable on the presence of a second shareholder at the 10% threshold
Cash-flow 1	Cash flow rights of the main shareholder as a% of the capital
Cash-flow 2	Cash flow rights of the second shareholder as a% of the capital
Others 5%	Number of second-tier shareholders with a shareholding of at least 5%
Counter 2vs1	Ratio of second shareholder/main shareholder cash flow rights
Counter 2 + 3vs1	Ratio of 2nd and 3rd shareholders/main shareholder cash flow rights
Same 1&2	Binary variable indicating that the top two shareholders are of the same type
Same 1&2&3	Binary variable indicating that the top three shareholders are of the same type

Like Laeven and Levine (2008), we take a pluralistic view when analysing the balance of power and control mechanisms within companies. To this end, we take several sub-samples into account, which reflect situations where (1) control of the company lies in the hands of a majority shareholder at the 50% shareholding threshold; (2) there is no large majority shareholder; and (3) several large shareholders hold at least 10% of the capital but none has a majority. These sub-samples also allow us to highlight situations where the large second-tier shareholders present different degrees of counterbalancing power as regards to the main shareholder. Lastly, the ownership structure is determined in different ways. The influence of the first two large shareholders is studied simultaneously with the help of a binary variable (respectively, *Majority Shareholder* and *Second Large Shareholder*) at the 50% threshold for the former and 10% for the latter, but also in terms of the importance of cash flow rights (*Cash-flow 1*, *Cash-flow 2*). The weight of the second-tier shareholders other than the main shareholder is assessed by the number of shareholders identified as having at least 5% of the capital (*Others 5%*) so as to develop an in-depth study of the balance of power between large shareholders. First, we study the importance of the second shareholder's counterbalancing power by drawing a comparison between her cash flow rights and those of the primary shareholder (*Counter 2vs1*); we then do the same for the counterbalancing power of the second and third shareholders in comparison with that of the first (*Counter 2 + 3vs1*). Lastly, the controlling shareholders are identified as individual investor, government, financial institution or industrial company. The shareholders' identity is determined by moving step-by-step up the shareholding chain all the way to the ultimate owner, using the same methodology as Faccio and Lang (2002) and Attig et al. (2006).[2] Once we have identified the large shareholders, we can define a binary variable with a value of one when the identity of the two or three largest shareholders is similar (respectively, *Same 1&2* and *Same 1&2&3*), and zero where the opposite is true. We focus on the study of the first three shareholders in order to interpret the shareholders' homogeneity as well as the comparison of results between the sub-samples.[3]

Table 1 summarises the set of variables, while Table 2 presents a description of the test samples.

This table shows the definitions of the variables used during the regressions conducted for the different test models.

This table presents the descriptive data for the samples. The average (Mean), standard deviation (SD), third and fourth moments (Skewness and Kurtosis) are indicated for the bulk sample only. Only the average (Mean) is indicated for the sub-samples. The sub-sample 'One blockholder with majority' includes only those companies that have a majority shareholder at the 50% shareholding threshold. The sub-sample 'No controlling shareholder' includes only those companies with no majority shareholder at the 50% shareholding threshold. The sub-sample 'Multiple shareholders' includes companies where control is shared between several large shareholders who individually hold at least 10% of the capital but where none have a majority.

The sub-sample 'One blockholder with majority' involves companies which are smaller than those in the other sub-samples, notably because of the importance of family-run firms. In effect, 72.5% of firms in our sample are controlled by individual investors, and the figure is over 81% for companies with a majority shareholder at the 50% threshold. It is interesting to note the very high level of homogeneity of the sub-samples over the other financial data, particularly for Tobin's Q. Conversely, governance structures differ considerably. The more power is shared between the large shareholders, the greater the contestability of control. Lastly, the greater the extent of contestability of power, the more frequent it is that the large shareholders are of the same type. An in-depth examination of these situations reveals that individual shareholders are involved in three-quarters of cases where the top two shareholders are of the same type, while around 20% of cases involve institutional investors. An analysis of the first three shareholders when they are of the same type, shows that, on average, all

[2] The case is presented in particular for shareholders identified as holding companies by the Thomson One Banker database. In the present case, we take the ultimate main shareholder's identity into consideration as long as it is the majority shareholder. Companies where we were unable to clearly determine the identity of the ultimate shareholder were removed from the sample.

[3] Shareholders occupying third place in terms of shareholding percentage nevertheless represent fairly weak control.

Table 2
Descriptive Statistics.

	All				One blockholder with majority	No controlling shareholder	Multiple blockholders
	Mean	SD	Skewness	Kurtosis	Mean	Mean	Mean
Tobin's Q	1.32	0.66	2.32	10.20	1.32	1.32	1.32
Total Assets (M€)	4 540	16 700	6.63	61.80	3 070	5 630	3 990
Leverage	0.39	0.52	2.78	14.27	0.36	0.42	0.42
Asset Tangibility	0.42	0.20	0.41	2.73	0.41	0.43	0.42
Sales Growth	0.11	0.39	8.21	111.42	0.11	0.11	0.14
Volatility	0.06	0.03	2.19	12.42	0.06	0.06	0.06
Majority (0/1)	0.43	0.49	0.30	1.09	–	–	–
Second Lge.Sh. (0/1)	43.81%	49.63%	0.25	1.06	27.32%	56.10%	–
Cash-flow 1	44.77%	21.36%	0.19	2.05	65.71%	29.17%	28.97%
Cash-flow 2	10.17%	7.79%	1.06	3.83	7.51%	12.15%	17.07%
Others 5%	1.46	1.38	1.13	4.50	0.77	1.96	2.46
Counter 2vs1	0.33	0.30	0.83	2.49	0.13	0.48	0.64
Counter 2 + 3vs1	0.50	0.47	1.05	3.22	0.17	0.75	0.97
Same 1&2	0.36	0.48	0.57	1.33	0.27	0.43	0.51
Same 1&2&3	0.18	0.38	1.70	3.91	0.10	0.23	0.26
Cash-flow 1 + 2 + 3	0.60	0.19	−0.25	2.17	0.76	0.47	0.54
Observations	2118				904	1214	681

three are individuals in 68% of the cases, while in around 30% of cases, all three are institutional investors. In the remaining 2% of cases, they are of another type (government entities or industrial companies).

4.2. Model specification

Like Earle et al. (2005) and Perrini et al. (2008), we prefer panel data test models which allows us to take the individual differences of the firms in the sample into consideration. We therefore simultaneously included both the individual effects (u_i) and the time effects (δ_t)[4] in our panel data regressions.

The test models thus take the form:

$$y_{i,t} = \alpha + \beta x_{i,t} + u_i + \delta_t + \varepsilon_{i,t} \quad (2)$$

with $y_{i,t}$ the dependent variable defined as Tobin's Q, $x_{i,t}$ the vector of the set of independent variables, α the constant, β the vector of the coefficients, and $\varepsilon_{i,t}$ a residual term.

Since the results of the Breusch-Pagan and Cook-Weisberg test reject the hypothesis of homoscedasticity of the residuals for the sequence of regressions, we use the Eicker-White method for correction purposes. Consequently, the robustness of the test results increases as their power diminishes. This means the sensitivity of the results to the test model specifications is lower. We used Breusch-Pagan's Lagrange multiplier test to determine the type of individual effects (fixed or random effects). The results favour the fixed individual effects models. Lastly, we monitored the existence of eventual multicolinearity issues in the usual way.

5. Results and discussion

Several findings regarding the relationship between a firm's ownership structure and its performance can be put forward.[5] Firstly, the concentration of capital in the hands of a majority shareholder allows greater convergence of interests with the aim of maximising the firm's value, thereby confirming the agency theory forecasts. Secondly, the role of the second-tier shareholders clearly depends on their effective counterbalancing effect in respect to the primary shareholder's absolute or non-absolute control. Lastly, the large shareholders' homogeneity appears to be a moderating factor in the costs involved in challenging control.

5.1. The determinant role of the major shareholder

Table 3 shows the results of the regressions of the impact of ownership concentration on a firm's value. For the bulk sample, the presence of a majority shareholder has a positive effect on the firm's value (*model 1*). Conversely, there does not seem to be a significant impact from the presence of a second shareholder with a shareholding of more than 10%, regardless

[4] The null hypothesis H_0: $u_i = 0$ is rejected for the set of models confirming the presence of individual effects in the data panel. Similarly, the inclusion of time effects is strengthened by Wald's test results, which rejects the hypothesis of zero time coefficients.

[5] We shall mainly focus our comments on the ownership structure variables that form the crux of our study. As far as the control variables are concerned, our main findings demonstrate that company performance is negatively dependent on the degree of tangibility of its assets (highlighting the inefficient use of production capacities) and is positively dependent on the growth of its activity (a sign of performance linked to growth opportunities).

Table 3
Test Results: Ownership Concentration and Firm's Value.

	All			One blockholder with majority			No controlling shareholder			Multiple blockholders	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Log Assets	−0.13	−0.13	−0.13^{+}	−0.15	−0.14	−0.16	−0.10	−0.09	−0.10	−0.28*	−0.30*
	(0.08)	(0.08)	(0.08)	(0.12)	(0.11)	(0.11)	(0.10)	(0.10)	(0.10)	(0.12)	(0.13)
Leverage	0.04	0.05	0.05	0.00	0.01	0.03	0.04	0.04	0.04	0.10	0.08
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.05)	(0.10)	(0.10)
Asset Tangibility	−0.82*	−0.81*	−0.80*	−0.26	−0.27	−0.25	−1.16*	−1.15*	−1.09*	−1.28^{+}	−1.18
	(0.35)	(0.34)	(0.35)	(0.35)	(0.35)	(0.35)	(0.47)	(0.46)	(0.47)	(0.70)	(0.72)
Sales Growth	0.17***	0.17***	0.17***	0.03	0.03	0.02	0.19**	0.18**	0.20**	0.21*	0.22*
	(0.05)	(0.05)	(0.04)	(0.10)	(0.10)	(0.10)	(0.06)	(0.07)	(0.06)	(0.09)	(0.10)
Volatility	−0.15	−0.18	−0.15	−1.12	−1.13	−1.18	1.61	1.44	1.66^{+}	0.87	1.01
	(0.71)	(0.72)	(0.71)	(0.78)	(0.78)	(0.79)	(0.98)	(0.97)	(0.98)	(1.68)	(1.65)
Majority (0/1)	0.12*	–	–	–	–	–	–	–	–	–	–
	(0.06)	–	–	–	–	–	–	–	–	–	–
Second Lge.Sh. (0/1)	0.03	–	–	−0.03	–	–	0.06	–	–	–	–
	(0.04)	–	–	(0.05)	–	–	(0.05)	–	–	–	–
Cash-flow 1	–	0.30*	0.24	–	0.05	0.08	–	0.54*	0.64*	0.65	1.09*
	–	(0.15)	(0.15)	–	(0.41)	(0.35)	–	(0.27)	(0.26)	(0.43)	(0.49)
Cash-flow 2	–	0.19	–	–	−0.61	–	–	0.97^{+}	–	2.12**	–
	–	(0.39)	–	–	(0.46)	–	–	(0.53)	–	(0.87)	–
Others 5%	–	–	−0.03^{+}	–	–	−0.11**	–	–	−0.01	–	0.02
	–	–	(0.02)	–	–	(0.04)	–	–	(0.02)	–	(0.03)
Adjusted R^2	0.62	0.62	0.62	0.68	0.68	0.69	0.62	0.63	0.62	0.66	0.65
Observations	2118	2118	2118	904	904	904	1214	1214	1214	681	681

Note: The dependent variable is Tobin's Q. All variables are defined in Table 1. The table presents the coefficients (*standard deviations*). ***, **, *,+ denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

Table 4
Test Results: Control Contestability and Firm's Value.

	All		One blockholder with majority		No controlling shareholder		Multiple blockholders	
	(12)	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**	**(19)**
Log Assets	−0.13	−0.13^{+}	−0.14	−0.15	−0.09	−0.09	−0.28*	−0.29*
	(0.08)	(0.08)	(0.12)	(0.11)	(0.09)	(0.09)	(0.12)	(0.12)
Leverage	0.05	0.05	0.01	0.01	0.04	0.04	0.11	0.08
	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.10)	(0.09)
Asset Tangibility	−0.81*	−0.81*	−0.27	−0.27	−1.14*	−1.13*	−1.28^{+}	−1.23^{+}
	(0.35)	(0.35)	(0.35)	(0.35)	(0.46)	(0.47)	(0.70)	(0.70)
Sales Growth	0.17***	0.17***	0.03	0.03	0.19**	0.19**	0.21*	0.22*
	(0.05)	(0.05)	(0.10)	(0.11)	(0.07)	(0.07)	(0.09)	(0.10)
Volatility	−0.18	−0.17	−1.12	−1.11	1.50	1.52	0.81	0.76
	(0.72)	(0.72)	(0.78)	(0.78)	(0.98)	(0.99)	(1.66)	(1.68)
Cash-flow 1	0.31^{+}	0.29	−0.02	−0.17	0.93**	0.91**	2.09**	1.91*
	(0.19)	(0.19)	(0.43)	(0.43)	(0.30)	(0.35)	(0.73)	(0.82)
Counter 2vs1	0.03	–	−0.41	–	0.22^{+}	–	0.62*	–
	(0.12)	–	(0.26)	–	(0.13)	–	(0.24)	–
Counter 2 + 3vs1	–	0.00	–	−0.57*	–	0.11	–	0.30^{+}
	–	(0.08)	–	(0.25)	–	(0.09)	–	(0.17)
Adjusted R^2	0.62	0.62	0.68	0.68	0.62	0.62	0.66	0.66
Observations	2118	2118	904	904	1214	1214	681	681

Note: The dependent variable is Tobin's Q. All variables are defined in Table 1. The table presents the coefficients (*standard deviations*). ***, **, *,+ denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

Table 5
Test Results: Large Shareholders' Homogeneity and Firm's Value.

	All		One blockholder with majority		No Controlling shareholder		Multiple blockholders	
	(20)	**(21)**	**(22)**	**(23)**	**(24)**	**(25)**	**(26)**	**(27)**
Log Assets	−0.13	−0.13	−0.14	−0.14	−0.10	−0.09	−0.31*	−0.30*
	(0.08)	(0.08)	(0.11)	(0.11)	(0.10)	(0.09)	(0.13)	(0.13)
Leverage	0.05	0.05	0.01	0.01	0.04	0.04	0.08	0.09
	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.10)	(0.10)
Asset Tangibility	−0.81*	−0.81*	−0.26	−0.27	−1.09*	−1.10*	−1.14	−1.14
	(0.34)	(0.34)	(0.35)	(0.35)	(0.47)	(0.46)	(0.72)	(0.71)
Sales Growth	0.17***	0.17***	0.02	0.02	0.19**	0.19**	0.22*	0.23*
	(0.05)	(0.05)	(0.10)	(0.10)	(0.06)	(0.06)	(0.10)	(0.10)
Volatility	−0.19	−0.23	−1.12	−1.11	1.61	1.56	0.95	0.86
	(0.72)	(0.72)	(0.79)	(0.79)	(0.98)	(0.98)	(1.68)	(1.71)
Cash-flow 1	0.29*	0.30*	0.21	0.18	0.67**	0.69**	1.06*	1.03*
	(0.15)	(0.14)	(0.34)	(0.35)	(0.26)	(0.26)	(0.48)	(0.47)
Same 1&2	0.02	–	0.00	–	0.03	–	0.03	–
	(0.04)	–	(0.08)	–	(0.06)	–	(0.09)	–
Same 1&2&3	–	0.09+	–	0.06	–	0.09	–	0.10
	–	(0.05)	–	(0.06)	–	(0.07)	–	(0.08)
Adjusted R^2	0.62	0.62	0.68	0.68	0.62	0.62	0.65	0.65
Observations	2118	2118	904	904	1214	1214	681	681

Note: The dependent variable is Tobin's Q. All variables are defined in Table 1. The table presents the coefficients (*standard deviations*). ***, **, *,+ denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

Table 6
Test Results: Control Contestability between Homogeneous Shareholders and Firm's Value.

	All		One blockholder with majority		No Controlling shareholder		Multiple blockholders	
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Log Assets	−0.13	−0.13	−0.14	−0.14	−0.10	−0.10	−0.31*	−0.30*
	(0.08)	(0.08)	(0.11)	(0.11)	(0.09)	(0.09)	(0.13)	(0.13)
Leverage	0.05	0.05	0.01	0.01	0.04	0.05	0.09	0.10
	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.10)	(0.10)
Asset Tangibility	−0.81*	−0.81*	−0.26	−0.26	−1.09*	−1.10*	−1.13	−1.14+
	(0.34)	(0.34)	(0.36)	(0.36)	(0.46)	(0.45)	(0.72)	(0.69)
Sales Growth	0.17***	0.17***	0.02	0.02	0.19**	0.19**	0.22*	0.23*
	(0.05)	(0.05)	(0.10)	(0.10)	(0.06)	(0.06)	(0.10)	(0.10)
Volatility	−0.19	−0.23	−1.09	−1.11	1.61+	1.56	0.98	0.85
	(0.72)	(0.72)	(0.78)	(0.78)	(0.97)	(0.98)	(1.65)	(1.69)
Cash-flow 1	0.33*	0.35*	0.17	0.21	0.77**	0.75**	1.18*	1.11*
	(0.15)	(0.15)	(0.37)	(0.34)	(0.28)	(0.28)	(0.53)	(0.48)
Counter 2vs1 x Same 1&2	0.08	–	−0.22	–	0.11	–	0.12	–
	(0.07)	–	(0.40)	–	(0.08)	–	(0.13)	–
Counter 2 + 3vs1 x Same 1&2&3	–	0.13*	–	−0.04	–	0.12+	–	0.14+
	–	(0.06)	–	(0.27)	–	(0.06)	–	(0.08)
Adjusted R^2	0.62	0.62	0.68	0.68	0.62	0.62	0.65	0.66
Observations	2118	2118	904	904	1214	1214	681	681

Note: The dependent variable is Tobin's Q. All variables are defined in Table 1. The table presents the coefficients (*standard deviations*). ***, **, *,+ denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

of the sub-sample: the mere presence of a blockholder has no influence. The analysis is enhanced when considering the cash flow rights of the two primary shareholders. The shareholding of the primary shareholder always has a positive impact on the company's value, with the notable exception of the sub-sample '*One blockholder with majority*'; when power can no longer be challenged, a greater concentration of capital does not seem to make a larger contribution to the convergence of financial interests (*model 5*). The contrast is greater in the findings relating to the second shareholder, where there is an insignificant impact in the bulk sample (*model 2*) and in the sample with a majority shareholder (*model 5*), but a significant, positive impact in the other two sub-samples. When there is no majority shareholder, the larger the shareholding of the second shareholder, the greater the positive impact on the firm's value. The sample description in Table 2 facilitates understanding. For the sub-sample '*One blockholder with majority*', the main shareholder holds over 65% of the capital, on average, against the second shareholder's 7.5%, revealing a marked disequilibrium in the balance of power. The mere presence of a majority shareholder is sufficient to send a positive signal of value creation, there being no need for further control incentives through an increase in her shareholding or that of the second shareholder. On the other hand, when there is no majority shareholder, the second shareholder gains in importance since her average shareholding will be over 12% – or even as much as 17% – of the capital, depending on the control structure, against around 29% for the main shareholder. In other words, when control of the company can be contested, the larger the shareholding of the first and second shareholders, the bigger the reduction in agency costs. Lastly, ownership dispersion, measured by the number of shareholders who hold over 5% of the capital (apart from the first one), strengthens the hypothesis of an increase in the costs linked to dispersion of control when the latter can no longer be challenged (*model 6*).

5.2. The role of second-tier blockholders

The results shown in Table 4 allow us to develop a more precise study of the influence of the balance of power between shareholders, thanks to the ratio of the second (or second and third) shareholder's cash flow rights to that of the main shareholder.

Firstly, if there is a shareholder with an absolute majority, the counterbalancing power of the second shareholder has no bearing (model 14). A majority shareholder internalises the monitoring costs and leaves little room for the other shareholders, who are encouraged to adopt free-riding behaviour. The majority shareholder is simultaneously faced with weak counterbalancing powers on the part of the second-tier shareholders and ex post private enforcement which imposes few constraints. While such circumstances could encourage her to conceal private benefits, the majority shareholder nevertheless tends to prefer to engage in ex ante information, based on the likelihood that ex post enforcement would be extremely weak. The less restrictive the ex post private enforcement, the greater the likelihood of the majority shareholder being inclined to run the risk of supporting the ex post control costs, since it would be easier to restrict access to the evidence.

Secondly, in the absence of a majority shareholder, i.e. when power can be contested, the higher the second shareholder's counterbalancing power, the higher the firm's value (*models 16 and 18*). In effect, the numbers confirm this preeminent role played by the second shareholder, who has greater potential to influence managerial decisions in the samples where there is no majority, with a counterbalancing power amounting to almost half, if not 2/3, that of the primary shareholder (Table 2). This confirms the theoretical work of Bennedsen and Wolfenzon (2000) and Bloch and Hege (2001), according to which a homogeneous division of power constitutes a positive signal to the market. In such a situation, the main shareholder, faced with effective counterbalancing power on the part of the second-tier shareholders, will be encouraged to inform the company ex ante of any possible conflicts of interest in view of the strong possibility of ex post appeals, and this influences the firm's value in a positive way. The main shareholder will prefer to cooperate and voluntarily disclose any eventual conflicts of interest (ex ante private enforcement) in order to obtain the minority shareholders' approval because of the excellent conditions for contesting control and the second-tier shareholders' power of influence. The role of the second-tier shareholders is therefore vested with its full importance in the light of the challenging of rights granted by law. When a third shareholder is added to the equation, the results obtained change perceptibly. The additional counterbalancing power brought to bear has a negative impact, which can be seen directly for the sub-sample '*One blockholder with majority*' (*model 15*) or indirectly for the sub-samples where control is contestable since the positive relationship between the counterbalancing power and the firm's value becomes less significant or may even cease entirely to be significant (*models 17 and 19*). Although the third shareholder represents up to a third of the main shareholder's stake for the sub-samples where there is no majority shareholder (Table 3), this does not appear to boost control but, on the contrary, increases costs.

In short, the analysis of the balance of power in relative terms reinforces previous findings. When there is a majority shareholder, the counterbalancing power of the second shareholder has no impact, whether it is measured in absolute or relative values. Conversely, it does have a positive bearing in ownership structures where there is a greater possibility of contesting power, and the greater its relative counterbalancing power, the greater that bearing will be. There is no benefit from the increased counterbalancing power offered by subsequent large shareholders[6]; on the contrary, this perturbs the state of play in the relationship between the first two shareholders.

[6] The tests which took into account the counterbalancing power of the fourth and fifth shareholders (which are not reported here but which the authors will provide on request) do not change the significance of the results and strengthen the weight of the third shareholders as the main source of dissension (the main reason being the more insignificant weight of the subsequent shareholders).

Table 7
Multiple analysis of the shareholders' impact in the management of agency conflicts.

Solves Agency conflicts	Principal/Agent Conflicts			Principal/Principal Conflicts	
	1 st blockholder	2nd blockholder		2nd blockholder	
		Same type as 1st	Of different type	Same type as 1st	Of different type
One blockholder with majority & Another significant blockholder	Effective monitoring	No additional benefits of control		Ex ante Private Enforcement	Ex post Private Enforcement with high litigation costs
Two significant blockholders without any controlling shareholder	Effective monitoring	Redundant control		Ex ante Private Enforcement	Ex ante Private Enforcement

5.3. Shareholders' homogeneity

Tables 5 and 6 refer to the analysis of large shareholders' homogeneity. The results in Table 5 show that the homogeneity of the top two or three shareholders has no significant impact on the value of a firm, regardless of the sub-sample studied. The addition of a term of interaction with the variable measuring the second shareholder's counterbalancing power (Table 6) also finds in favour of there being no significant relationship. If one compares these results with those shown in Table 4, it can be seen that when homogeneity is taken into consideration, the intensity of the relationship between the firm's value and the exercise of the counterbalancing of power diminishes. The variable *Counter 2vs1,* which is positive and significant in the absence of a majority shareholder (*models 16 and 18*), ceases to be so when the top two shareholders are of the same type (*models 32 and 34*). A similar conclusion can be drawn in the presence of a majority shareholder. Although the relationship between the second shareholders' counterbalancing power and the firm's value remains statistically insignificant, the addition of an interaction term with the homogeneity of the shareholders further diminishes the significance of the estimator (*models 14 and 30*). This result would tend to favour the hypothesis whereby, control is redundant: the counterbalancing power exercised by the second shareholder systematically weakens when her nature is the same as the main shareholder's.

When the shareholders are of different types, a majority shareholder prefers to conceal her private benefits, the risk of disagreement being higher in light of the greater divergence of interests. Monitoring by minority shareholders would then result in ex post monitoring costs with a negative impact on the firm's value. In a situation where control is shared, the second-tier shareholders can contribute to more effective monitoring of managers as long as they are not of the same type as the main shareholder, in which case their control becomes redundant.

The study of the homogeneity of the top three shareholders is extremely enlightening. The previous results (Table 4) highlight the existence of costs connected to the counterbalancing power of the third large shareholder. We see that these costs can be avoided or at least reduced when the shareholders are of the same type; the negative impact of the counterbalancing power is no longer significant for companies with a majority shareholder (*model 31*), whereas the positive impact becomes slightly more significant for the two sub-samples of companies with no majority shareholder (*models 33 and 35*).

Table 7 presents a synthesis of the *blockholders'* control based on contestability of control, the type of agency conflicts and the homogeneity of the large shareholders.

In order to facilitate understanding of the analysis, we present the simple case of two *blockholders* who have to manage two types of agency conflicts in two extreme situations of control contestability. Firstly, the control is not directly contestable (in terms of power of influence, since the second shareholder can always resort to legal prerogatives) when the main shareholder is a majority shareholder. Conversely, when there is no absolute majority, the primary shareholder must take the second shareholder's counterbalancing power into consideration (for the sake of simplification, we consider that the main shareholder has a shareholding which is marginally larger than that of the second shareholder). Secondly, agency conflicts are usually of two kinds: between managers and shareholders (principal/agent) and between large and minority shareholders (principal/principal). Thirdly, we identify whether or not the second shareholder is of the same kind as the main shareholder. The shareholders' monitoring activity is therefore expressed on the basis of these three factors (in the institutional framework where private enforcement imposes few constraints, whatever the type, ex ante or ex post).

6. Conclusion

In this paper, we study the link between a firm's ownership structure and its performance in the French context, characterised by significant agency conflicts, a low level of protection for minority shareholders, and ex ante and ex post private enforcement imposing few constraints.

Most of the empirical research on this theme focuses on the distinction between dispersed ownership and concentrated ownership, leaving aside the study of the influence of blockholders other than the first, in contrast to several recent works (Laeven and Levine, 2008; Holderness, 2009) that identify greater complexity of ownership structures than this simple

dichotomy. We thus sought to discover, on the one hand, the role that second-tier shareholders could play in the resolution of agency conflicts and, on the other, whether considering the homogeneity of the shareholders can throw new light on corporate governance effectiveness in the French context. This work therefore extends earlier studies on the links between ownership structure, governance and performance. Our findings cover a 10-year period and over 2100 observations grouped into three sub-samples (the presence of a majority shareholder; the absence of a majority shareholder; and no majority shareholder but several blockholders ≥10%), enabling us to highlight the eventual counterbalancing role played by second-tier shareholders vis-à-vis the main shareholder in various ownership structures.

For the bulk sample, our findings show that a majority shareholder has a positive influence on a firm's value, as suggested by agency theory. The examination of the various sub-samples is extremely enlightening. First, when the primary shareholder already has a majority, increasing her control over the firm has no significant impact. The presence of a majority shareholder is sufficient and greater power and control does not add up to value creation. Next, we demonstrate that the contestability of the main shareholder's power boosts performance. Indeed, a second shareholder has a positive influence if there is a real possibility of exercising counterbalancing power, all the more so when the power is 'evenly' divided between the top two shareholders. However, the second shareholder's monitoring role is only exercised when her nature is different to that of the first shareholder, since shareholders with the same goals will be less inclined to contest. Additional counterbalancing powers from other blockholders do not add any benefits and may actually upset the state of play between the top two shareholders. Applied to the French context, this means that when the second shareholder has counterbalancing power, there is a real possibility of using ex post enforcement regulations, which constitutes an incentive for the alignment of interests. These findings show that blockholders play a leading role and constitute a true governance mechanism, in particular in the complex ownership structures that exist in many countries but which are often ignored in empirical studies. Future studies could focus on assessing the role of second-tier shareholders in corporate governance enhancement in the context of several European countries that have a similar self-dealing legal environment to the French one, and a high level of principal/principal conflicts, including Italy and Greece.

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