

The corporate governance of Latin American firms: Contest to the control and firm performance

ABSTRACT:

We analyze the relationship between power distribution and firm's value for a sample of six Latin American countries. We provide new evidence on the impact of the capacity to contest to the control of the large shareholders in the Latin American context, which is characterized by high levels of ownership concentration and a low level of enforcement of law. Our findings are even more significant for family-owned firms. Finally, we consider some important policy implications that raise concerns about the interests of minority shareholders.

Key words: Firm performance; Contest to the control; Corporate governance.

Track: Corporate Finance

1. INTRODUCTION

The literature has widely discussed how ownership structure is related to power distribution within organizations (Anderson et al., 2007; Bennedsen and Wolfenzon, 2000; Laeven and Levine, 2008; Oded and Wang, 2009). Traditionally two main views have been set forth on this issue: one stresses the vertical dimension of corporate governance that stems from diluted ownership structures (Berle and Means, 1932; Jensen and Meckling, 1976), and the other one shows that concentrated corporate ownership structures are present worldwide (Holderness, 2009; La Porta et al., 1999). More recently, some research addresses an emerging issue in corporate governance, namely, complex ownership structures with several large shareholders (Cronqvist and Fahlenbrach, 2009; Gutiérrez and Pombo, 2009; Konijn et al., 2011; Mishra, 2011; Paligorova and Xu, 2012; Renders and Gaeremynck, 2012). Multiple large shareholders interact among themselves and with the dominant shareholder creating a specific dynamic of agency problems. Such particular ownership structure characteristic turns out to be relevant in creating or destroying value based on the role played by large shareholdings to contest the control of majority shareholders (Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2003; Laeven and Levine, 2008; Maury and Pajuste, 2005).

Broadly speaking, our research is motivated by the two opposing approaches which describe the role of multiple shareholders. On the one hand, blockholders can be a catalyst for corporate value if they have the right incentives to supervise the dominant owner, to contest his/her control, and to constraint his or her discretionary power (Carvalho, 2012; Frantz and Insteffjord, 2009; Konijn et al., 2011). On the other hand, shareholders can create coalitions that either collude with the dominant shareholder or undermine his or her ability to make strategic decisions (Edmans, 2014).

Our research also is motivated by the outstanding role of family firms around the world and the specific corporate governance issues that arise in these firms (Castillo and Skaperdas, 2005; Maury and Pajuste, 2005; Sacristán-Navarro et al., 2015; Sacristán-Navarro et al., 2011)¹. Although family-owned firms show certain advantages to address the agency problems between managers and shareholders, family firms can also be more prone to conflicts of interests between controlling and minority shareholders, which could result in family shareholders extracting private benefits from minority shareholders (Barontini and Caprio, 2006; Dyck and Zingales, 2004; Fiol and Aldrich, 1995; Isakov and Weisskopf, 2014).

The study seeks to make a number of contributions to the empirical literature on corporate governance in emerging markets. First, we add to the scarce empirical literature by analyzing control contest in a set of Latin American countries. The few current literature is mainly focused on stand-alone Latin American countries such as Colombia (Gutiérrez and Pombo, 2009) or on a country blocks setting such as Europe (Attig et al., 2008; Cai et al., 2016; Jara and López, 2011; Jara et al., 2008). Although there are some studies focused on Latin America, such as the one of De-la-Hoz and Pombo (2016), they do not study blockholdings but institutional shareholders and their power to contest the control. Thus, our research intends to close the gap on the empirical literature on contest to control in Latin American countries. Second, the Latin American context raises as a scenario of particular interest to analyze the contestability to the control through the impact of complex ownership structures on corporate value for a number reasons: i) the natural evolution of the ownership toward highly concentrated structures in the hands of a few number of controlling shareholders is a consequence of the weak legal protection of investor rights, the frequent use of corporate control-enhancing mechanisms such as ownership pyramids and cross-holdings, and previous autocratic political regimes (Bittencourt, 2012; Claessens and Yurtoglu, 2013; De-la-Hoz and Pombo, 2016; Rode and Revuelta, 2014). Contrary to the dominant Anglo-Saxon evidence, recent corporate scandals in the region have shown how firms with relative widespread ownership structures are exposed to expropriation risk.² In this vein, the holdings of business groups might result in efficient governance practices given the capacity of the business groups to remove certain market inefficiencies by generating internal capital markets when the financial systems are not developed enough (Buchuk et al., 2014; Farías, 2014; Khanna and Palepu, 1999, 2000). Therefore, the particularities of monitoring

¹ Barontini and Caprio (2006) show that 53% of European firms are family firms; Faccio and Lang (2002) show that 44% of Western European firms are family firms; Villalonga and Amit (2006) show that more than half of the public US companies are family controlled; Claessens et al. (2000) and Carney and Child (2013) show that around two out of three Eastern Asia firms are family controlled.

² An anecdotal example is the “*La Polar*” case, which took place in Chile in 2011 and confirms that managers can behave opportunistically when the firms have diluted ownership structures. Conversely, Latin America has witness prominent cases of firms with ownership structures relatively concentrated that are prone to adopt better corporate governance practices. For example, the market values of “*Cementos Argos*” in Colombia, “*CPFL Energía*” and “*Marcopolo*” in Brazil have experienced high returns as a result of efficient financial decisions.

systems in Latin America might challenge findings observed in other latitudes such as developed countries. ii) family firms are a prevalent phenomenon in Latin American business (Chong and Lopez-De-Silanes, 2007). This feature, consistent with many other geographic and institutional environments, makes our results comparable to other studies.

Third, with the development of the capital markets in Latin American in the last decades, institutional investors have become active players in the ownership structure of firms and in their governance (De-la-Hoz and Pombo, 2016; de la Torre et al., 2012).³ This shift toward a more market based governance and the continuous demand for legal improvements have led to the enhancement of regulations on good practices of corporate governance and the enforcement of the law⁴. Therefore, this paper contributes by assessing the efficiency of such changes in the regulation and codes of good corporate practices in the context of Latin American firms.

Fourth, this paper contributes to the literature by addressing empirically the capacity of contestation to control as driver of firm value. This emphasizes the fact that the role of second shareholders and blockholders different from the controlling shareholder are critical in explaining firm valuation in Latin America. Finally, the last major contribution of this paper is rooted in its policy implication on corporate governance. For instance, this study identifies a number of issues concerning the protection rights of minority shareholders and actions on it are suggested.

We analyze a sample of 595 listed real-sector firms in the capital markets of Argentina, Brazil, Chile, Colombia, Mexico, and Peru for the period of 2000–2015. First, we find that when the capacity to contest the control (contestability) increases, firm value is enhanced. That is, in institutional contexts characterized by weak protection of the investors, the oversight by multiple large shareholders becomes an essential governance mechanism. Second, these relations are even more significant in the family-owned firms, which emphasizes the relevance of the contest to the control in this group of firms. Our results are robust to different estimation methods and to alternative definitions of the variables.

³ The OCDE reports that by 2012 the assets managed by the pension funds accounted for 12.3% of the GDP in Mexico, 18.4% in Peru, 18.2% in Colombia, and over 60% in Chile. For this last country, between 1981 and 2011 the GDP has grown at about 4.58% annually. 0.37% out of this percentage is explained by the development of pension funds.

⁴ Examples about it are the legal reforms across countries in the region. In Argentina (2007) the Stock Exchange Commission (*Comisión Nacional de Valores*) disclosed the *Resolución General 516* which sets the Good Governance Code (*Código de Buenas Prácticas de Gobierno Societario*). In Brazil such changes have been even deeper and several laws (*Ley 6385* and *10303*) and norms (*Instrucción CMV 358* and *481*) have been passed. In Chile, such regulations are enforced by the laws (*Ley 19705* and *20382*) and norms issued by the SEC (*Superintendencia de Valores y Seguros*). In Colombia the major reforms are the *Ley 964* (2005) and the Bulletin *055/2007* of the SEC (*Superintendencia Financiera*). In Mexico, the Code of Good Practices of Government (1999) and the new Stock Exchange Law (2006) were passed. In Peru, several norms were passed such as the *Principios de Buen Gobierno Corporativo para las Sociedades Peruanas* (2002); the *Información Sobre el Cumplimiento de los Principios de Buen Gobierno de las Sociedades Peruanas* (2005); the *Actualización del Código de Buen Gobierno Corporativo*; and the *Índice de Buen Gobierno Corporativo* of the Stock Exchange of Lima (2013).

The remainder of this paper is as follow. Section 2 describes the related literature and the hypothesis development. Section 3 provides the source of information and the variables used in the empirical analysis. Section 4 proposes the methodology. Section 5 presents the estimations' results of the models. Finally, Section 6 concludes.

2. THEORETICAL REVIEW AND HYPOTHESES

Although ownership concentration alleviates some agency problems through the direct supervision of managers, other arguments based on the expropriation hypothesis suggest that highly concentrated ownership structure can cause the firm value to decline (Ang et al., 2000; Davis et al., 1997). For instance, Guthrie and Sokolowsky (2010) demonstrate that excessive power concentration in the hands of a small number of shareholders attenuates the managers–shareholders agency problem but may intensify the divergence of interests between controlling and minority shareholders.

Some recent literature has stressed the advantages of balanced corporate control with several large shareholders (Mishra, 2011; Nagar et al., 2011; Ruiz-Mallorquí and Santana-Martín, 2011; Santos et al., 2015). Specifically, the power of other large shareholders and their capacity to contest the largest shareholder's control play an important role in the corporate governance process. This has been usually referred as contestability in the literature. Thus, contestability is defined as the ability of non-dominant large shareholders to contest or to challenge the power of the largest shareholder. Empirically, literature has suggested a positive effect of the contestability to control, mainly because of a better supervisory role exercised by large shareholders (Maury and Pajuste, 2005).

In this vein, Bloch and Hege (2003) suggest that in ownership structures where shareholders compete for control, the expropriation of wealth is efficiently prevented. Similarly, for Finish firms Maury and Pajuste (2005) find that a more equal distribution of votes among large blockholders has a positive effect on firm value. In addition, Attig et al. (2008) find evidence for a sample of EU and Asian firms that contest to control reduces financing costs, which eventually enhances firm value. Subsequently, Attig et al. (2009) analyze ownership structures with multiple large shareholders and the effect on firm value for a sample of Asian firms. Their findings indicate that the presence, number, and size of such large shareholders imply a premium in firm value. More recently, Cai et al. (2016) show that a shorter distance between the ownership of the main shareholder and the secondary shareholders reduces the cost of capital in Chinese firms.

Based on this evidence, we hypothesize that other large blockholders play a critical role in effectively enhancing the supervising role of the corporate ownership structure. This role of the ownership structure is especially important in Latin American firms. Countries in this region are civil-law countries that provide poor legal protection of investors' rights. In

such a context, the ownership structure becomes more concentrated and can result in conflicts of interest between dominant and minority shareholders. Given the incentives of dominant corporate owners to extract private benefits at the expense of other shareholders in Latin American firms, we formulate the following hypothesis:

H1: Contestability to the control of the largest shareholder impacts positively on the value of the Latin American firms.

The effect that multiple large shareholders can have on the distribution of power to contest control is particularly relevant in family-owned firms given the special agency problems between controllers and external shareholders that can arise when the main shareholder is a family (Blanco-Mazagatos et al., 2007; Miller and Le Breton-Miller, 2006; Moores, 2009). In this line, Pindado et al. (2012) find that family affiliation presents lower degrees of financial constraints and that this relation tends to be more efficient when the second and the third shareholders are nonfamilies. These results suggest that the power distribution among several large nonfamily shareholders effectively improves the efficiency of investment decisions. In the same vein, Maury and Pajuste (2005) find out that shareholders coalitions among families can make profit diversion easier. Meanwhile, in coalitions between family and nonfamily members, the expropriation can be more difficult. In addition, Attig et al. (2008) find that the identity of the second shareholder is important for the risk of expropriation in family-owned firms, particularly in Eastern Asia where several large shareholders can supervise private benefits extraction and reduce financial costs. These authors conclude that when the majority shareholders are families, the asymmetries of information increase, which makes the cost of capital to rise. Consistent with this view, Sacristán-Navarro et al. (2015) argue that the effect of other large shareholders' voting rights on minority investors' wealth should be considered in family firms.

A key aspect in family firms is the retention of control because family firms are more sensitive to a loss of control than their non-family counterparts. In turn, family shareholders use a range of mechanisms to retain the corporate control such as dual-class stocks, pyramidal ownership structures, and business groups (Bhaumik and Gregoriou, 2010; Levy, 2009; Villalonga and Amit, 2010). Thus, we hypothesize that the capacity to contest the control of the dominant shareholder is more relevant in family firms. So, we state our second hypothesis in the following way:

H2: The positive effect of contestability to the control of the largest shareholder on the firm value is more prominent in family- than in non-family Latin American firms.

3. DATA SOURCES AND VARIABLES

Our data set is made up of firm-level information from Thomson Reuters Eikon. Our raw data sample is composed of 5,476 firm-year observations from 595 real-sector firms from Argentina, Brazil, Chile, Colombia, Mexico, and Peru between 2000 and 2015. The sample firms are representative of the corporate sector of countries included in the study. For instance, as by December 2013 the World Federation of Stock Exchanges Statistics had listed about 1,200 firms on these 6 exchanges, and therefore our sample includes about 50% of them. Moreover, as it can be seen in Table 1 the sample is representative in terms of the market capitalization of firms as well as in terms of the relative weight of firm assets as a share of the national GDP per country. In fact, there we can see that selected firms imply more than 40% of total corporate market capitalization reported by the World Bank for each country.

[INSERT TABLE 1 ABOUT HERE]

Table 2 presents the definitions of all variables used in the empirical analysis. Following previous studies (Demsetz and Villalonga, 2001), our dependent variable is a proxy of Tobin's Q. We measure Tobin's Q as the market value of equity plus the book value of debt over the book value of total assets (QTOB). This variable is widely used in the literature and it allows the comparison of our results with previous research. Alternatively, we also used the Market-to-Book (MTB) ratio and the Return on Assets (ROA).

The first right-hand side variable is CONTEST, which is an index that captures the power of the other large shareholders that are different from the controlling shareholder. CONTEST is computed as the addition of the ownership structure in hands of the second, third, and fourth major shareholders scaled by the fraction of shares held by the majority shareholder ($(P2+P3+P4)/P1$). Alternatively, we use two measures of the lack of contestability to the power: HERF1 ($P1^2 + P2^2 + P3^2 + P4^2$) and HERF2 ($(P1-P2)^2 + (P2-P3)^2$). Consequently, the higher both indexes, the lower the capacity of large shareholders to contest the controller.

Note that in the Latin-American context firms can be controlled by the same family through different family shareholders. Consequently, for the empirical analysis it is crucial to check the identity of the shareholders. Accordingly, we check firm by firm the ownership structure which allows us to identify a firm's main owner effective voting power, that is, the shareholders who effectively controls the firm. Once we identify the controlling shareholder, we identify a firm as family firm when the shareholder is an individual or a family group who owns at least 10% of the voting rights in the company.

Additionally, we use a number of control variables to avoid problems of under specification of our models and to enhance the comparability of our analysis with prior literature (Attig et al., 2008; Gutiérrez and Pombo, 2009; Harris and Raviv, 1988). SIZE is a proxy for firm size, which is measured as the natural logarithmic transformation of the firm's total assets. LEV measures the financial leverage (total debt over total assets). DIV is a dummy variable, which equals 1 if the firm pays out cash dividends in a certain fiscal year, and zero otherwise. When appropriate, firm, country, time dummy control variables were included in the regression models.

[INSERT TABLE 2 ABOUT HERE]

4. METHODOLOGY

The empirical analysis is divided into two stages. First, we run a descriptive analysis to show the main characteristics of our sample and the basic relations among the corporate ownership variables (contestability, ownership concentration, and family ownership, among others) and firm value. The second stage tests our hypotheses through an explanatory analysis. To check the consistency of our results, we run several alternative models with different variables and estimation methods.

The baseline model of analysis is based on the equation [1], in which the firm value depends on the contestability to the control, the ownership concentration, and the control variables:

$$Qtob_{i,c,t} = \beta_1 Qtob_{i,c,t-1} + \beta_2 Contest_{i,c,t} + CV_{i,c,t} + f_i + y_t + c_c + u_{i,c,t} \quad (1)$$

where $Qtob_{i,c,t}$ is the Tobin's Q of the i firm in the country c and in period t , $Qtob_{i,c,t-1}$ is the one-period lagged dependent variable, $Cont_{i,c,t}$ is the contestability variable and $CV_{i,c,t}$ is the vector of control variables (e.g. firm size, leverage and dividend pay-out). We also incorporate a set of dummy variables in order to control for country-year fixed effects.

Our database combines time-series with cross-sectional data, allowing the formation of panel data. Consequently, our explanatory analysis is based on panel data estimations (Arellano, 2002). There are two main concerns when dealing with panel data: the problems of unobservable heterogeneity and the endogeneity. The heterogeneity refers to the unobserved, time-invariant differences across firms. Regarding the endogeneity problem, the literature on corporate governance has suggested three main sources of such particular econometric drawback: unobserved characteristics of corporations, simultaneity, and the so-called dynamic endogeneity (Pindado et al., 2012; Roberts and Whited, 2013; Wintoki et al., 2012). We control for the dynamic endogeneity by introducing the lagged term of the dependent variable and for simultaneity by estimating our regressions using GMM IV estimations, in which we introduce as instruments the lagged explanatory variables. In general, the use of OLS estimations can provide coefficients that are biased due to the correlation between the fixed effects and the lagged dependent variable (Baltagi, 2013). Thus, Blundell and Bond (1998) generalized method of

moments (GMM) system estimator is used. The GMM system estimator deals efficiently with the endogeneity issues in the relation between performance and ownership features. In general, all of the right-hand variables are potentially endogenous (Pindado et al., 2011). As equation (1) shows, even though all these variables are exogenous, the introduction of a lagged explanatory variable introduces endogeneity. The GMM system estimator presents some advantages over others dynamic panel models that are regularly used in corporate finance research, such as small root-mean squared errors (RMSEs) when estimating a dependent variable's persistence, regardless of the true value (high or low), the GMM system estimator outperforms FE (estimating a highly persistent lag coefficient), is unaffected by panel imbalance, and is consistent across a range of endogeneity in the presence of serial correlation (Flannery and Hankins, 2013).

The consistency of the estimates depends critically on the absence of second-order serial autocorrelation in the residuals and on the validity of the instruments (Arellano and Bond, 1991). Accordingly, p-values of the first and second order autocorrelation test are reported. To test the validity of the instruments, the Hansen test of overidentifying constraints is used, which tests for the absence of correlation between the instruments and the error term and, therefore, checks the validity of the selected instruments.

Finally, all the estimations across tables was estimated clustering errors at firm-level due to the movements of the variables of interest.

5. RESULTS

5.1. DESCRIPTIVE ANALYSIS

Table 3 provides the mean and standard deviation for each variable at firm and country level. The picture that emerges is that of highly concentrated corporate ownership, which is consistent with other research on Latin America (Chong et al., 2009; Chong and Lopez-De-Silanes, 2007; Gutiérrez and Pombo, 2009; Johnson and Shleifer, 2000; Lefort, 2005; Lefort and Walker, 2000; Saona and San Martín, 2016). The largest shareholder (P1) holds about 36.8% of the outstanding shares for the whole sample; Chile (45.0%) and Peru (44.9%) are the extreme cases. As expected, the countries with the highest concentration of ownership (P1 variable) have the lowest levels of contestability (CONTEST, HERF1 and HERF2). For all the countries in the study, the average Tobin's Q is higher than one (1.267), and the lowest value is for Colombian firms (1.040). On average, the leverage of our sample is 22.3%, with the maximum in Brazilian firms (25.9%) and the lowest value in Colombian companies (13.4%). For most of the sample's firms it is observed that they do pay dividends (payout ratio of about 94.8%).

[TABLE 3 ABOUT HERE]

In Table 4 we report the correlation matrix. As it can be observed, there are not significantly high correlation coefficients among the independent variables; although it is worth notice that ownership concentration (P1) is highly and positively correlated with the variables of contestability (CONTEST, HERF1 and HERF2). Firm size (SIZE) is positively correlated with leverage (LEV). As shown in previous empirical literature for the particular case of Latin-American countries, the size of a firm is a source of reputation which allows companies to finance their investments with higher proportions of long-term debt. Despite this correlation between these two variables, the variance inflation factor (not tabulated) tests do not report problems of multicollinearity in the regression outputs.

[TABLE 4 ABOUT HERE]

5.2. MULTIVARIATE BASELINE ANALYSIS

Table 5 tabulates the regression outputs for the baseline model using the Generalized Method of Moments (GMM). The nine alternative regressions are grouped based on the three dependent variables (QTOB, MTB, and ROA). First of all, we observe that there is a clear persistency of the current firm value relative to its one-period lagged firm value. Second, the impact of CONTEST variable on firm value is positive and statistically significant at the standard levels. This finding is in line with our first hypothesis and support the relevance of the contest to the control in contexts of relatively high concentration of the ownership such as Latin America (Gutiérrez and Pombo, 2009). The greater capacity to contest the control, materialized in a more equitable distribution of control rights among the major shareholders, is positively appraised by the market due this prevents the wealth expropriation by the controlling shareholder. In the same vein, Columns 3, 6, and 9 in Table 5 show that the coefficient of HERF2 is negative, which suggests that the absence of contestability has a deteriorating effect on the firm value. Recall that HERF2 are relative measures of the corporate ownership concentration in hands of the majority shareholders. By construction, higher values of HERF2 indicate a diluted contestability power (e.g. lack of contestability).

[TABLE 4 ABOUT HERE]

Table 4 also shows how relevant the financing decisions are as determinants of firm value. The amount of debt (LEV) is negatively related to the firm value when measured as QTOB. This finding is in line with previous literature (e.g. Garay and González (2008) for Venezuela; Lins (2003) for 18 emerging markets including Latin American countries; and Espinosa (2009) for Chile, among others). Nevertheless, such relationship turns out positive when MBT is considered as

dependent variable. Since this variable is not adjusted by leverage and measures specifically the valuation of equity, we observe that when financial leverage increases, the firm's market capitalization also increases. This finding might be interpreted as improved market perception about the company prospects when debt is issued. It seems to be that the market assesses positively the higher constraints and monitoring addressed by debt covenants for instance and in reducing the free cash flow that otherwise may be used opportunistically by executives. The relationship between LEV and ROA is also negative at higher than 99% confidence level. We observe that leverage might cause a reduction in profitability as a consequence of higher cost of debt when new debt is issued, for instance. The payout policy (DIV) seems to be statistically only in the first two regressions of Table 5. In this case, firms which pay cash dividends exhibit a Tobin's Q ratio which is 0.22 units higher than those firms which do not pay dividends. This finding can be an outcome of the market view of dividends in contexts of high asymmetries of information and low law enforcement as in the countries of our sample (La Porta et al., 2000). In these contexts, shareholders seem to require greater dividends to protect their investments in the firm. Nevertheless, caution must be considered since the weak significance of this finding further details will be provided in the subsequent analyses).

We now address the question about the role of contest to the control in the family firms' governance and performance. Table 6 reports a similar analysis after splitting the sample into family and non-family firms. We find that the coefficient of CONTEST is statistically significant across all the regressions in the subsample of family firms (columns 4 through 6) and in the first regression in the subsample of non-family firms. In all the cases we observe that the higher the contest to control of power of largest shareholder, the higher the firm value. If we compare regression outputs in columns (1) and (4), we can observe that QTOB variable is more sensitive to changes in the contest to control in non-family firms than in family-owned firms (e.g. coefficients of 0.098 and 0.078 for non-family and family firms, respectively). Consequently, we cannot accept our second research hypothesis where we stated that such effect should be more prominent in family firms than in non-family firms.

The other findings are in line with those previously interpreted in Table 5. For instance, opposite to previous literature (e.g. see Gutiérrez and Pombo (2009) for the Colombian case), the firm size impacts positively on firm value and performance. In this case, it seems to be that firm are operating at the increasing economies of scale which improve their market valuation (QTOB and MTB) and operating performance (ROA).

In family and in non-family firms we observe that MTB ratio increases with leverage. The two major advantages of debt as a firm-level governance system are the reduction of agency/free-cash flow problems, on the one hand, and the

constraints to the opportunistic managerial behavior through the restrictive debt covenants. Such governance tools are positively perceived by the capital markets through higher MTB ratios (e.g. see columns (2) and (5) in Table 6). The impact of leverage (LEV) on firms' profitability (ROA) is negative for both family and non-family owned firms, however. Higher debt seems to increase the default risk with its higher embedded transaction costs, which eventually erodes the firm's capacity to increase profits. For instance, for non-family and for family owned firms, and increase in 1 percentage point in leverage, decreases the return on assets by 0.143 and 0.111 percentage points, respectively. Finally, we still observe that paying dividends firms have higher value and performance than non-paying dividends firms.

[TABLES 6 ABOUT HERE]

We use Table 7 to control for the potential skewedness usually observed in market ratios, such as QTOB and MTB ratios. Although not reported in the descriptive statistics, QTOB and MTB show skewness coefficients of 1.983 and 3.124, respectively, which are greater than the expected value of zero for a normal distribution. Additionally, the kurtosis coefficients of these variables are also high, with a value of 8.126 and 17.7626, respectively, indicative of heavy tails as this values exceed the coefficient of 3 for a normal distribution. Consequently, to have variables more normally distributed we applied logarithmic transformations (LOGQTOB and LOGMTB).

Table 7 replicates Table 5 with these two new dependent variables. We observe that the contest to control (CONTEST) is still positively related to firm value, on the one hand; and that the lack of contestability to the power of the largest shareholder (HERF2) is negatively related to firm value. Thus, these findings might be used as robustness checks of the efficiency of large shareholders different from the largest one in contesting the corporate control. Firm size and leverage also present the same relations as mentioned above. Concerning the ownership concentration (P1), we observe that firm performance measured through the logarithmic transformation of Tobin's Q (LOGQTOB) drops as the ownership concentration increases as shown in column (2) of Table 7. This result might be shown as evidence of the expropriation of the minority shareholders as largest shareholder imposes his/her voting rights to achieve personal interests instead of the interests of the entire company's shareholding.

Finally, in Table 8 we use OLS-Fixed Effects to double check the impact of CONTEST variable on firm performance. In this case we observe a weak support of the hypothesis which suggested that contestability enhances firm value.

Finally, we estimate three nearest-neighbor matching (NN-match) analysis. This analysis is based on optimization problem for finding closest (or most similar) points. In our case, we analyze if two firms with different levels of contestability but similar (closer) in size, debt structure, debt maturity and ownership concentration that belongs to the same country, industry and year, present differences on firm's value. In the first analysis the "treatment" is "higher levels of

contestability (median criteria)". The second treatment is "higher vs. lower levels of contestability (upper vs. lower third criteria)". Finally, the last treatment only focuses on higher levels of contestability in family firms (only median criteria). We use the Tobin's Q as dependent variable and we control the match for P1, SIZE, and LEV. We also ensure that the exact match considers industry, country and year.

6. CONCLUSIONS

We analyze the effect of the existence and the interaction of multiple large shareholders on firm value for a sample of non-financial listed companies from Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Latin America provides a good opportunity to study the interaction among several large shareholders given the weaker legal setting and enforcement of law, along with the concentrated ownership structure that most of the firms in these countries exhibit. We posit that other large shareholders different from the controlling one play an important governance role by preventing wealth expropriation by the controlling shareholder.

Our results support the relevance of the contestability on the performance of the firm. Second, although contestation is important in all the firms, it plays an even more decisive role in family firms given their particular governance structures.

Our paper contributes to the existing literature in two ways. First, we provide new evidence on the impact of the capacity to contest to the control of the large shareholders in the Latin American context, which is characterized by high levels of ownership concentration and a low levels of enforcement of law. Previous literature has mainly analyzed the European or East Asian firms, but the specific problems of corporate governance in Latin American differ from these other regions (Attig et al., 2009; Bennedsen and Nielsen, 2010). Thus we stress the importance of balanced ownership structures in avoiding the problems of both too much concentration and the widespread dispersion, creating a more favorable scenario to prevent value-destroying practices of corporate governance. Our second contribution is to provide, from a cross-country perspective, new evidence on the interactions of large shareholders in family-owned firms, showing the relevance of such interactions relative to non-family firms.

Our paper has some policy implications for regulators and supervisory authorities. We identify some issues of the ownership structure that raise concerns about the interests of minority shareholders. The current debate in Latin America about the right corporate governance should take into account the inherent problems of ownership structures that are either too concentrated or too dispersed. Balanced ownership structures with several large shareholders seem to achieve an optimal

distribution of power within the firms. The new codes of good governance that are being issued in a number of countries could take into account this issue.

A number of directions arise for future research. We focus on the ownership structure as the main factor of power in the firm. However, some control-enhancing mechanisms (i.e., shareholders coalitions, pyramidal structures, dual-class shares, etc.) allow the controlling shareholders to reach the control with lower fractions of shares. The joint analysis of such mechanisms can provide valuable insights. Another interesting field of research is the interaction between the ownership structure and other mechanisms of corporate governance such as the board of directors (Petra, 2006). The distribution of the power inside the firm is critically related to the dynamics within the board of directors. Thus, the presence of some directors representing institutional investors, banks, or independent directors who are tasked to defend minority shareholders' interests can have influential consequences for the corporate governance of firms in Latin America or other emerging regions around the world.

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Table 1. Sample representativeness

Countries	Total Assets / GDP	Market Cap. (%)
Argentina	14.77	29.65
Brazil	10.17	48.69
Chile	22.52	68.94
Colombia	18.78	36.63
Mexico	19.40	28.72
Peru	15.96	33.58
Average	16.93	41.04

Note: Reported ratios correspond to the average ratio between 1999 and 2013, derived from the sample. GDP and market capitalization at national level was taken from World Bank. Ratios are authors' estimations.

Table 2. Definition of variables

Variable	Variable name	Definition
QTOB	Tobin's Q	(Equity market value + Debt book value)/(Equity book value + Debt book value)
MTB	Market-to-Book ratio	Company's market capitalization over book value of shareholders equity.
ROA	Return on Assets	Net income over total assets
CONTEST	Contest to the power of the largest shareholder	$(P2 + P3 + P4)/P1$
HERF1	Lack of contest to the power of the largest shareholder	$P1^2 + P2^2 + P3^2 + P4^2$
HERF2	Lack of contest to the power of the largest shareholder	$(P1-P2)^2 + (P2-P3)^2 + (P3-P4)^2$
P1	Ownership concentration	Ownership held by the largest shareholder, in the case of families, is the ownership held by all the family members.
P2	Ownership concentration	Ownership held by the second largest shareholder. In the case of family firms, is the ownership held by a second shareholder different to the family.
P3	Ownership concentration	Ownership held by the third largest shareholder. In the case of family firms, is the ownership held by a second shareholder different to the family.
P4	Ownership concentration	Ownership held by the fourth largest shareholder. In the case of family firms, is the ownership held by a second shareholder different to the family.
SIZE	Size of the firm	Ln of total assets
LEV	Financial leverage	Debt book value/Total assets
DIV	Dividend pay-out	1 if the company pays dividends, and zero otherwise.
Country-Year Fixed Effect	Country-Year dummies	A set of country-year dummies.

Table 3: Descriptive statistics across countries

	Argentina		Brazil		Chile		Colombia		Mexico		Peru		Total Sample	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
<i>QTOB</i>	1.183	0.469	1.364	0.756	1.190	0.535	1.040	0.614	1.383	0.708	1.143	0.902	1.267	0.705
<i>MTB</i>	1.669	1.896	2.071	2.220	1.450	1.114	1.082	0.970	1.928	1.799	1.391	1.861	1.721	1.816
<i>ROA</i>	0.046	0.078	0.038	0.072	0.042	0.064	0.033	0.054	0.041	0.066	0.055	0.077	0.042	0.070
<i>CONTEST</i>	0.409	0.693	0.623	0.664	0.348	0.430	0.573	0.721	0.491	0.581	0.270	0.525	0.462	0.598
<i>Herf1</i>	0.289	0.330	0.236	0.255	0.382	0.244	0.277	0.285	0.179	0.235	0.413	0.334	0.291	0.281
<i>Herf2</i>	0.278	0.327	0.198	0.258	0.337	0.258	0.258	0.290	0.155	0.226	0.401	0.342	0.260	0.285
<i>SIZE</i>	19.287	1.876	20.351	1.679	19.751	1.688	19.795	1.995	20.864	1.540	19.214	1.478	20.040	1.751
<i>LEV</i>	0.211	0.172	0.259	0.174	0.226	0.144	0.134	0.122	0.218	0.153	0.177	0.151	0.223	0.161
<i>DIV</i>	0.945	0.228	0.944	0.231	0.960	0.197	0.980	0.141	0.931	0.254	0.953	0.211	0.948	0.221
<i>PI</i>	0.361	0.374	0.329	0.254	0.450	0.220	0.321	0.271	0.274	0.280	0.449	0.305	0.368	0.278
Obs	383		1.682		1.366		249		1.026		770		5.476	
<i>Family (%)</i>	141 (36.81)		880 (52.32%).		1,029 (75.33)		138 (55.42)		387 (37.72)		584 (75.84)		3,159 (57.69)	
<i>Non-family (%)</i>	242 (63.19%)		802 (47.68)		337 (24.67)		111 (44.58)		639 (62.28)		186 (24.16)		2,317 (42.31)	

Table 4: Correlation matrix

This table show the correlation coefficient between the variables of the study.

	QTOB	CONTEST	HERF1	HERF2	SIZE	LEV	DIV	P1
QTOB	1.000							
CONTEST	0.0553 (0.0001)	1.000						
HERF1	-0.0665 (0.0000)	-0.3690 (0.0000)	1.000					
HERF2	-0.0673 (0.0000)	-0.3536 (0.0000)	0.9820 (0.0000)	1.000				
SIZE	0.2077 (0.0000)	0.0371 (0.0068)	-0.1408 (0.0000)	-0.1497 (0.0000)	1.000			
LEV	0.0005 (0.9700)	0.0885 (0.0000)	-0.1148 (0.0000)	-0.1185 (0.0000)	0.3259 (0.0000)	1.000		
DIV	0.0422 (0.0020)	0.0266 (0.0501)	-0.0048 (0.7224)	-0.0045 (0.7391)	0.0203 (0.1367)	-0.0229 (0.0920)	1.000	
P1	-0.0237 (0.0831)	-0.5360 (0.0000)	0.8913 (0.0000)	0.8385 (0.0000)	-0.0598 (0.0000)	-0.0720 (0.0000)	-0.0059 (0.6649)	1.000

CONTEST is the *contestability* variable; HERF1 and HERF2 are measures of ownership concentration and the lack of *contestability* to the power of the largest shareholder; QTOB is the Tobin's Q; DIVEXTRA is the dividend payout; SIZE is the log of total assets per company; LEV is the financial leverage P1 is the voting rights of the largest shareholder. P-values are in parenthesis beneath each correlation coefficient.

Table 5. Contestability to control and firm performance: Generalized Method of Moments

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	TOBIN'S Q			MTB			ROA		
QTOB _{t-1}	0.561*** (11.711)	0.562*** (11.705)	0.616*** (19.606)						
MTB _{t-1}				0.647*** (7.229)	0.623*** (7.116)	0.463*** (5.185)			
ROA _{t-1}							0.305*** (7.678)	0.305*** (7.666)	0.360*** (10.754)
CONTEST	0.063** (2.075)	0.072** (2.304)		0.139* (1.670)	0.129* (1.713)		0.008** (2.131)	0.008** (1.969)	
HERF2			-0.150* (-1.653)			-0.737* (-1.822)			-0.019* (-1.717)
SIZE	0.046* (1.860)	0.046* (1.861)	0.052*** (2.673)	-0.033 (-0.390)	-0.018 (-0.192)	0.085 (1.276)	0.009*** (2.922)	0.009*** (2.837)	0.012*** (4.489)
LEV	-0.201 (-1.390)	-0.186 (-1.276)	-0.207* (-1.724)	0.750* (1.887)	0.891** (2.056)	0.948* (1.832)	-0.100*** (-4.510)	-0.100*** (-4.482)	-0.124*** (-6.771)
DIV	0.222* (1.714)	0.229* (1.709)	0.075 (0.709)	0.256 (0.673)	-0.021 (-0.063)	-0.345 (-0.929)	0.013 (0.992)	0.012 (0.974)	-0.002 (-0.158)
P1		0.078 (0.785)			0.149 (0.551)			0.001 (0.042)	
Observations	4,360	4,360	4,319	4,352	4,352	4,080	4,328	4,328	4,288
Number of id	559	559	555	558	558	545	560	560	556
Country-Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
F-Test	15.07	14.93	597.1	8.856	10.31	52.97	8.406	8.289	16.56
Auto(1)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Auto(2)	0.128	0.121	0.843	0.860	0.943	0.583	0.858	0.874	0.590
Hansen p-value	0.121	0.118	0.108	0.117	0.111	0.128	0.503	0.494	0.0582

Estimated coefficients (robust standard errors) from the GMM panel data regressions of equation (1). Our dependent variables are: $QTOB_{i,t}$, that is the Tobin's Q; $MTB_{i,c,t}$, that is the market-to-book ratio and $ROA_{i,c,t}$, that is the return of assets. $Contest_{i,c,t}$ represent the *contestability* variable. $CV_{i,c,t}$ is a set of control variables defined in Table 2 and orthogonality conditions. We include fixed effects at the firm level (f_i), country level (c_c) and year level (q_t). t-statistics in parenthesis. ***, **, and * stand for a level of significance lower than 1%, 5%, and 10%, respectively.

Table 6. Contestability, family vs. non-family nature: Generalized Method of Moments

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	TOBIN'S Q		MTB		ROA	
	Non Family	Family	Non Family	Family	Non Family	Family
QTOB _{t-1}	0.608*** (13.665)	0.618*** (14.697)				
MTB _{t-1}			0.724*** (10.164)	0.602*** (9.579)		
CONTEST	0.098*** (2.665)	0.078* (1.913)	0.108 (1.371)	0.212** (1.972)	0.005 (1.318)	0.007* (1.653)
SIZE	-0.033 (-1.224)	0.070*** (3.072)	-0.076 (-1.122)	0.073 (1.247)	0.010*** (3.227)	0.011*** (4.856)
LEV	-0.136 (-0.680)	-0.146 (-0.943)	1.018* (1.813)	1.044** (2.070)	-0.143*** (-5.407)	-0.111*** (-5.745)
DIV	-0.048 (-0.381)	0.160* (1.737)	-0.291 (-0.791)	0.438 (1.132)	0.039*** (2.669)	0.005 (0.320)
Observations	1,745	2,615	1,747	2,605	1,731	2,597
Number of id	300	422	301	422	300	421
Country-Year FE	YES	YES	YES	YES	YES	YES
F-Test	20.47	27.97	24.32	14.99	26.07	16.66
Auto(1)	4.73e-05	3.08e-09	5.74e-05	1.79e-06	9.08e-07	0
Auto(2)	0.130	0.208	0.0299	0.743	0.469	0.837
Hansen p-value	0.292	0.600	0.421	0.421	0.555	0.897

Estimated coefficients (robust standard errors) from the GMM panel data regressions of equation (1) for subsamples of family and non-family definition. Our dependent variables are: $QTOB_{i,t}$, that is the Tobin's Q; $MTB_{i,c,t}$, that is the market-to-book ratio and $ROA_{i,c,t}$, that is the return of assets. $Cont_{i,c,t}$ represent the *contestability* variable. $CV_{i,c,t}$ is a set of control variables defined in Table 2 and orthogonality conditions. We include fixed effects at the firm level (fi), country level (c_c) and year level (q_t). ***, **, and * stand for a level of significance lower than 1%, 5%, and n 10%, respectively.

Table 7. Contestability to control and firm performance: Generalized Method of Moments

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
		Log(Tobin's Q)		Log(MTB)		
Log(Tobin's Q _{t-1})	0.607*** (21.431)	0.611*** (21.634)	0.596*** (22.262)			
CONTEST	0.063*** (3.603)	0.043** (2.373)		0.076** (2.271)	0.048 (1.334)	
HERF2			-0.270*** (-4.706)			-0.246** (-2.178)
SIZE	0.061*** (5.043)	0.059*** (4.953)	0.059*** (5.131)	0.081*** (3.407)	0.089*** (4.023)	0.079*** (3.393)
LEV	-0.163* (-1.956)	-0.181** (-2.183)	-0.209*** (-2.588)	-0.064 (-0.340)	-0.133 (-0.766)	-0.080 (-0.433)
DIV	-0.135** (-2.157)	-0.146** (-2.404)	-0.144*** (-2.587)	-0.513*** (-3.487)	-0.495*** (-3.676)	-0.510*** (-3.712)
PI		-0.109** (-2.094)			-0.135 (-1.328)	
Observations	4,360	4,360	4,319	4,352	4,352	4,314
Number of id	559	559	555	558	558	554
Country-Year FE	YES	YES	YES	YES	YES	YES
F-Test	148.8	130.7	176.9	139	130.9	141.7
Auto(1)	0	0	0	0	0	0
Auto(2)	0.00256	0.00311	0.00351	0.543	0.595	0.483
Hansen p-value	0.0858	0.108	0.282	0.0108	0.0948	0.0936

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 8. Contestability to control and firm performance: OLS-Fixed Effect estimates

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	TOBIN'S Q		MTB		ROA	
	<i>Non Family</i>	<i>Family</i>	<i>Non Family</i>	<i>Family</i>	<i>Non Family</i>	<i>Family</i>
QTOB _{t-1}	0.463*** (0.041)	0.431*** (0.036)				
MTB _{t-1}			0.545*** (0.059)	0.320*** (0.066)		
ROA _{t-1}					0.233*** (0.051)	0.185*** (0.035)
CONTEST	0.040* (0.024)	-0.036 (0.055)	0.091 (0.063)	0.037 (0.244)	0.006 (0.004)	-0.000 (0.007)
SICE	-0.181*** (0.045)	-0.098* (0.055)	-0.388*** (0.116)	-0.341** (0.158)	-0.003 (0.006)	0.002 (0.006)
LEV	-0.098 (0.150)	0.016 (0.125)	0.999** (0.501)	1.124*** (0.407)	-0.166*** (0.025)	-0.113*** (0.019)
DIV	0.022 (0.049)	0.039 (0.026)	-0.040 (0.162)	0.065 (0.067)	-0.002 (0.006)	-0.006 (0.006)
PI	0.074 (0.101)	-0.052 (0.099)	-0.171 (0.256)	-0.299 (0.264)	0.016 (0.012)	0.020 (0.014)
Observations	1,745	2,615	1,747	2,605	1,731	2,597
R-squared	0.450	0.328	0.432	0.200	0.329	0.166
Number of id	300	422	301	422	300	421
Country-Year FE	YES	YES	YES	YES	YES	YES

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1