

CONCENTRATION OF OWNERSHIP AND CONTROL AS A GOVERNANCE MECHANISM IN THE BRAZILIAN FINANCIAL SYSTEM

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Abstract

In this paper we analyse how ownership and control work in the main banks operating in Brazil. Our purpose is to identify the mechanisms through which investors try to secure the control of the corporations and the return of the capital invested. Unlike the Anglo-Saxon governance model, where the usual practice is to distribute the share capital among a large number of shareholders, or still, the Japanese or German models, with a massive participation of the banks in the control of the companies, recent research in the Brazilian companies listed in the stock exchange indicate a great volume of voting shares in the hands of a few shareholders. In the present study we seek to reveal whether this corporate governance mechanism also prevails in the Brazilian banking sector. The analysis comprised fifty of the biggest banks operating in Brazil, accounting for over 90% of the total assets of the Brazilian financial system. This study, besides revealing the levels of concentration of control and ownership of the leading Brazilian financial institutions, elucidates the corporate governance models featuring in the literature. It also explains how, in the management of the financial organizations, the investor, when making use of the mechanisms that secure their rights to ownership, guarantees the control and legal protection of his/her investment. The results of the research point to high levels of ownership concentration in the financial institutions in Brazil.

Keywords: corporate ownership, control, financial system, Brazil

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This paper aims at identifying and analysing the levels of concentration of ownership and control in the Brazilian financial system. The analysis shows how the owners and controllers of the banking institutions in Brazil make use of this mechanism in order to secure ownership and take over the decision-making process associated with their investments. The research also seeks to verify the extent to which the levels of concentration prevailing in these organizations follow the high mean of the Brazilian companies traded in the stock market, as shown in the work of Carvalhal et. al (2000).

Governance relationships in the management of the banks is a relatively new theme and can help elucidate how the financial companies organise themselves and preserve their patrimonial integrity. The relevance of this study, therefore, is anchored to the retrieval of the corporate governance theories regarding the aspects that explain the dynamics of the corporate control of the financial system, and how the use of these mechanisms, in the case of the Brazilian banking institutions, can reveal a structure that is concentrated in the hands of a small number of investors.

The configurations of the corporate management systems are effective governance mechanisms destined to ensure the control of the profits and cash flow of the companies. Concentration/distribution of ownership and control, pyramidal structures, coalitions, commitments and supervision boards are some of the mechanisms that, used for securing the rights and demands of the investors and other stakeholders. Therefore, we sought to highlight the relevance of the study of the governance structures, describing how different interests take possession of the outcome of the companies within a certain institutional-legal environment.

To this end, we developed a discussion around these governance mechanisms and the four perspectives identified by a study of the Organization for Economic Co-operation and Development (OECD): the financial model, the stewardship model, the stakeholder model and the political model (Turnbull, 1997). The elucidation of governance models has the purpose of clarifying the complex relationship network that involves, shareholders, board members, executive directors and other stakeholders. In this research, this issue permeates

the paths followed by investors in order to guarantee their rights to ownership and vote. In tandem with the legal system in force, the theoretical models proposed represent ways of identifying the final structure configuration of the Brazilian financial institutions. Besides the sections dealing with corporate governance models, aspects of the prevailing legal system and the asset and control concentration mechanisms, this article contemplates three other topics. Section three describes the methodology used in the research and sections four and five show, respectively, the results and conclusions of the research.

Corporate Governance Models and Mechanisms to Secure Control and Ownership

The purpose of the present paper is to investigate the stock composition of the leading Brazilian banking institutions, revealing the levels of control and ownership concentration within the structure of the main financial groups in Brazil. For this purpose, an explanation of the corporate governance models, the first topic discussed in this section, will make it possible to justify and distinguish the adoption of a legal protection system that may contribute of not to concentrate power in the hands of a couple of social-economic actors. The second part, revising the literature, will describe the strategies adopted by the organizations, supported by the legal system in force, to increase ownership and decision-making the concentration in the management of the business. In order to become a shareholder with the power to own property and make decisions, the investors have set in train some mechanisms that will enable them to be in command of a whole network of companies that are part of their undertaking. It can be said that the efforts to explain the dynamics of these mechanisms has led to the consolidation of aspects of the corporate governance theory related to the finance of the companies.

Corporate governance models and legal protection

Corporate governance is a key element in the improvement of economic efficiency and brings with it a whole set of patterns of relationship among owners, corporate management, board of directors and other groups directly linked to the company. Its structure, which ascertains that organizational aims are monitored and attained, is greatly dependent on the institutional and legal environment, on the prevailing business ethics, corporate quality and interests of the community where it operates.

This picture does not differ from the position of the authors that consider that the different models of economic organization and the nature of the companies will be dependent on the relevance of the

right to possessions and its legal limits in the society. In this sense, the institutionalisation processes, influenced by the relevant actors of the market economies, will become vital in the distinction between ownership and ownership control systems in capitalist societies (Whitley, 1998; Lazonick & O'Sullivan, 2000; Monks & Minow, 2001).

According to Denis (2001) and Prowse (1994) very little attention has been given to the studies of the regulations and legal devices that work as governance mechanisms. The first studies conducted within this line of thinking sustain that the levels of legal protection of the rights of the shareholders and the extent to which such laws are enforced are factors that define the corporate and financial governance of the companies of a certain country (La Porta et. al. 1997, 1998, 2000). This level of protection is determined by the origin and socio-cultural aspects of each country. In 1996, in a research commissioned by the OECD, American scholars identified four perspectives¹ for a macro analysis of the theme: the stewardship model, the stakeholder model, the political model and the shareholder model (Turnbull, 1997). Within the perspective of the stewardship, the managers and the board of directors are the truthful representatives of the organization's interests. The focus of the analysis is on relationships between the owners, directors and board members, established to attain and administer the benefits necessary to bring return to the shareholders (Pfeffer, 1972; Donaldson & Davis, 1994). The stakeholder perspective, focused on the elements of the organization's systemic interrelationship, sustains that the purpose of the company is to create value and benefits for the individuals and groups acting directly on the internal and external environments of the organization. The advocates of this perspective state that, if corporate ownership is to be maximised, the interests of the suppliers of inputs must be satisfied, and the organizations must be encouraged to close final contracts to incentive control and ownership among its directors and employees (Porter, 1992; Clarkson, 1994; Blair, 1995).

The other two perspectives, political and financial, are respectively more concerned with increasing the control power of the shareholder, by granting them voting rights (Pound, 1992), and safeguarding the investments of the owners (Shleifer & Vishny, 1997). According to Turnbull (1997), a vision for finance represents a sub-section of the political perspective, since the construction of formal or informal financial contracts, between the owner and his investment agent, is part of the cultural, technological and power interaction foreseen in the political model.

Once contracts between the companies, as legal entities, and their funding-owners are closed, the rights of the latter are exercised when they vote in

¹ We adopt the concept of perspective as a set of basic assumptions underlining multiple theories (Hatch: 1997).

important corporate issues such as fusions, liquidations and elections of board representatives. Great part of the differences between the corporate governance systems in the world resides, exactly, in the diverse nature of the legal obligations of a corporation's administration and shareholders, and in the different ways the tribunals interpret and enforce such obligations (Shleifer & Vishny, 1997). It was due to the ascent of the legal form and the association of the company with the market that the corporation started to be, in its own right, the owner of its assets (Scott, 1997). Legally, the shareholder is the person who owns one or more shares of a company. Individual shareholders have the right to participate in the election of the board of directors, but their entitlement to vote will be dependent on the number of shares they have. As a result, majority shareholders detain far more power than the minority ones and are capable of exerting influence over the policies to be followed by the directors. According to Scott (1997), this is the reason that corporate power studies should also cover the identity of the shareholders, and not just the identity of the directors. However, identifying the shareholders of a company is no easy task, although the legal systems of various countries demand that the companies keep a register of the shares and make the names and addresses of the shareholders public, as well as the number of shares they own. In order to supplement the right to vote, the country members of the OECD make use of a loyalty letter from the administration of the company to the shareholders. Such loyalty term is reinforced by the legal restrictions imposed on the behaviour of the management, curbing expedient actions, such as excessive compensations, undue appropriations, or an increase in share participation. Such limitations are a way of encouraging the shareholder to invest, by offering them a tool of protection against capital expropriation. Outside OECD, in the countries where the courts are not capable to or do not wish to interfere with business matters, the loyalty term becomes rather feeble, leading to the idea that legal protection by itself is not enough to ensure capital return on investments. Deprived of legal protection, the shareholders have no option but to try to increase their participation and become major investors. The next section will discuss the different forms of control and ownership concentration in corporations.

Concentration of control and ownership

Among the mechanisms used in order to reach a position to dominate ownership, the shortest way, which brings together cash flow and right to control, is by promoting concentrations of shares. In this way, when the mutual funds, the pension schemes, the banks and other institutional investors acquire shares, they are typically acting as representatives of individuals. In other words, behind the backdrop of these negotiations, the individuals will be last ones to

benefit from most of the institutional investments (Useem, 1998). Even if he holds the majority of the right to ownership, ownership concentration does not guarantee the control rights to the major shareholder if the court does not approve the voting mechanism. As a result, the investors tend to have for aim 51% of the votes, a situation in which it is relatively easier to prove, before the law, the legitimate power to make demands. If legal protection does not grant controlling rights to minority investors, in order to induce them to share their intention to hold power in the organization, the way to make it happen is by means of increasing their participation in the voting capital of the organization. For the minority investor to become a major one there are several ways of concentrating ownership including acquisition of shares in the market; doing takeover operations (proposing the dispersed shareholders to influence the managerial control); and becoming a relevant creditor, by making use of the cash flow right in order to interfere in the most important decisions (Shleifer & Vishny, 1997).

Even if ownership concentration levers up legal protection, the rights of the minority investor are not safeguarded. Among the authors that investigate the impacts of the corporate governance system on the share composition of the organizations, La Porta et al. (1998) have found a strong and negative correlation between ownership concentration and the quality of protection investors receive from the legal system in force in a certain country. Departing from a sample that includes the 10 main corporations listed in the stock market of 49 countries, the authors noticed that in the countries where the systems of legal protection are ineffective, what prevails is almost exclusively a concentrated ownership structure (La Porta et al., 1998). This evidence is consistent with the argument that, in these cases, the structure of dispersed ownership is undesirable and unsustainable. Apart from that, it seems to be giving support to the argument that ownership concentration is a governance mechanism that can substitute for the legal protection to the minority investor.

In the industrialised nations, the levels of concentration of ownership and control vary from country to country. Distribution of the control of the shares is a feature of the big companies in the USA and UK. As a result, in the Anglo-Saxon governance model, the shareholders have little incentive or capacity to exert any influence in the corporate policies defined by the board of directors, resulting in a situation in which the executives are strengthened to the detriment of the owners (Carlsson, 2001). Unlike the governance mechanisms that encourage the decentralization of ownership control, banks in Germany and in Japan, and the State in France have a decisive participation in the companies.

In Brazil, the concentration of voting shares is a dominant characteristic in open companies. In order to prove the hypothesis of the relationship between *ownership concentration and control and*

expropriation of minority shareholders, extracted from the study by La Porta et al. (1998), Carvalhal et al (2000) found high levels of voting capital concentration in the 325 Brazilian companies listed in the São Paulo Stock Exchange in 1998. The Brazilian researchers revealed that even in situations where there are no majority shareholders, the big owners are entitled to a significant share of the voting capital and the company is generally controlled by only three big shareholders.

Owners of Brazilian companies adopt the pyramidal structure as a shortcut to a position of control. Behind all this complex structure of legally constituted companies, a group of shareholders protect themselves from the action of other groups of shareholders and guarantee control with lower investment. With a view to increasing safety to their investment, repeated business interaction is the usual practice among individuals that belong to the same corporate group (Dyck, 2001). Unlike part of the literature that regards the pyramidal structure as a control mechanism the majority shareholder uses for neutralising the moves of the minority shareholder, in Brazil, it seems that the concern of the majority shareholder is to dilute share participation among other shareholders within his structural network.

Another factor that favours control concentration is the institutional-legal system of the country. In Brazil, the law permits the issue of until two shares without voting right for each share with right to vote. With this the voting shares remain in the hands of the shareholders in control and the non-voting shares are traded in the stock market. This device of separating control from ownership makes it possible for one person or group of individuals to have control over a company with much less than 50% of their shares. Even obeying the limit set by the law, one sole owner will need no more than 51% of a third of the total of shares to control a Brazilian company. The purpose of this paper is to clarify the governance mechanisms involving share concentration in the Brazilian financial system.

Data Analysis and Methodology

In order to investigate governance and the control and ownership mechanisms in the Brazilian financial system, the 50 leading banking institutions operating in Brazil were studied, ranked by total of assets, issued by Banco Central do Brasil (BACEN, 2000). The report used for the identification of the 50 biggest Brazilian financial institutions used as reference the balance sheet of June 2000. On that occasion, these institutions detained, respectively, 94,7%, 90,4% and 94,3% of the total assets, net assets and net profits of the group of banks included in the Brazilian financial system. The data on ownership and control, supplied by the Comissão de Valores Mobiliários (CVM) and Banco Central, date of December 1999.

In this research we sought to find out how the voting capital and the total capital of each of these institutions are distributed.² Such distributions, analysed individually and as a group, reflect aspects of the governance structures of the banks studied, particularly the ones related to the levels of concentration or dispersion of ownership and control. The examination also included the separation between concentration and dispersion (which may point the agency problems in corporate governance) and, the identification of the main controllers/owners of the most important financial institutions in Brazil.

The analyses took into account direct/indirect control and ownership. We sought to find out who are the owners of the voting and no-voting shares of the bank under study (direct control/ownership) and who are the final owners controllers (indirect control/ownership), found out after following the whole chain along the of multiple companies belonging to a group of conglomerates. The “final” controller/proprietor was denominated Federal Government, State Government, individual, foreigner (person or company), family company, foundation or investment fund. For each institution studied, an ownership and control flow was elaborated, as shown in Figures 1, 2 and 3 below.

So, direct control and ownership were assessed through the distribution of shares (voting and non-voting) of the bank being studied. We took as an example Banco do Brasil (Figure 1), whose main controller and owner is the Federal Union, holding 73.23 and 71.85% of the voting and total shares, respectively. The owner and controller of Unibanco, in turn, is Unibanco Holdings SA, with 96.88% of the voting capital and 59.80% of the total capital (Figure 2). The calculations of indirect control and ownership took into account the control and ownership chain of the bank being studied. The research continued until the “real” owners of the voting and non-voting shares were revealed. They were classified within the categories listed above. It was found that the controller of Unibanco is, in fact, as shown in Figure 2, a family company, E. Johnston Participações Ltda, belonging to the Moreira Salles family, which holds 65.11% of the bank’s voting capital. Indirect participation was calculated by adding the non-sequential participations and multiplying the successive participations of one person or company along the network of companies that form the group or conglomerate. Therefore, if a person has a 20% stake in a company, which owns 20% in another one, that person owns 4% in the second company. In the case of Banco do Brasil, whereas the Federal Union owns, directly, 73.23% and 71.85% of the voting and total shares, it,

² The ordinary shares are voting shares, unlike the preference shares, which have this name because their owners have the preference when dividends are distributed. There are exceptions (preference voting shares, for example), which are not significant as a whole, and were not found in the sample studied.

indirectly, is the owner of 83.23 and 81.85% of these shares, since it is the only controller of BNDES, which, in turn, controls BNDESPAR (Figure 1).

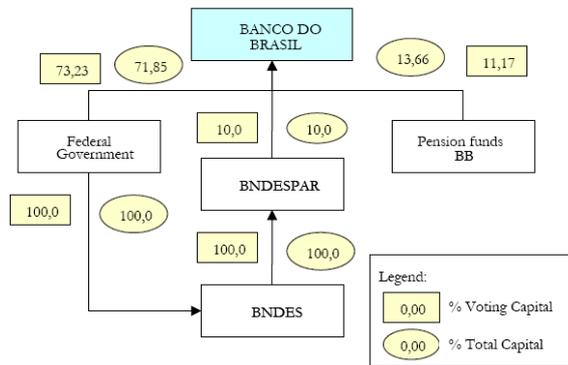


Fig. 1. Structure of ownership and control of Banco do Brasil

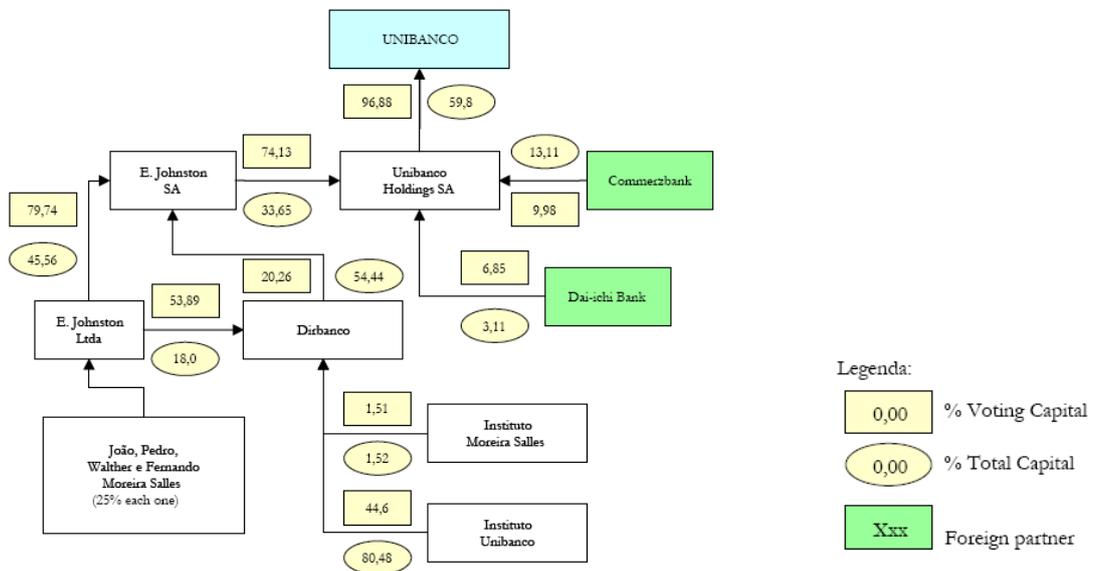


Fig. 2. Structure of ownership and control of Unibanco

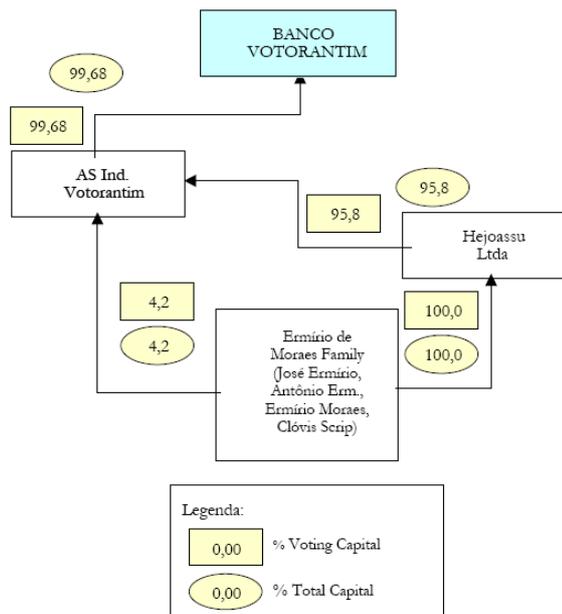


Fig. 3. Structure of ownership and control of Banco Votorantim

The structures of ownership and control of the leading banks in the Brazilian financial system

Direct Control

The ownership and control structure of the 50 biggest banks in the Brazilian financial system is rather concentrated, as shown in Table 1. Out of the total of banks studied, 46 (92%) have more than 50% of their voting capital in the hands of a single direct controller. On average, this controller holds 85.27 and 79.92% of the voting and total capital of the

banks studied, that is, concentration was not only in relation to the voting capital but also in relation to the total capital. When the concentration of shares in the hands of the 3 and 5 biggest controllers is evaluated, it is discovered that they hold, on average, 94.85% and 94.94% of the voting shares and 90.02 and 90.10% of the total amount of shares. This means that, although the mean percentile of control goes up when the capital of the 3 and 5 biggest controllers is assessed, such percentile is already high even when the percentile of the biggest controller alone is taken into account.

Table 1. Structure of direct ownership and control of the 50 biggest banks in Brazil

Control and participation		Banks with the majority controller (Voting capital > 50%)	Banks without the majority controller (Voting Capital < 50%)	Total of The sample
N° of banks		46	4	50
%		92.0	8.0	100.0
Average control of the major controller	Voting Capital	85.27	30.13	80.85
	Total Capital	79.92	22.47	75.32
Average control of the three major controllers	Voting Capital	94.85	68.98	92.78
	Total Capital	90.02	53.70	87.12
Average control of the five major controllers	Voting Capital	94.94	78.49	93.62
	Total Capital	90.10	61.42	87.81

Source: Banco Central do Brasil e CVM.

Obs.: Direct control of the 50 banks in Brazil concerning the Banco Central ranking in June 2000.

The bank with a majority controller is that one in which only one person (individual or corporation) owns over 50% of its voting capital.

Table 1 also reveals that, out of the 50 banks studied only 4 (8%) will not have a single majority controller (with more than 50% of the voting shares). In these cases, the main controller holds 30.13 and 22.47%, on average, of the voting and total shares. When the three main controllers are considered, such percentiles jump to 68.98 and 53.70%, on average, and when the five biggest are analysed, the percentiles of ownership of voting shares and of total amount of shares reach 78.49 and 61.42%. It was noted that, the institutions controlled by one majority shareholder, significant differences emerge in terms of ownership and control when the major controller is considered, the three or five biggest institutions (moreover when the three majority controllers are considered). This fact indicates that concentration is rather high even when one single controller is not dominating the institution, which makes feasible the presupposition of agreements between majority shareholders with a view to controlling these banks. Considering the sample as a whole, on average, the main direct controller holds 80.85% of the voting capital and 75.32% of the total capital. The three major partners control, respectively, on average, 92.78% and 87.12% of the voting capital and total capitals and the five biggest, 93.62% and 87.81% of these capitals.

In all banks studied, when direct ownership and control are evaluated, there can be observed a greater

concentration of voting shares than non-voting ones, which exposes the issuing of non-voting shares as a means to reducing the capital invested without losing the control position. However, it can be noted that this resource is not used to its full potential, since, in general, both the voting capital and the total capital are extremely concentrated, when direct control and ownership are evaluated. We concluded that, on average, control can be assured with a far greater participation than the minimum required by law. As it will be shown later in this study, indirect control follows the same trends with regard to the proportion of accumulated shares.

Indirect control

Similarly, when indirect control is analysed (Table 2), a great concentration of ownership and control can be found. In the 46 banks with only one single direct controller, holding over 50% of the voting capital, in general, the major indirect controller holds 80.99% and 77.33% of the voting and total capital. When the three major controllers are taken into account, these percentiles jump to 89.81 and 84.99% of the voting and total capital. If the five major controllers are considered, this concentration will reach the 92.14% and 86.87% of these capitals respectively.

Table 2. Structure of indirect ownership and control of the 50 biggest banks in Brazil

Control and participation		Banks with the majority controller (Voting capital > 50%)	Banks without the majority controller (Voting Capital < 50%)	Total of the sample
N° of banks		46	4	50
%		92.0	8.0	100.0
Average control of the major controller	Voting Capital	80.99	39.91	77.71
	Total Capital	77.33	25.38	73.17
Average control of the three major controllers	Voting Capital	89.81	62.27	87.60
	Total Capital	84.99	46.36	81.90
Average control of the five major controllers	Voting Capital	92.14	70.57	90.42
	Total Capital	86.87	51.47	84.04

Source: Banco Central e CVM.

Note: A bank with a majority controller is the in which one only person (individual or corporation) holds over 50% of its 1st level voting capital.

The participation of indirect controllers was calculating through the analysis of the property and control chain down the last level, that is, until one of the following categories of owners were revealed: individual, federal or state government, foreign company, non-financial familiar Brazilian company, foundation or investment fund.

A slight reduction in concentration can be observed when direct and indirect controls are compared. This means that 46 of the banks with a single major controller have their final control and ownership very concentrated in the hands of one or a couple of controllers. One example of control maintenance without reduction of the percentile can be seen in Figure 3, which demonstrates the structure of Banco Votorantim. It shows that the direct participation of SA Ind. Votorantim is totally transferred to the Ermírio de Moraes family, especially through the company Hejoassu Ltda. One example of maintenance of control, but with a reduction in concentration, can be seen in Figure 2: the Moreira Salles family are, in fact, the major controllers of Unibanco, holding, indirectly, 65.11% of the bank's voting capital. Ranked as second and third controllers is the German Commerzbank, which detains 9.67% of the voting capital of Unibanco and the Japanese Dai-Ichi Bank, with 6.64% of the voting capital.³ In some cases, increased concentration emerges when direct and indirect control are compared. For example, the Federal government has an indirect participation in Banco do Brasil, with its indirect participation increased through other banks such as BNDES and BDESPAR (Figure 1).

Because of the slight mean reduction in the concentration of direct and indirect control, it can be concluded that these pyramidal structures are not fully used in order to reduce the investment without loss of control. These structures give the major partner the control of the main company, thus reducing the concentration of its investment. This is done by sequencing the companies that it controls by means of portions of the voting capital.

In some banks where concentration of control is reduced when indirect ownership is evaluated, it is possible to observe a structure in which one or two companies detain the direct control of the financial institution. This is the case of the big Brazilian banks such as Bradesco, Itaú and Unibanco. In Bradesco, Cidade de Deus Participações appears as the main direct controllers, with 50.57% of the voting capital and 25.89% of the total capital; Fundação Bradesco comes in the second level, with a participation in these capitals of, respectively, 17.28% and 10.14%. In Itaú, Itaúsa holding detains 55.49% and 33.33% of the voting and total shares and, in a second level, Itaucorp SA, appears respectively, with 20.75% and 13.4%. In Unibanco, Unibanco Holdings SA detains 96.88% and 59.8% of the voting and total capitals. The function of these recurring structures seems to be the preservation of the banking institution from occasional conflicts between partners, which could be solved elsewhere or in other companies without threatening the continuity or normal routine of the bank. These preliminary analyses point to a need for a more thorough research into the control and ownership structures of the Brazilian banks and the governance strategies that justify them. However it is reasonable to consider the intention of protecting the banks from conflicts between partners with a significant participation in the enterprise, since such institutions are basically sustained by the image of

³ The percentile of control of the Moreira Salles family was obtained by multiplying the participation of E. Johnston Ltda in E. Johnston SA and in the company Dirbanco SA and so successively. That is, E. Johnston Ltda's percentile participation in the voting capital of Unibanco is calculated from the following equation: $0,7974 \times 0,7413 \times 96,88 + 0,5389 \times 0,2026 \times 0,7413 \times 96,88$. As for the Commerzbank, its participation in the voting capital of Unibanco was found by means of: $0,0998 \times 96,88$. Finally, the ordinary participation of Dai-Ichi was found by: $0,0685 \times 96,88$.

credibility and stability they enjoy among their account holders.

The groups of investors

Table 3 shows the categories of investors the main controllers of the Brazilian banks belong to. In terms of direct ownership, 26 banks (52%) have as their main controllers other corporations, 14 (28%) are controlled by foreigners, 6 banks (12%) are controlled by the Federal Government, 3 (6%) by State Governments and one has as its main direct controller only one individual. The greatest concentration of control was found in the state banks, in which the State governments detain, on average, 98.45% of the voting capital and 97.94% of the total capital. These percentiles are, on average, respectively, of 88.5% and 87.73% for the banks controlled by foreigners, of 78.04% and 70.58% in the cases where the main controller is another company and of 73.6% and 63.97% in the case of the institutions controlled by the Federal Government.

As for indirect ownership, it was found that 26 banks (52%) have as their main "final" controller a foreign partner, who detains, on average, 86.51% and

86.16%, respectively, of the indirect ownership and control; 10 banks (20%) have individuals as their main indirect controllers (Brazilian or based in Brazil), who own, on average, between 56.89% and 49.05% of the ordinary and total shares; 4 banks (8%) are directly controlled mainly by family companies, with 69.16% and 53.42%, on average, of the voting and total capitals; and one bank (Bradesco), whose main indirect controller is a foundation. The participations of the federal government and the state governments have not altered in terms of the number of institutions under their control, when direct and indirect participations are analysed. As for assets, it was found that 45.8% of the assets of the 50 major banks are under the effective control of the Federal Government. Banco do Brasil alone responds for 16.6% of the total of assets of the 50 major banks and for 15.7% of the assets of the Brazilian banking system as a whole. When the assets of Banco do Brasil and Caixa Econômica Federal are added up, these percentiles reach, respectively, 30.9% and 29.2%. The banks whose main indirect controller is a foreign partner, respond for 24% of the assets of the 50 major banks.

Table 3. Category of ownership and control of the 50 biggest banks in Brazil

Controller category (*)	Direct Control				Indirect Control			
	Nº of banks	%	Average Voting Capital	Average Total Capital	Nº of banks	%	Average Voting Capital	Average Total Capital
Federal Government	6	12,0	73,60	63,97	6	12,0	75,26	65,64
State Government	3	6,0	98,45	97,94	3	6,0	98,45	97,94
Individuals	1	2,0	37,84	25,17	10	20,0	56,89	49,05
Corporations	26	52,0	78,04	70,58	4	8,0	69,16	53,42
Foreigners	14	28,0	88,50	87,73	26	52,0	86,51	86,16
Foundations	0	0,0	0,0	0,0	1	2,0	43,58	26,59
Investment Funds	0	0,0	0,0	0,0	0	0,0	0,0	0,0
Others	0	0,0	0,0	0,0	0	0,0	0,0	0,0
Total	50	100,0	80,85	75,32	50	100,0	77,71	73,17

Source: Banco Central e CVM.

Note: (*) It refers to the main direct and indirect controller, irrespective of the percentile they hold.

Conclusions and Final considerations

The ownership and control structure of the leading banks that form the Brazilian financial system presents great levels of concentration, which points to a result that concurs with those found in studies evaluating the governance structures in Brazilian open companies. The concentration found in the banks studied, both in terms of voting capital and total capital, or even when we consider the major controller, the three or five major banks, is still higher than the mean found for the group of Brazilian companies listed in the stock exchange (Carvalho et al., 2000).

This conclusion brings the corporate governance of the Brazilian financial system closer to those practised in the countries in the European continent. Unlike the Anglo-American point of view, where it is the managers that, most of the times, effectively are in control of the resources of the company (Becht & Roell, 1999), in the main Brazilian banks, it is the controlling shareholders that have the power over the internal decision-making process. The pyramidal structures, albeit frequent, do not seem to be used as a tool to reduce investment without loss of control, once the concentration of ownership of voting and non-voting shares is extended to the "final" controllers. These structures play the role of protecting the financial institution from occasional friction between relevant partners and, consequently,

preserving the institution's image stability and credibility before its clients. The majority of the banks studied are directly under the control of other corporations. Following them are the foreign banks and the federal and state governments as the main direct controllers of the banks. In terms of indirect ownership, most of the banks are controlled by foreigners (26 banks, or 52%), followed by those controlled by individuals, Federal Government, family companies and state governments. 45.8% of the assets of the 50 leading banks are controlled by the Federal Government. Foreigners are the main controllers of 24% of the total amount of the assets of these banks; together, family companies and individuals control 17.8%; and the state governments add up to 3.5% of the assets of the 50 banks. One of these banks, whose main indirect controller is a foundation, responds for 8.9% of the assets of the all the banks studied. Further studies of the governance structure in financial institutions may lead to the analysis of various aspects either not yet studied or still not thoroughly explored in this preliminary and exploratory investigation. One study, for example, could research into the governance strategies that justify the ownership and control structures – sometimes extremely complex – of the banks. Another study could be dedicated to evaluating agency problems between owners and executives and between majority and minority partners. We also suggest studies that could go deeper into the occasional correlations between governance systems and bank performance.

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