

# Analysis of why brazilian companies use preferred shares

Poliana Maria Ramos<sup>1</sup>  Patrícia Maria Bortolon<sup>2</sup>  Marcelo Alvaro da Silva Macedo<sup>3</sup> 

<sup>1,2</sup> Universidade Federal do Espírito Santo, Vitória, Espírito Santo, Brasil

<sup>3</sup> Universidade Federal do Rio de Janeiro, Rio de Janeiro, Rio de Janeiro, Brasil



<sup>1</sup>polianamramos@gmail.com

<sup>2</sup>p.m.bortolon@gmail.com

<sup>3</sup>malvaro@facc.ufrj.br

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Moacir Manoel Rodrigues Junior

## Abstract

**Objective:** This research is based on Agency Theory and discusses the single-class share structure, which provides fewer rights deviations to shareholders. So, the objective of the was to investigate the justifications of Brazilian publicly traded companies for not adopting the "one share, one vote" principle.

**Method:** We analyzed 306 justifications from the Governance Code Report of companies listed on [B]<sup>3</sup> with preferred shares, from 2018 to 2020, using manual coding and the MAXQDA software. Additionally, seven semi-structured interviews were conducted with representatives from the IR department and analyzed via MAXQDA.

**Results:** In the Report, companies justify their actions based on norms and regulations that allow the issuance of preferred shares (53%), while only 8% mention reasons for not adopting the principle, the main one being to maintain control. The interviews revealed new findings, showing that companies use preferred shares due to the difficulties and costs involved in adopting only common shares and there are also anticipated costs after the adoption of the practice. Furthermore, they declared that this structure favors long-term vision and maintenance of control. All companies declared no intention to adopt the principle and believe it is necessary to maintain preferred shares because some investors demand them.

**Contributions:** The research indicates that, in addition to reasons already discussed in the literature, there are other motives for companies to use preferred shares, contributing to providing more information to regulatory bodies, the market, and investors. For the Finance literature, the multimethod approach with semi-structured interviews generated relevant insights.

**Keywords:** Ownership Structure, Dual-class Shares, Governance Code Report.

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## Introduction

The objective of this research was to investigate the justifications of Brazilian publicly traded companies for not adopting the "one share, one vote" principle. This principle is a recommendation of the Brazilian Corporate Governance Code (BCGC), created in 2016, and the Brazilian Institute of Corporate Governance (BICG), founded in 1995. Both recommend that companies have only common shares (ON) as a good corporate governance (CG) practice. The adoption of the "one share, one vote" principle is recommended because it is the structure that best aligns the interests of shareholders, where voting rights are proportional to the cash flow rights linked to the shares (BCGC, 2016). However, in Brazil, Law 6.404/76 allows companies to issue up to 50% of preferred shares (PN) of the total number of shares.

The literature also suggests adopting this principle, with the main argument being that concentrated control in the hands of a few leads to agency and entrenchment problems (Adams & Ferreira, 2007). The agency problem caused by the separation of ownership and control has long been highlighted in the literature (Jensen & Meckling, 1976; La Porta et al., 2000). It is considered that concentrated ownership causes the entrenchment effect, since controllers can use their power to expropriate minority shareholders (Li & Zaiats, 2017a). The authors also point out that these problems are greater in dual-class companies compared to their single-class counterparts. Despite the criticism in the literature, adopting a dual-class structure can be strategic and beneficial for many companies. It allows them to retain control while using the capital market as a form of financing, in addition to being a defense strategy against hostile takeovers (Pinto, 2014). Li and Zaiats (2017b) reinforce that the dual-class ownership structure can be considered a strong anti-takeover mechanism, functioning as protection against hostile takeovers. According to the authors, such companies can be considered virtually immune to these takeovers. Other authors list more issues that justify companies having a dual-class structure. Issuing PN shares can facilitate the founders' continued leadership of the business (Hossain, 2015), maintain control of the company (Aldrighi & Mazzer Neto, 2007; Burkart & Lee, 2008), preserve the private benefits of the controllers (Burkart & Lee, 2008; Gompers et al., 2010), and favoring the company's long-term vision (Adhikari et al., 2018; Lauterbach & Pajuste, 2015; Reddy, 2020). Arugaslan et al. (2010) suggest that the possibility of raising funds in the capital market while managers remain in control also leads companies to distance themselves from the principle

Additionally, recent evidence challenges the traditional view of Agency Theory. Cheng et al. (2020) show that companies with a dual-class structure may have greater investment efficiency, especially in areas such as research and deve-

lopment, as disproportionate control can reduce agency problems and promote more effective resource allocation. Similarly, Baran et al. (2022) reinforce this idea by showing that concentrated control can foster innovation by allowing innovative insiders to make long-term decisions without immediate pressures, especially in companies that are financially constrained or exposed to strong competition.

In Brazil, a large percentage of companies still use PN shares (Andrade et al., 2014; Grando et al., 2016; Manzanaraes & Leal, 2021), even though there are recommendations to issue only ON shares. Updated data collected by the authors show that the percentage has been decreasing, but it is still high. In 2017, 2018, 2019, and 2020, the percentages of companies with two classes of shares were 45%, 44%, 42%, and 39%, respectively. Among Brazilian companies that have PN shares, most have more than 50% of shares in this class. In the same survey, the following average percentages of PN shares in the ownership structure of this group of companies were observed for 2017, 2018, 2019, and 2020: 54%, 53%, 52%, and 52%, respectively.

Given the Brazilian scenario and amid arguments against the dual-class share structure, such as agency and entrenchment problems (Adams & Ferreira, 2007) and minority expropriation (Li & Zaiats, 2017a), versus arguments in favor of promoting the company's long-term vision (Adhikari et al., 2018; Lauterbach & Pajuste, 2015; Reddy, 2020) and greater investment efficiency (Cheng et al. (2020)), this study aims to investigate why Brazilian companies listed on [B]<sup>3</sup> use non-voting shares.

Starting in 2017, with CVM Instruction No. 586/17, which incorporated the BCGC (2016) and adopted the "comply or explain" model, companies began to be required to disclose whether they adopt the recommended practices or explain why in cases of non-adoption or partial adoption. Therefore, companies that still use PN shares must provide justification for doing so. Thus, the main objective of this research was to investigate the justifications of Brazilian publicly traded companies for not adopting the "one share, one vote" principle. To achieve this objective, two steps were taken: i) analysis of the justifications presented in the Governance Code Report of companies that do not adopt a single class of shares, and; ii) analysis of the justifications reported in interviews with representatives of the Investor Relations (IR) area of companies that have PN shares.

In addition to combining qualitative and quantitative methods, the analysis of the justifications presented in the Governance Code Report and the semi-structured interviews represent a qualitative approach that is rarely used in the field of finance- y studies. The research se-

eks to better understand the subject through interviews on a non-mandatory item, which is the adoption of "one share, one vote," where companies are not questioned by any agency or entity about the responses presented in the Report. The study aims to fill this gap and question these often superficial responses in greater depth.

Going beyond existing studies, this research focuses on an in-depth analysis of a single recommendation, observing a longer time horizon (2018 to 2020). The choice to focus exclusively on the Brazilian market is justified by its regulatory particularities, in line with the guidelines of Gurrea-Martínez (2021), who recommends caution to regulators when analyzing studies of foreign models, as the ideal regulation for share structures must consider the local particularities of each country, such as market characteristics and institutional and legal rules.

In practice, this study also aims to contribute to the regulatory body by providing more information on the quality of compliance with a regulatory obligation, signaling the importance of looking at the justifications presented. In addition to presenting to the market and investors the reasons that lead companies to adopt PN shares, which can help in understanding the share structure strategy adopted by some companies, those who are restricted to the information in official reports may not be able to adequately understand these reasons. It was found that, in addition to the justifications provided in the literature, companies still use PN shares due to the difficulty and cost involved in adopting the practice. They argued that there is market demand for these shares, highlighting that there are investors who are more concerned with the return on their investments in shares than with voting rights. Another point raised is that the dual class share structure favors the coordination of the company's strategic planning, restricted to fewer voting shareholders.

## 2 Theoretical Reference

### 2.1 Ownership and control structure

The beginning of joint-stock companies was based on the "one share, one vote" structure, but over time, other forms of participation emerged, such as the creation of different classes of shares, thus losing the proportionality between capital participation and control (Grando et al., 2016). Historically, there have been periods when the most common structure was a single class of shares, then stock exchanges began to ease listing requirements, yielding to pressure from companies and allowing dual or multiple class structures, but the trend has reversed again (Burkart & Lee, 2008). The current discussion revolves around the adoption of a single-class share ownership structure.

Discussing ownership structure means talking about

ownership concentration and the types of shareholders in a company (Tang et al., 2020). The pioneering thesis on this subject is by Berle and Means (1932), which establishes the model of a corporation with ownership dispersed among many small shareholders and control concentrated in the hands of managers, resulting in an imbalance between shareholder rights. This model was later formalized by Jensen and Meckling (1976), who conceptualized the agency problem as the misalignment of interests between principal and agent.

This imbalance is found in dual-class stock companies, which issue non-voting shares, where majority shareholders have more voting rights than their cash flow rights and minority shareholders have little or no voting rights (Li & Zaiats, 2017a). One of the main arguments against such asymmetry is that this structure is linked to the figure of the controller, and control concentrated in the hands of a few leads to agency and entrenchment problems (Adams & Ferreira, 2007). As highlighted by Jensen and Meckling (1976), the agency problem stems from the difference in interests between the principal and the agent. The principal, who may be one or more persons, enters into a contract with the agent and grants him decision-making power so that he can perform his managerial role in the principal's interests. However, as both parties are value maximizers, conflicts may arise when the agent uses his power to make decisions that do not converge with the principal's interests.

The controller may choose to sacrifice the value of the firm in order to maintain their private benefits of control and use the mechanism of issuing two classes of shares to achieve this goal (Gompers et al., 2010). And, as the founders have their wealth invested in the companies, their decisions will not always cover the interests of all shareholders, so it is natural for them to pursue their own interests (Hossain, 2015). Thus, one of the arguments in favor of a single-class structure is precisely the protection of minority shareholders against the extraction of private benefits by the controlling shareholders, who hold power in the company (Burkart & Lee, 2008).

In line with the view that private benefits and controlling shareholders are bad for the organization, Seaborn et al. (2018) states that the financial performance of dual-class companies can also be impaired when managers seek private benefits at the expense of the company. Complementing this aspect, Kim (2023) highlights the impact of the gap between voting rights and cash flow on the company's risk level, showing that misaligned interests can encourage less prudent management decisions, increasing exposure to financial and operational risks. Ye et al. (2025) reinforce that dual-class companies tend to adopt riskier strategies in terms of leverage, growth, and

investments.

This paradox can be partially explained by the duality of private control benefits. While traditionally seen as instruments of expropriation, Sauerwald et al. (2019) argue that such benefits can, under certain conditions, be positive for business performance, as controllers who enjoy private benefits also assume monitoring responsibilities and contribute long-term capital, which can add value to the company. This goes against the traditional Agency Theory, suggesting that incentives do not always result in expropriation, depending on the institutional context. In certain cases, dual-class companies have prospects for stock returns and operational performance that are even higher than similar single-class companies, although they are generally less valued by the market (Reddy, 2020).

One of the main questions that studies seek to clarify is whether the disproportion between rights destroys shareholder value. Although there is some evidence, it is complex to prove empirically (Adams & Ferreira, 2007). In practice, it is not clearly evident that dual-class structures destroy shareholder value, contrary to the arguments of CG activists who advocate the implementation of a single class of shares (Chemmanur & Jiao, 2012). Considering the Brazilian institutional context, this debate gains relevance, since Black et al. (2020) suggest that, in emerging markets such as Brazil, the mere existence of concentrated structures is not sufficient to explain the under performance of companies. A comprehensive analysis of the governance environment and other factors protecting minority shareholders is necessary.

In general, in dual-class companies, the issuance of PN shares facilitates the acquisition and maintenance of control by majority shareholders, who, even with a small portion of cash flow rights, manage to remain in control and have the power to expropriate minority shareholders (Aldrighi & Mazzer Neto, 2007). Due to the imminent risk of expropriation in these companies, investors may be reluctant to invest in shares with lower voting rights or no voting rights (Cumming et al., 2019).

From the perspective of institutional investors, the concentration of control and the risk of expropriation arising from the dual class of shares only favors large shareholders and, therefore, they advocate a single-class structure to reduce this risk of expropriation (Reddy, 2020). On the other hand, from the perspective of controlling shareholders, adopting a single-class structure is not attractive, as equality between voting rights and cash flow weakens large owners and creates the risk of loss of control (Burkart & Lee, 2008). In the view of Hossain and Kryzanowski (2019), the most democratic ownership structure for all stakeholders is the single class of shares,

as it better aligns the interests of all partners.

From a long-term perspective, the dual-class structure favors companies, as it allows them to make better investments, since there is no market pressure with short-term demands, such as shareholders demanding improved stock prices to obtain quick returns (Adhikari et al., 2018). In addition, Correia et al. (2011) report that the dual-class structure can be an alternative way to raise funds for controllers and/or founders through the issuance of PN shares in the capital market and, therefore, has survived amid external challenges from legislative bodies, shareholder rights groups, and institutional investors.

## 2.2 Previous studies on compliance with Corporate Governance Codes

The literature on governance has evolved by examining the application of the "comply or explain" rule in different countries, revealing both advances and limitations in its application. Arcot et al. (2009), for example, found an evolution in the compliance of British companies with the country's Code, with the rate of non-adoption falling from 90% in 1998 to 44% in 2004. The authors conducted a qualitative analysis classifying explanations as general or specific and, despite the improvement in explanations, highlighted that many of them remained generic or of low quality, indicating a weakness in the effectiveness of the "explain" component of the standard. Later, Seidl et al. (2013) also analyzed reports and statements of compliance from companies listed in the UK Governance Code and found non-compliance of only 4.7%. The same investigation was conducted in Germany, and the percentage found was 6.3%, making it clear that in these countries, most companies comply with the recommendations of their Codes.

A similar study was conducted by Rose (2016) in the Danish context. Seventy-one of the 78 recommendations of the Danish CG Code were analyzed, finding that the degree of compliance reached 81.9%, corroborating the previous findings of Arcot et al. (2009) and Seidl et al. (2013). In addition, Rose (2016) adds that among the practices that are not complied with, one-third of the justifications presented were considered unsatisfactory. Among the reasons given for this result are: (i) the company was not fully aware of the mandatory nature of the "comply or explain" rule, or (ii) the company was not accustomed to disclosing CG information.

In Brazil, Manzanares and Leal (2021) analyzed compliance with the "comply or explain" rule in the first year of its mandatory implementation and found that no company complied with the Code in its entirety. The percentage of compliance with the Code ranged from 98% (the company that complied the most) to 16% (the company that com-

plied the least), with an average of 37% non-compliance or deviations from recommended practices, evidencing a scenario of low compliance. The authors point out that larger companies, which generally have more resources and greater market exposure, tend to show greater adherence, suggesting that there may be a relationship between the resources available to companies and their compliance with the practices.

### 3 Methodology

#### 3.1 Sample and data

The sample was obtained from the Comdinheiro database in a survey conducted in February 2021. All companies with active registration with the CVM and with shares traded on [B]<sup>3</sup> were surveyed, and exclusions were made according to the steps shown in Table 1. The sample consists of 426 company-years, based on the annual statements for December 31, 2017, 2018, and 2019. A unique feature of this research was to include companies from the financial sector in order to analyze the justifications presented by companies in this sector.

Table 1 – Sample construction.

Companies	12/31/2017	12/31/2018	12/31/2019
Total assets	362	365	376
Without ticket	(5)	(5)	(69)
In judicial liquidation	(1)	(1)	(1)
Over-the-counter segment	(27)	(27)	(28)
Level 2 and 3 BDR Segment	(10)	(7)	(7)
No PN shares	(177)	(182)	(193)
<b>Sample</b>	<b>142</b>	<b>143</b>	<b>141</b>

Source: Prepared by the author.

After defining the companies in the sample, the available Governance Code Reports were checked on the CVM website. The justifications presented by the companies in the respective years were collected one by one and tabulated in an Excel spreadsheet. However, no data was found for some companies, and it is possible that they did not submit the report in the respective year. Thus, from the sample of 426 company-years, only 306 justifications were collected in the period investigated, as shown in Table 2.

Table 2 – Number of justifications per year.

Companies	2018	2019	2020	Total
Sample at the end of the previous fiscal year	142	143	141	<b>426</b>
GC report not found	(102)	(9)	(9)	<b>(116)</b>
<b>Number of justifications</b>	<b>40</b>	<b>134</b>	<b>132</b>	<b>306</b>

Source: Prepared by the author.

There is a large number of reports not found in 2018, because it was the first year that the report was mandatory, and only companies listed in [B]<sup>3</sup>, belonging to the Ibovespa or IBrX100 Index, were required to submit the report by October 31 of that year. Starting in 2019, the requirement was extended to all listed companies, and the deadline was changed to July 31 of each year, which is seven months from the end of the fiscal year. In 2020, there was an exception to the rule due to the global pandemic of the new coronavirus (COVID-19), and the deadline for submitting the report was extended by two months, with submissions accepted until September 30.

The companies selected for interviews were filtered from the sample in Table 2. Based on last year's data, for the 132 companies that submitted the Report in 2020 and do not adopt the "one share, one vote" principle, the percentage of PN shares that each had in its structure on December 31, 2019, and June 30, 2021, was calculated. Based on this information, companies that remained in the range of more than 25% of PN shares from 2019 to 2021 were selected, as these companies have a significant volume of PN shares, generating an expectation of greater relevance in their reports. This resulted in the selection of 107 possible companies to be interviewed, as shown in Table 3.

Table 3 – Distribution of companies with PN shares.

Panel A: distribution by sector		
Sectors	Qty	%
Financial	27	20.4
Public utility	26	19.7
Industrial Goods	24	18.2
Cyclical Consumption	20	15.2
Basic Materials	19	14.4
Other	16	12.1
<b>Total companies</b>	<b>132</b>	<b>100.0</b>
Panel B: distribution by percentage of PN shares		
Ranges	Qty	%
More than 66.67%	1	0.8
At the 66.67% limit	16	12.1
Between 50% and 66.67%	42	31.8
At the 50% limit	12	9.1
From 25% to 50%	36	27.3
Up to 25%	25	18.9
<b>Total companies</b>	<b>132</b>	<b>100.0</b>

Qty – number of companies. Source: Prepared by the author.

As the procedures for conducting, processing, and analyzing the interviews are individual and in-depth, they

are time-consuming, and conducting many interviews would make this research unfeasible, so contact with the companies was made gradually. Initially, five companies were selected that have the maximum limit of 2/3 of PN shares, in accordance with the provisions of Law 6.404/76 (Corporation Law) before the 2001 revision, five companies that are at the maximum limit of 50% of PN shares, as determined by the current law, and five companies that have between 25% and 50% of PN shares, giving priority to companies from different segments and sectors, seeking diversity in the responses.

Attempts to contact companies were made via email addresses available in the IR section of company websites, by filling out a form and sending a message on the IR website page, via the business social network LinkedIn, and through contacts in the researchers' personal networks.

Contact was made with 62 of the 107 possible companies, and 16 responses were obtained. However, three did not agree to grant interviews, five promised a later date and then did not respond, and one did not allow the interview to be recorded. Finally, seven interviews were recorded, transcribed, and analyzed.

### 3.2 Textual Analysis of Justifications

The textual analysis was performed by reading the 306 justifications and classifying them according to the work of Manzañares and Leal (2021). The authors developed a taxonomy with categories and subcategories to analyze the quality of the 43 recommendations of the BCGC (2016). Considering that in this research only one recommendation of the Code was analyzed, not all categories and subcategories were incorporated into the research, since many did not fit the recommendation to adopt a single class of shares.

The main categories used were: i) Poor justification - the company provides a justification but does not address the real reasons for not adopting the recommended practice; ii) Description of alternative practice - the company describes an alternative practice to the recommendation, even though it is not an adequate justification, but it is more complete than the deficient justification; and iii) Context-specific justification - the company reports that due to some specific characteristic of its context, the recommended practice is not applicable to its case. Figure 1 details the categories and subcategories of Manzañares and Leal (2021) and indicates which ones apply or do not apply in the analysis in question. It describes the criteria adopted for classifying the justifications in each subcategory and the reasons for not using some subcategories that were identified as not applicable in this research.

Figure 1 – Categories and Subcategories.

Categories and Subcategories	Applicable	Criteria for classification or
<b>Poor justification</b>		
Adoption of recommendation under evaluation.	No	The practice has no evaluation, either the company issues PN shares or already has only ON shares.
Alternative practice in development.	No	There is no process to be developed to adopt the practice, either the company adopts the principle or has another alternative practice, which would be another category.
Declaration of alignment with another standard.	Yes	It states that it is in accordance with the provisions of the articles of association and/or advises consulting the FRE for further details, or simply cites some rule. Reports that it does not adopt in principle, but presents a date/deadline for adaptation.
Declaration of future compliance.	Yes	It provides some commentary, but it doesn't really justify anything.
Empty justification.	Yes	It just says in the justification that it does not comply with the recommendation, without any explanation.
Pure publicity.	Yes	Provides justification that is completely different from the context of the recommendation.
Not related to recommendation.	Yes	
<b>Description of alternative practice</b>		
Alternative practice in line with another standard.	Yes	It cites the other standard and presents details of the practice adopted. To be in line with the Code, the principle would have to be adopted and, therefore, there would be no justification.
Alternative practice considered in line with the Code.	No	If there is any practice that the company is doing temporarily and that makes this very clear.
Temporary alternative practice.	Yes	It only cites the law/regulation/decreed, without further details.
Pure description of alternative practice.	Yes	
<b>Principled justification</b>		
Exemption granted by another rule.	No	There is no possible exemption to be granted if companies do not adopt the practice.
Ineffectiveness/inefficiency.	No	Judging the practice as inefficient/ineffective does not apply to the adoption of ON actions only.
Practice deemed redundant.	No	The adoption of only ON shares is not redundant with another practice.
<b>Context-specific justification</b>		
Board composition or size.	No	Board characteristics do not interfere with adopting only ON shares.
Size of operations.	No	The size of the operations does not interfere with adopting only ON shares. The company structure is at the heart of the "one share, one vote" principle; there is no possibility that the company structure can be an explanation for not adopting the principle.
Company structure.	No	When the company's sector of activity requires PN shares.
Sector specificities.	Yes	PN shares.
Internal rules.	Yes	There is no situation in which the international context prevents a company from having only common shares.
International context.	No	When there is a legal obstacle that limits the company from having only common shares.
Legal/contractual requirements.	Yes	Other specificities of the company's context.
Others.	Yes	If the company is in the process of changing all PN shares to ON shares.
Transition.	Yes	
<b>Explains, but actually practices</b>	No	It does not fit into the "one share, one vote" recommendation, as this principle only has the option of adopting or not adopting.

Source: Manzañares and Leal (2021).

Another aspect analyzed was whether the companies' justifications are in line with what is expected in response, according to the BCGC (2016). As the Code follows the "comply or explain" rule, companies are expected to respond in the Report whether they comply with the "one share, one vote" practice or explain why they do not comply. The explanations must be in line with what the CVM (2009) instructs and in accordance with the BCGC (2016) recommendations for presenting justifications.

Through Annex 29-A of Instruction No. 480 of December 7, 2009, the CVM states the following about principle 1.1: "Each share shall entitle the holder to one vote":

"a) inform whether the issuer follows the following recommended practice: the company's share capital must consist only of common shares, and; b) in the event of non-adoption of the recommended practice, present, in line with the Code's guidelines, the reasons that led the issuer to adopt other share structures."

The BCGC (2016), established by the Interagent Working Group, recommends that companies that do not adopt the "one share, one vote" principle should provide justification for this decision, addressing the following aspects:

"a) a description of the current shareholding structure and the political and economic rights of each type or class of shares; b) how control is exercised; and c) any mechanisms that mitigate the asymmetry of political and economic rights."

To verify this alignment with the Report, the justifications presented by the companies were coded and analyzed using MAXQDA, an academic software for qualitative data analysis and mixed research methods. MAXQDA was chosen because it allows for the organization, evaluation, and interpretation of the collected data, in addition to facilitating the generation of reports and results (Mativi et al., 2020; Nodari et al., 2014). The use of qualitative data analysis software helps in the coding process, since the coding is done by the researcher himself and allows him to create and organize the categories as he best wishes, in addition to speeding up this coding process (Nodari et al., 2014).

### 3.3 Semi-structured interviews

The textual analyses presented above were performed based on information already made available by the companies, public data available on the CVM website, which are the justifications in the Governance Code Report. In order to complement the investigation into why Brazilian companies listed on [B]<sup>3</sup> choose to issue non-voting shares, distancing themselves from the "one share, one vote" principle, semi-structured interviews were conducted with representatives from the IR area of the companies in the sample.

The semi-structured interview, also called an in-depth interview, is conducted individually among a group of respondents, and the questions are not entirely closed, leaving some room for the interviewee to explain the topic in question (Martin & Gaskell, 2008, p.64).

The interviews sought to understand the company's perception, from the IR department's point of view, of the use of PN shares, what they consider attractive about continuing to use PN shares, that is, the reason that leads them to maintain the two-class share structure and not adopt the "one share, one vote" principle. To this end, a semi-structured script was prepared with the aspects to be addressed in the interviews, in line with what the literature presents as justifications for not adopting the recommended practice, as shown in Table 4. This script was used to guide and support the interviewer in conducting the interview, and this structure was not presented to the interviewees.

Table 4 – Interview script.

Aspects presented in the literature as justification for issuing PN shares	
Aspects investigated	Authors
Keeping the founders in business leadership	Hossain (2015)
Maintaining control of the company	Pinto (2014); Burkart and Lee (2008); Aldrighi and Mazzer Neto (2007)
Maintain private benefits for controllers	Burkart and Lee (2008); Gompers et al. (2010)
Protection against hostile takeovers	Pinto (2014); Li and Zaiats (2017b)
Form of financing	Pinto (2014); Arugaslan et al. (2010)
Promoting a long-term vision	Reddy (2020); Lauterban and Pajuste (2015); Adhikari et al. (2018)

Source: Prepared by the author.

At the beginning of the interview, the parties introduced themselves, and then the interviewer reinforced the objective of the research, which had already been communicated by email. Subsequently, open-ended questions similar to all interviewees were asked about each aspect so that they could respond according to the strategies and practices within each company.

The interviews were conducted online, via video call, using the Google Meet or Microsoft Teams meeting room platforms, according to the interviewee's preference. With the consent of the interviewees, the interviews were recorded and then transcribed, maintaining confidentiality and anonymity to protect the interviewees.

In addition, in compliance with ethical issues, an evaluation was conducted by the human research ethics committee of the Federal University of Espírito Santo (CEP/UFES/ Campus Goiabeiras). And in accordance with the ethical principles of non-maleficence, beneficence, justice, and autonomy of the subjects, a Free and Informed Consent

Form (FICF) was prepared and signed by the interviewees, in accordance with the guidelines of CEP/UFES/Campus Goiabeiras and item IV of Resolution CNS 466/12. The form explains the research being conducted and formalizes the interviewee's agreement to grant the interview.

After the interviews were conducted, the recordings were transcribed and analyzed using MAXQDA software. The transcriptions were performed with the support of Google Docs, using the voice typing tool. The text was revised until the final transcription of the interviews was obtained. Within MAXQDA, categories were created from the transcripts, as described in the literature. From there, the results to be presented in subsequent sessions were obtained.

Although it contributes to a more in-depth analysis, this interview process has limitations. The answers may reflect the company's institutional position or, sometimes, represent only the opinion of the interviewee, and there is no way to validate this aspect. Furthermore, content analysis involves a certain degree of subjectivity, as it is not an objective text with direct answers.

## 4 Presentation of results

### 4.1 Results of the Textual Analysis of Justifications

The justifications in the Governance Code Report were classified according to the taxonomy developed by, , with the results presented in Table 5.

**Table 5 – Analysis of Justifications.**

Categories and Subcategories	2018		2019		2020		Total	
	Qty	%	Qty	%	Qty.	%	Qty.	%
Insufficient justification	25	63%	96	72%	92	70%	213	70%
Declaration of alignment with another standard	19	48%	49	37%	45	34%	113	37%
Empty justification	3	8%	23	17%	24	18%	50	16%
Pure publicity	1	3%	12	9%	10	8%	23	8%
Not related to the recommendation	2	5%	12	9%	13	10%	27	9%
Description of alternative practice	14	35%	30	22%	32	24%	76	25%
In line with another standard	11	28%	18	13%	20	15%	49	16%
Pure description of the alternative practice	3	8%	12	9%	12	9%	27	9%
Specific justification for the context	1	3%	8	6%	8	6%	17	6%
Internal standards	0	0%	3	2%	3	2%	6	2%
Legal/contractual requirements	1	3%	2	1%	2	2%	5	2%
Other context-specific justification	0	0%	1	1%	1	1%	2	1%
Transition	0	0%	2	1%	2	2%	4	1%
<b>Total</b>	<b>40</b>	<b>100%</b>	<b>134</b>	<b>100%</b>	<b>132</b>	<b>100%</b>	<b>306</b>	<b>100%</b>

Qty – number of companies. Source: Prepared by the author.

The high percentage of poor justifications (70%) stands out, consistent with the findings of Manzanares and Leal (2021) , who say that Brazilian companies' explanations to the Report are of low quality. The low quality of justifications was also identified in British companies (Arcot et al., 2009) and in Danish companies (Rose, 2016) . It was observed that many companies rely on laws and regulations to justify the issuance of PN shares. When the subcategories "Declaration of alignment with another standard" (37%) and "Alternative practice in line with another standard" (16%) are added together, the percentage is 53%. The explanations for these subcategories basically revolve around saying that it is permitted by Law 6.404/76 and/or complies with the N1 or N2 listing regulations of [B]<sup>3</sup>.

The difference between the two subcategories lies in the detail of the response, with the first merely citing the standard, while the second provides more details about the alternative practice. Examples of statements aligned with another standard include: i) "The Company's share capital currently consists of ON Shares and PN Shares, in accordance with Law 6,404/76 of 1976 (Corporation Law)," and; ii) "The Company meets the requirements of Level 1 Governance of [B]<sup>3</sup>." And to illustrate a statement of alternative practice in line with another standard, the following excerpt can be used: "This Capital Structure was necessary due to the ownership of voting capital of airlines by foreigners, under the terms of Law No. 7,565/1986 [Brazilian Aeronautical Code], prior to the amendments brought about by Law No. 13,842/2019, resulting from the conversion of Provisional Measure No. 863/2018."

As there is extensive legislation in Brazil, there are legal alternatives to justify compliance with the suggested items. It is worth noting that the Report does not require compliance with the suggested practices, so it is not a legal obligation and is below the laws. What could be improved in the future is for the legislation to review which points would be important and could be made mandatory and include them in laws, but this aspect would involve other parties and a much more detailed discussion.

Empty justifications accounted for a significant percentage of the sample, with 16% falling into this subcategory, as in the following examples: i) "Since its registration, the Company has had its capital divided into ON Shares and PN Shares. The volume of ON Shares and PN Shares issued meets the ceiling provided for by law and the wishes of the shareholders," and; ii) "The requirement does not apply to the Company since it does not belong to the NM segment in [B]<sup>3</sup>."

When reading the justifications, it was observed that many companies simply repeat the same response in different years, with 145 of the 306 justifications being

repeated. This repetition may be linked to the fact that the company did not take any action to change from one year to the next and, remaining the same, presents the same response already validated by the organization in the previous year, or it may be due to the little importance given by companies to the justifications presented in the Report. These possibilities could only be confirmed if we were able to contact all companies directly. In any case, they are linked to the low quality and lack of of the justifications already mentioned by Manzanares and Leal (2021) .

Considering this fact, for the textual analysis of the justifications using MAXQDA software, only 161 responses containing distinct texts were used. The objective in this phase was to verify whether companies that do not adopt the “one share, one vote” principle presented their justification in the Report in accordance with the recommendations of the BCGC (2016) and whether they cited reasons for adopting other shareholding structures. The CVM (2017) instructs that the justifications be in line with the recommendations of the BCGC (2016), which states that companies must describe the composition of the company's share capital, inform shareholders of their rights, explain how control is exercised, and describe ways to mitigate asymmetries in the political and economic rights of shareholders. The results are detailed in Table 6.

**Table 6** – Justifications in line with the BCGC (2016).

Recommendations	Qty.	% in relation to the 161 justifications
Description of the shareholding structure	141	88%
Description of political and economic rights	85	53%
How control is exercised	35	22%
Mechanisms to mitigate asymmetries in rights	17	11%
Presents reason for non-adoption	13	8%
Ética Médica	16	100%

Qte – number of justifications. Source: prepared by the author using MAXQDA software.

In general, it can be observed that companies do not include all aspects suggested by BCGC (2016) in their responses when justifying their non-adoption of the recommended practice. Most only mention the company's current shareholding structure and shareholder rights, while the proportion of justifications containing reasons for not adopting a single class of shares is low, at only 8%. More representative, having been identified in 141 justifications, some companies describe the shareholding structure objectively, such as “The share capital currently consists of ON Shares and PN Shares,” while others provide a greater level of detail, such as “Of the authorized capital, R\$1.3 billion is subscribed and paid up, represented by 38,571,591 registered shares with no par value, of which 15,527,137 are ON Shares with voting rights

and 23,044,454 are PN Shares, also registered, without voting rights.”

In the 85 justifications that refer to shareholder rights, there were two main lines of response, one that basically specifies the rights of each type of share and reinforces that further definitions are in the Bylaws, for example, “ON Shares entitle the holder to one vote at the General Meeting, and PN Shares, Class A and Class B, enjoy priority in receiving a minimum dividend and priority in the reimbursement of capital at net asset value, in the event of liquidation of the Company, under the terms of the Company's Bylaws” and referred to the item in the Reference Form (RF) for further information, and another line that presented the complete list of rights, listing topic by topic, bringing the information from the RF to the response in the Report. The latter case was not exemplified here due to the length of the texts.

In addition, 35 justifications included information on how control is exercised, and 17 presented mechanisms adopted to mitigate the asymmetries between the political and economic rights of shareholders, such as: “To mitigate the difference in political rights, the Company saw fit to provide, in its Bylaws, for the distribution of dividends to PN Shares 35 times higher than those distributed to ON Shares, as well as the right to be included in the public offering as a result of the sale of control, under the same conditions and at a price per share equivalent to 35 times the price per ON Share paid to the Controlling Shareholder.”

In response to the research question, at this stage, 13 justifications were identified from companies explaining why they use non-voting shares, as evidenced in the following excerpts: i) “The Company's dual share structure allows for greater flexibility in the Company's control and capitalization structure”; ii) “the conversion of ON Shares into PN Shares would imply a loss of share control by the State,” and; iii) “it would not be possible to comply with the practice without resulting in the loss of share control by the Federal Government,” in line with the justification provided in the literature on maintaining control (Pinto, 2014; Burkart & Lee, 2008; Aldrighi & Mazzer Neto, 2007).

#### 4.2 Results of the Semi-Structured Interviews

Foram realizadas sete entrevistas, com duração média Seven interviews were conducted, with an average duration of 31min33s and a total of 03h40min54s of recorded content. The interview transcripts were analyzed using MAXQDA, with each interview corresponding to one document. All companies presented some justification already mentioned in the literature, and 24 additional mentions of justifications not found in the literature were identified, which were distributed into four categories, as shown in Table 7.

**Table 7** – Distribution of segments coded by category.

Category	Coded segments	% Coded segments	Documents
<b>Justifications cited in the literature</b>	<b>28</b>	<b>45.9</b>	<b>7</b>
Promoting a long-term vision	7	11.5	7
Maintain control of the Company	11	18.0	6
Protection against hostile takeovers	4	6.6	4
Form of financing	4	6.6	4
Maintain private benefits for controllers	1	1.6	1
Keep founders in leadership positions	1	1.6	1
<b>Other justifications presented by companies</b>	<b>24</b>	<b>39.3</b>	<b>7</b>
There is demand for PN, investors are interested	15	24.6	7
There are costs involved in implementing the recommendations	4	6.6	3
Maintaining strategic alignment	2	3.3	2
It is difficult to implement all recommendations	3	4.9	2
<b>There is no interest in adopting "one action, one vote."</b>	<b>9</b>	<b>14.8</b>	<b>7</b>
<b>TOTAL</b>	<b>61</b>	<b>100.0</b>	<b>7</b>

Source: prepared by the author using MAXQDA software.

All companies recognized that owning PN shares favors a long-term vision, reaffirming what has been suggested in previous studies (Adhikari et al., 2018; Lauterbach & Pajuste, 2015; Reddy, 2020). In the literature, the most cited justification is the maintenance of control (Aldrighi & Mazzer Neto, 2007; Burkart & Lee 2008; Pinto, 2014), and it was among the most cited reasons in the interviews, as mentioned by Company 7: “he would immediately lose control, the management of the company, just by transforming PN to ON.”

As stated by Li and Zaiats (2017b) and Pinto (2014), having a dual-class structure can be a form of protection against hostile takeovers, and four of the interviewees confirmed that this is a justification for continuing with PN shares. The interviewee from Company 2 explained the logic of PN shares as a way to protect against hostile takeovers. According to him, “to acquire a company, the buyer needs to acquire 50% + 1 of the voting shares,” and he concludes by stating that “it can be said that, in principle, yes, a structure with ON and PN shares is more likely to defend against a hostile takeover than a structure with only ON shares.”

Four other interviewees stated that owning PN shares can be a form of financing, corroborating Arugaslan et al. (2010) and Pinto (2014). Company 3 stated that at the time of implementation of a large project, “there was no way to finance the project, the construction of the factory, and, at the time, one of the ways found was to issue preferred shares.” The justification “to maintain private benefits for the controllers” was rarely mentioned, but it is understood that it may be delicate for the interviewee

to comment on the benefits, since this is traditionally interpreted as a negative aspect of the concentration of control (Kim, 2023; Seaborn et al., 2018; Ye et al., 2025). And in relation to founders, many companies no longer have their founder at the helm of the business, a fact that may justify the low mention of the justification “maintaining the founders in leadership.”

In addition to corroborating the literature, reinforcing that companies justify themselves based on what previous studies suggested, this research contributes by providing insights into other justifications that companies claimed for not adopting the "one share, one vote" principle. All stated that due to investor interest in PN shares, it is interesting to continue with the dual-class structure. According to reports, investors demand this type of stock because, depending on the investor's profile, they are not very interested in governance, in complying with all practices, or in having and exercising voting power. Often, the main attraction is the prospect of return, the dividends paid. Therefore, based on this, companies stated that it is interesting to have PN shares to meet this investor profile.

The interviewee from Company 2 addressed aspects related to investors, stating: “I understand the reference to the governance code. I think Brazil aligned itself with the rest of the world when it produced its own code, but I think that there, I think we have to have options on the shelf,” referring to having ON and PN stock options for investors to choose from. He continued: “The question I ask my investors today is: do you want to have voting power? Do you want to exercise your political power? Some people have a policy of not voting in their investment strategy. So why do they want ON shares? If, in our case, PN and ON shares have the same dividend?” With these questions, he questions why adopt a single class of shares when his company’s investor audience is interested in PN shares.

Some companies added that it is not so simple to implement the recommended practices and, sometimes, it is costly, which prevents the conversion of all PN shares to ON shares. This is consistent with the indication made by Manzanares and Leal (2021) that there may be a relationship between the resources available to companies and compliance with the practices. Another point mentioned was the maintenance of the company's strategic planning as a justification for retaining PN shares in their structures. When asked about maintaining control, Company 1 emphasized that by maintaining control, the company “retains something very important, which is strategic alignment.” For Ye et al. (2025), dual-class companies tend to adopt riskier strategies, such as high leverage, accelerated growth, and investments with greater uncertainty, since concentrated control allows them to do so.

Through the interviews, we also sought to identify whether companies would be interested in or discussing the adoption of the “one share, one vote” principle, and all said that there is no such interest at the moment. Some even discuss the recommendation proposed by the BCGC (2016), but without interest in adoption at the moment. Given this, it reinforces the stance that all interviewees took in defending the permanence of PN shares, and some even question whether this practice of owning only ON shares would bring great advantages to the company.

Regarding the difficulty in implementing all the recommendations, they understand the importance of the BCGC (2016) recommendations, but Company 1 said that “In the governance manual, in a book, in academia, everything is very simple, but in practice, it is totally different,” arguing that in practice, it generates work and requires changes in the company to adopt the recommendations. Along the same lines, Company 4 said that “adopting best practices, in addition to all regulatory requirements and deadlines, would entail additional costs for companies, and that not all of them always see the cost-benefit” of adoption. Company 2 spoke of the cost in a scenario where minority shareholders have the right to vote: “It will not make any difference in the vote, it will even hinder the company. If they use ON to vote, it will generate an indirect cost. If they participate in the meeting, they will have to access the documents and [update] their participation. He will do more harm, bring costs, instead of benefiting the company by voting.”

Companies understand that, as there is demand for PN shares, there is a profile of investors who wish to continue investing in this type of share, which makes it interesting for companies to retain the PN share class in their structure. This aspect, the demand for PN shares, was the most cited, as exemplified by some of the following statements: i) “So, I think that the issue of reputation sometimes prevails over the issue of share class structure, you know, he [the investor] knows that he will give up certain things, but, on the other hand, there is someone there who is managing the company prudently...”; ii) “you will rarely find an investor with this potential and willingness to participate in the management of the company, so what [the guy] does is go for PN, which is preferred,” and; iii) “the preferred shareholder, most of the time, practically 100% of the time, is not focused on governance, he wants a return.”

## 5 Discussion of results

The main purpose of the research was to investigate the justifications of Brazilian publicly traded companies that have PN shares for not adopting the “one share, one vote” principle. The justifications presented in the Governance Code Report were surveyed, and interviews were conducted

with IR representatives using a semi-structured script. Both materials were analyzed using MAXQDA software. The justifications in the Report were also coded according to the taxonomy of Manzanares and Leal (2021).

From the conduct and analysis of the semi-structured interviews, new findings were discovered, in addition to those already predicted by the literature. The companies reported reasons such as the difficulty in implementing some practices and the cost involved in adopting practices as barriers to the adoption of the “one share, one vote” principle. In addition, they also mentioned possible costs, such as higher expenses with a greater number of participants in meetings and a greater number of documents sent to more shareholders, costs that are expected to occur with the adoption of the practice already in force. The fact that companies point to costs as a barrier may serve as a signal for regulators to review the processes and requirements surrounding the adoption of the principle. Is there a way to simplify and/or reduce the costs for companies to migrate from dual-class shares to a single class? Perhaps this could be a relevant factor for more companies to adhere to the principle.

Another relevant fact was that all companies stated that they had no intention of adopting the practice and believe that it is necessary to maintain PN shares, as they are attractive to certain investors who are more concerned with returns than voting rights. In other words, they justified keeping PN shares in their structures because there are investors who want to invest in this type of share. As a result, they do not see the feasibility and gain in adopting a structure with only ON shares.

Based on the interviews, it can also be concluded that the reasons mentioned in the literature are part of the reasons that lead companies not to adopt the “one share, one vote” principle. Of particular note are the justifications for maintaining control of the company, favoring a long-term vision, protecting against hostile takeovers, and using the issuance of PN shares as a form of financing mentioned by the companies interviewed. This reinforces the positive aspects of control concentrations that companies observe when deciding to remain with a dual-class structure. In other words, although traditionally, the misalignment between shareholder rights is viewed negatively, focusing on poor or risky management decisions (Kim, 2023; Ye et al., 2025) or in cases where controllers sacrifice firm value and financial performance for private benefits (Gompers et al., 2010; Seaborn et al., 2018). The strategy of maintaining control can, in certain cases, have good operational and financial returns (Reddy, 2020; Sauerwald et al., 2019).

The analysis of the justifications in the Report revealed

that most companies justify themselves based on listing rules and regulations that allow the issuance of PN shares and, although there is little evidence of reasons for not adopting the “one share, one vote” principle, which was only identified in 8% of the justifications, most justifications are aligned with at least some recommendation of the BCGC (2016), with emphasis on information describing the corporate structure (88%) and shareholder rights (53%). Here, the code's recommendations or the way they are presented could be reviewed, as it is noted that companies use the prerogative of responding in line with the code and do not respond as to why they have not adopted it. If the response to the Report were a little more rigorous with subsequent individualized analysis, the percentage of deficient justifications would probably be reduced (in this study it was 70%) and there would be more consistent information for analysis in studies such as this.

In general, it can be observed that the major contribution of this study is aimed at regulatory bodies, pointing out both deficiencies in the companies' justification process and more specific analyses in the Brazilian market in order to perhaps bring recommendations and requirements closer to the reality of Brazilian companies, ultimately achieving a high level of compliance with the Governance Code, as in developed countries (Arcot et al., 2009; Seidl et al., 2013; Rose, 2016).

## 6 Final considerations

In general, a stance in favor of maintaining PN shares was observed. All companies said that there is no discussion or interest in adopting the “one share, one vote” principle. Some even question whether owning only ON shares would bring great advantages to the company. The combination of quantitative and qualitative methods was beneficial to the research, as the interviewees' reports raised specific points about each company and provided insights. There are several areas of finance research that can use this combination of methods to further certain investigations.

In this study, the combination of methods enabled triangulation between the data from the Report and the statements obtained through the interviews. This allowed us to understand that the justifications commonly observed in the literature, such as maintaining control (Aldrighi & Mazzer Neto, 2007; Burkart & Lee, 2008; Pinto, 2014), protection against hostile takeovers (Li & Zaiats, 2017b; Pinto, 2014), the issuance of shares as a form of financing (Arugaslan et al., 2010; Pinto, 2014), and a focus on a long-term vision (Adhikari et al., 2018; Lauterbach & Pajuste, 2015; Reddy, 2020) remain relevant factors in corporate decisions regarding shareholding structure.

This choice of multiple methods also contributed to

the literature, especially by reinforcing the positive aspects of control concentration, since companies and investors who opt for their PN shares do not only look at the negative side of control concentration, but are able to see advantages in the dual-class structure, in line with the benefits highlighted by Sauerwald et al. (2019), Cheng et al. (2020), and Baran et al. (2022), such as long-term investment and greater monitoring, which adds value to the company, greater investment efficiency, and promotion of innovation, respectively.

Regarding the operationalization of the research, two weaknesses stand out: i) the delay in the data production stage (analysis and approval process by the ethics committee), and; ii) low receptivity of the interviewees, points already highlighted by Cheron et al. (2022). Related to the low return obtained in contact attempts, there is a limitation in the research, namely the difficulty in getting companies to agree to interviews. In addition, there is no validation of the interviewees' statements, regardless of whether they are realistic or not, we take them as true for the purposes of analysis in our investigation.

Based on the fact that the aspect most confirmed by companies was related to investor profiles, we suggest that future research involve both parties, both the companies that own the shares and the investors who demand them. Combining research involving the perceptions of both parties could add to the discussion on the topic. Another suggestion for future research is to investigate the use of PN shares as a form of remuneration, a point that was raised by one company, using the same semi-structured interview methodology used in this research.

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