

Ownership structure and minority rights: A Latin American view

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Abstract

Latin America provides a unique scenario to expand current research on corporate governance. First, agency problems in the region may stem from the misalignment of goals and objectives between the majority and minority shareholders rather than from the diverse interests of management and owners. Second, corporate governance mechanisms available to mitigate agency problems may be inefficient or non-existent. Third, the lack of institutional protection for minority shareholders' rights may enhance the potential for agency problems, especially for the expropriation of minority shareholders' rights. Empirical analysis of data from 97 companies from Chile, Brazil, and Mexico from 2000 through 2002 indicates that a higher degree of family ownership increases the potential for expropriation of minority shareholders' rights. Furthermore, companies affiliated with *grupos* appear to be less likely to expropriate their shareholders' rights, possibly signaling changes in market environments in Latin America.

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1. Introduction

Latin America provides a unique scenario to expand current research on corporate governance. First, the source of agency problems in the region may stem from the misalignment of goals and objectives between the majority and minority shareholders rather from the diverse interests of management and owners. Second, corporate governance mechanisms available to

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mitigate agency problems may be inefficient or non-existent. Third, the lack of institutional protection for minority shareholders' rights enhances the potential for agency problems, especially for the expropriation of minority shareholders' rights. Thus, this study empirically examines whether the ownership structure of firms represented in Latin American (LA) equity markets leads to the expropriation of minority shareholders' rights in light of these distinctive characteristics.

Classic agency theory framework and corporate mechanisms may not apply to the circumstances of LA countries. Agency problems in Latin America do not appear to arise from the separation of owners and managers; instead, agency problems may stem from the misalignment of interests between majority and minority shareholders (refer to [Appendix A](#)). Moreover, corporate governance mechanisms in Latin America differ from those in developed economies: (a) it seems that board of directors in Latin America are under the influence of controlling shareholders and may not perform their fiduciary duty to safeguard minority shareholders' interests; (b) ownership structure is concentrated in the hands of family; and (c) formal institutional protection is often lacking, corrupted, or not enforced.

Given these differences in corporate governance mechanisms, it is of interest to examine the link between the ownership structure and the expropriation of minority shareholders' rights of firms in LA equity markets. Specifically, this study seeks to answer the following question: is there a relationship between the ownership structure of LA firms and the expropriation of minority shareholders' rights?

Data from 97 companies from Brazil, Chile, and Mexico was collected for fiscal years ending 2000–2002. Univariate analysis examined the difference in means for the ownership variables and found that the ownership structure of Mexican companies appears to be different from Brazilian and Chilean companies. Although the three countries are similar in that they are from the same region, their political and economic development has been different. Such differences may affect the ownership structure of companies from the region. Next, a panel analysis employing the firms' ownership structure as well as a proxy for expropriation of minority shareholders' rights was employed to test the specific research questions. The results provide empirical evidence that in Latin America minority shareholders' rights may be usurped in the presence of an ownership structure based on a family as a large controlling shareholder. However, contrary to expectations, firms associated with the LA business associations appear to be less likely to expropriate minority shareholders' rights. This may reflect the changing market environment in Latin America that lessens informational asymmetries.

The paper proceeds as follows. Section 2 details the theory and empirical evidence of ownership structure and expropriation of minority shareholders' rights and the frames the research questions. Section 3 describes the data sources, sample selection, variables of interest and the descriptive statistics. The methodology employed to test the hypotheses is presented in Section 4 with the empirical results discussed in Section 5. Concluding remarks are presented at Section 6.

2. Motivation

LA equity markets are significantly underdeveloped in comparison with other emerging economies in Asia or Eastern Europe. LA exchanges lack retail, institutional, and international investors. Moreover, these markets cannot attract enough domestic companies willing to list their shares. Overall, LA exchanges are characterized by low volume, decreasing market capitaliza-

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