

**THE ROLE OF SELF-REGULATION IN CORPORATE GOVERNANCE:
EVIDENCE FROM THE NETHERLANDS**

**ABE DE JONG, DOUGLAS V. DEJONG, GERARD MERTENS,
CHARLES WASLEY**

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**The Role of Self-Regulation in Corporate Governance:
Evidence from The Netherlands**

Abe de Jong
Department of Financial Management
Erasmus University Rotterdam
a.jong@fbk.eur.nl

Douglas V. DeJong*
Tippie College of Business
University of Iowa
douglas-dejong@uiowa.edu

Gerard Mertens
Nyenrode University
g.mertens@nyenrode.nl

Charles Wasley
Simon School of Business
University of Rochester
wasley@simon.rochester.edu

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* Corresponding author.

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The Role of Self-Regulation in Corporate Governance: Evidence from The Netherlands

ABSTRACT

This paper assesses the effectiveness of self-regulation to promote investor interests. The Netherlands provides an excellent opportunity to gather such evidence for two reasons. First, characteristics of the Dutch corporate governance structure have made it the recent focus of attention by the European Union, the International Monetary Fund and countries (e.g., Korea) when deliberating issues of corporate governance. Second, during the period 1996-1998, a private sector initiative was undertaken to promote change in the balance of power between management and investors. Not surprisingly, the United States Securities and Exchange Commission has closely followed the Dutch “experiment” in self-regulation. We begin by identifying corporate governance characteristics that are linked to firm value. We then compare corporate governance characteristics and the relation between firm value and these characteristics before and after the private sector initiative. We find that the recommendations of the private sector initiative had no substantive effect on corporate governance characteristics or their relationship with firm value. Using event study techniques we document the market’s skepticism about the successful evolution of corporate governance practices in the Netherlands through self-regulation. The one exception to this general conclusion is the market for new listings. Overall, our results confirm the importance of shareholder voting rights, and who controls these rights, when considering the design of a successful self-regulation process.

The Role of Self-Regulation in Corporate Governance: Evidence from The Netherlands

1. Introduction

Increased international competition and the integration of Europe through the European Union have focused attention on industries and companies that are restructuring to meet competition and to promote economic growth. Accompanying this restructuring is a demand for capital to finance such activities. With limits to conventional sources of capital (e.g., banks and governments), attention has shifted to capital markets. In capital markets, corporate governance plays a crucial role in determining where, in what form, and at what cost capital is provided by outside investors (e.g., Price Waterhouse, 1997, Shleifer and Vishny, 1997, La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998, and Financial Times, 20 June 2000).

It is well known that agency problems are associated with the separation of ownership and control in corporations (Berle and Means, 1932, Jensen and Meckling, 1976, and Fama and Jensen, 1983a and 1983b). To mitigate these problems, corporate governance mechanisms have evolved to help companies raise funds from debt and equity markets. Corporate governance can be viewed as a mechanism design problem that is economic, legal, and politically based. As such, it is of interest to determine when market forces are sufficient to promote change as well as when legal/political actions are required to write and enforce contracts between owners and managers of capital (Alchian, 1950, Stigler, 1958, and Shleifer and Vishny, 1997).

This paper assesses the effectiveness of self-regulation to promote investor interests. For two reasons, the Netherlands provides an excellent opportunity to address this issue. The first reason is the existence of a private sector initiative in corporate governance. In 1996, based on an agreement between the Association of Securities Issuing Companies and the Amsterdam Exchanges, a Committee on Corporate Governance was formed. The committee was chaired by J. Peters (retired CEO of Aegon), and its members included representatives from the business community, Amsterdam Exchanges, security issuing companies, academics and a platform of investors (stockholder and pension representatives). The charge of the Peters Committee was to initiate debate and change in the balance of power between a firm's management and investors.

In June 1997, the Peters Committee issued its recommendations, which were designed to increase the effectiveness of management, supervision and accountability to investors in Dutch corporations. A key element of the report was its reliance on self-enforcement, through market forces, to implement and enforce its recommendations. One year after the effective date of the report, the Committee initiated and then completed a project to assess the impact of the report (Monitoring Corporate Governance in Nederland, 1998).

A second reason for focusing on the Netherlands is the intense international interest shown by investors and policymakers in this private sector initiative, along with characteristics of the Dutch corporate governance structure, itself. The Dutch economy is internationally focused, heavily influenced by international competition, but not well known for strong investor rights.¹ However, because of its perceived ability to balance alternative interests within the firm, the Dutch structure is considered by many as a prototype for the European Union (e.g., Financial Times, 27 July 2000). Moreover, outside Europe, the International Monetary Fund has offered to fund a project for Indonesia that has the Dutch corporate governance model as part of its focus. The Korean government has also used the Peters Committee report during deliberations on corporate governance. Finally, the United States Securities and Exchange Commission has closely followed the Dutch “experiment” in self-regulation. This suggests that the success or failure of self-regulation to promote effective corporate governance changes that enhance firm value is an important issue to regulators.

We evaluate the impact of the Peters Committee’s recommendations by analyzing the Tobin’s Q (a measure firm performance) of companies listed on the Amsterdam Exchanges over the five-year period prior to and three-year period after the release of the report. The data we study includes information on organizational form, voting rights, board characteristics, outside block-holders and debt characteristics. We also use event study techniques to assess investors’ reactions to the various events associated with changes in corporate governance practices in the Netherlands.

When domestic firms in the Netherlands reach a certain size, they are legally required to organize as a structured regime. This regime requires a supervisory board comprised of outsiders and this board takes numerous powers from shareholders. For example, the supervisory board elects the members of the management board (i.e., management) as well as electing its own members. Due to the greater separation of ownership from control, we hypothesize that the structured regime has a negative relation with firm value. The results support this hypothesis, Tobin’s Q is reduced by 0.60 (from 1.89 to 1.29) under the legally required structured regime. The voluntarily retained structured regime, which is a management choice for multi-national firms with more than fifty-percent of their employees outside the Netherlands, also exhibits a reduction in Tobin’s Q of 0.23 (from 1.89 to 1.66). Other aspects of our results are as follows. Contrary to a monitoring hypothesis, major outside and industrial shareholders negatively influence firm value in the Netherlands. Financial institutions also do not provide much in the way of a monitoring role, although there is no evidence of collusion. We also find that takeover defenses have a significant negative effect on firm value.

Giving the Peters Committee every advantage, our results suggest that the use of one takeover defense dropped and the negative impact on firm performance due to the concentration of industrial shareholdings was reduced over the pre- and post-Peters report period. Overall, however, it is difficult to discern an impact from the Peters Committee. Our event study results suggest that the market is also pessimistic about the substantive evolution of corporate governance practices in the Netherlands. Moreover, the market appears

¹ When comparing stock exchange capitalization to annual GDP (gross domestic product), the Dutch economy ranks sixth among developed countries in 1996 (Committee on Corporate Governance, 1997).

skeptical of the underlying premise of the Peters Committee, that (in the Netherlands) market forces via self-regulation are sufficient to promote changes in corporate governance that lead to increases in firm value. An exception to this general conclusion is the disciplining role of the new listings market in the post-Peters period. Post-Peters new listings exhibit uniformly significant and favorable changes in their corporate governance when compared to new listings in the pre-Peters period.

Our results for the Netherlands are a stark contrast to those from the United Kingdom's more limited initiative on self-regulation, the Cadbury Committee. Dedman, 2000, and Dahya, McConnell and Travlos, 2001, document significant changes in board structure and management characteristics following the Cadbury Committee's recommendations as well as an increase in the average performance of the firms in the Dahya et. al. sample. Stiles and Taylor, 1993, further document that significant changes took place within one year of the Cadbury Committee's report and recommendations. While the Cadbury Report is a "voluntary code," it recommends a mandatory compliance report. In 1993, the London Stock Exchange adopted the recommendations and firms were required to provide reasons if they did not fully comply with the Cadbury recommendations. Reviews by outside auditors were also required. In addition, there was the threat of litigation in the report if companies did not comply with the guidelines.

For the Peters Committee, it was transparency and accountability via a system of self-regulation that was expected to promote effective corporate governance. It recommended only one monitoring report in which firms reported the status of their compliance with the recommendations. While the Amsterdam Exchanges agreed to monitor the outcome, only 159 of the 208 firms reported and nothing happened to those who failed to report. The Peters report contained no legislation threats and the Minister of Finance made no public statements regarding non-compliance with the reporting requirement or the recommendations. Further, the Amsterdam Exchanges took no enforcement position on the report's recommendations, and the Dutch equivalent of the Securities and Exchange Commission exhibited no intention to change policy based on the report's recommendations. On balance, it's not surprising that the Peter's report had so little impact on corporate governance practices in the Netherlands.

This naturally leads to the question, what is necessary for market forces to succeed in the Netherlands? One of the Peters Committee recommendations provides the starting point. Namely, an appeal to reevaluate the numerous constraints placed on the rights of shareholders. Voting limitations should be reevaluated to increase the day-to-day accountability of the management and supervisory boards. Evidence suggests that this is more efficient than relying on the market for corporate control to improve governance and performance (Franks and Mayer, 1996, and Gugler, 1999). However, when conventional monitoring fails, takeover defenses should also be reevaluated so that the market for corporate control is allowed to function. Since supervisory and management boards effectively control an existing company's voting rights (via the structured regime and takeover defenses), it is doubtful that market forces can succeed without legal/political action

to restore the voting rights of shareholders.² The possible exception is the market for new listings with its relative absence of entrenched parties.

The next section presents a brief description of the Dutch corporate structure while section 3 presents our hypotheses pertaining to the relation between corporate governance characteristics and firm value. Section 4 describes our data, section 5 reports our results and section 6 concludes.

2. The Dutch corporate structure

2.1. Legal structure and stakeholder rights

Current Dutch company law was enacted in 1971, after a government committee (Verdam Committee) issued a proposal for company law reform in 1965 and a draft law based on the report in 1968.³ At the time, there was a perceived monitoring problem within large companies and a desire to increase management's accountability to the company's broader set of "stakeholders" (i.e., investors, employees and the general public). The law addressed these two concerns by altering the legal form of large companies via the creation of the "Structured Regime" (see below). It also broadened accountability to include the possibility of three boards, a supervisory board, a management board (technically named the board of directors) and a works council, each with defined responsibilities.

As a starting point, we consider a shareholder-controlled firm with a supervisory board and a management board. Shareholders elect members of the supervisory board and management board as well as approve the annual accounts. Dividend policy is set by management with the consent of the supervisory board and formally approved by shareholders. Shareholders also vote on such issues as mergers and acquisitions. All votes are taken at the annual General Meeting of Shareholders and physical presence is required (voting by proxy is not part of the Dutch structure).

Once a company attains a certain size, it adopts the Full "Structured Regime" which is legally required for Dutch companies with more than 100 employees, a legally installed work council and book value of shareholders' equity in excess of NLG 25 million (about US \$12.5M). Independent of the structured regime, the law requires a works council when a company has more than 100 employees. The full structured regime requires a supervisory board that takes over the following powers from shareholders: establishing (and by default the approval of) the annual accounts, the election of the management board, and the election

² In general, La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2000, are skeptical about substantive legal/political action because of the intense opposition based upon the self-interest of the parties involved and the lack of appreciation for the importance of investor rights.

³ The Verdam Committee referred to the situation as "no longer acceptable"; inadequate control of management's activities led to their propensity to misstate the firms' financial position and to violate the position of shareholder, debtholders and employees (Verdam Committee, 1965, p. 119-125). This was the major drive to restructure company law (Mertens, 1997). Slagter, 1996, documents the desire for more co-determination (*medezeggenschap*); meaning that all stakeholders interests should be represented in a fair way. The law also dealt with financial reporting requirements, the right of inquiry, a works council and the establishment of the enterprise chamber at the Amsterdam court (Zeff et al, 1992, p.171 - 181).

of the supervisory board itself (called co-optation). The supervisory board also has authority over major decisions made by the management board.

There are exceptions to the legal requirements for the full structured regime. The most prevalent exception is Dutch multinationals with more than 50% of their employees outside the Netherlands. Such companies file and obtain an exemption from the full structured regime. However, a Dutch company may then voluntarily retain the full structured regime, and Dutch multinationals typically do, even though a company is not legally required to do so.⁴

Turning to the two boards and the works council, a Dutch company operates under a two-tier management structure consisting of a Supervisory Board and Management Board. The supervisory board is “independent” of the company and comprised entirely of “outsiders.” These outsiders primarily consist of “professional managers” and can (and often do) include past members of management. With the rare exception of a retired politician, politicians and regulators are not members of a supervisory board. Board members receive a fixed payment, depending on the firm’s size, for their services and very few hold shares in the company. Thus, reputation is important for getting and keeping such positions, which probably makes supervisory board members risk averse. The law requires that the board serve the firm’s interest. However, under the structured regime, the supervisory board has very few restrictions on its ability to determine its own composition, re-appointments and other organizational matters including the management board. The law requires that the management board serve at the pleasure of the supervisory board.

The management board consists of the company’s management team and may be as small as one member, the president. The management board reports to the supervisory board and is responsible for attaining the company’s objectives, its strategy and policy, and the ensuing results. Labor is not required to have an “outside” representative on the supervisory board nor is labor a member of the management board (Company Law of 1971). The legally installed works council (noted above) has a right to relevant information and to advise on such major issues as transfers of ownership, plant closings and major investments. While this is more than a formality, the management board decides and can overrule the advice of the works council. The works council’s permission is only required for changes in social arrangements (e.g., pensions, working hours, wages, safety rules). If the council disagrees with the company’s proposals on social arrangements, the company must obtain a local judge’s decision to proceed.

2.2. Ownership and voting rights

At the time of its organization, a company has an authorized capital structure consisting of “common” shares. Once issued, the shares are registered with the company. Such

⁴ Companies required to apply the structured regime have statutes detailing the exact rights and duties of the supervisory board. If a company no longer meets these criteria (e.g., due to its international scope) and it wants to change to another organizational form, its statutes must be changed. The management board, supervisory board or the annual shareholders meeting may suggest a change in the statutes. However, the supervisory board still has most of the legal powers and shareholders usually have a limited say in this. This could be one of the reasons why a relatively large number of the largest publicly listed companies apply the structured regime on a voluntary basis.

“registered” (or ordinary) shares have voting, dividend and trading rights. When the company’s organization and size require the full structured regime, the supervisory board is granted the rights (detailed above) previously held by shareholders. Shareholders still vote on mergers and acquisitions and dividend policy under the structured regime.

A company can also have a second type of security called “Certificates.” In fact, under the structured regime, the supervisory board can request the exchange of ordinary shares for certificates.⁵ A Trust Office administers the certificates when issued or initiates a certification process where certificates are exchanged for ordinary shares. The trust office is comprised of members from the company (supervisory board and management board) and the “outside” (not from the company). While the chairman and majority of the trust office members must be outsiders, in practice, the trust office is always friendly to existing management. The trust office is given responsibility for the ordinary shares associated with the certificates. Through the process of certification, legal, but not “economic” ownership of the ordinary shares is transferred to the trust office (Slagter, 1996, p.210). Certificate holders have dividend rights, can freely trade their certificates and can attend the General Meeting of Shareholders, but they cannot vote. The trust office holds all voting rights including approval of the dividend policy.⁶ Individual shareholders do not have a formal obligation to exchange their ordinary shares when a company decides to issue certificates. However, the company may decide to de-list its ordinary shares from the exchange, leaving a shareholder with the choice of non-listed bearer shares or listed certificates (the latter being much easier to trade). The prevailing type of Certificate is the limited exchangeable certificate. Once issued, these certificates can be exchanged for ordinary shares up to a maximum percentage of 1% of outstanding equity capital. However, once exchanged for ordinary shares, holders lose trading privileges for the exchanged shares. Ordinary shares can be reconverted to certificates, but then voting rights are lost.

As takeover defenses, companies may have additional types of securities in their capital structure. The most common takeover defense is “protective preference shares.” Management can issue such shares to a friendly trust office or outside investor during a hostile takeover threat. Preference shares are sold at nominal value to the trust office or friendly investor with an obligation to pay only 25% of the amount up front. Preference shares have voting rights and are restricted to a maximum of 50% or 100% of the current outstanding nominal capital depending on the anti-takeover amendments in place. Special voting privileges are also granted through “Priority shares” which give their holders special rights in situations such as merger approval, new public offerings, charter amendments and company liquidation.

If a company wants its shares or certificates traded on the Amsterdam Exchanges, there are requirements to be met. The three most relevant for our study are minimum size, profitability and constraints on takeover defenses (Amsterdam Exchanges, 1997). For

⁵ The supervisory board’s authority has limits even under the structured regime. For example, if an individual owns 66% of the certificates (which translates into 66% of the votes), the individual can force the board to convert certificates to ordinary shares.

⁶ Under all organizational forms, dividend policy is set by management with the consent of the supervisory board.

listing, the company's book value of shareholders' equity must be greater than NLG 11 million (about US \$5M) and it must have been profitable in three of the five years prior to listing. Finally, the company can have only two of the three takeover defenses noted above (certificates, priority shares and protective preference shares).⁷

3. Corporate governance characteristics and firm value

Our main focus is organizational form and voting rights characteristics. The hypothesized relations with firm value are detailed below. To isolate the impact of these variables we must also recognize the monitoring role of major outside shareholders, the debt market and the effects of cross-listing on United States (US) and United Kingdom (UK) exchanges. These hypothesized relationships are also detailed below. Data from the 1992-1999 period (covering both the pre and post-Peters Committee period) are used to examine these relationships.

3.1 Organizational form and voting rights

Firm value is adversely affected by constraints placed on shareholders' voting rights either permanently or by management's attempt to mitigate the market for corporate control (e.g., Stulz, 1988, Malatesta and Walking, 1988). In our context, the legally required structured regime is used to directly limit shareholder influence. Similarly, the voluntarily retained structured regime directly limits shareholder rights. However, the voluntarily retained structured regime is essentially a supervisory and management board choice. Other explicit constraints on shareholder influence occur through the use of certificates, and preference and priority shares, which as takeover defenses mitigate the market for corporate control.

Major outside shareholders are hypothesized to constrain management's (and under the structured regime, the supervisory board's) deviation from value-maximizing behavior (e.g., Agrawal and Knoeber, 1996, Cho, 1998, Holderness and Sheehan, 1988, La Porta, Lopez-de-Silanes and Shleifer, 1999, and Morck, Shleifer and Vishny, 1988). In our tests, we consider the influence of a major outside shareholder owning more than 5% of the shares. We also investigate the influence of major shareholdings by financial institutions (i.e., banks, insurance companies, pension funds and institutional venture capitalists) and by industrial firms. Financial institutions can have a positive or negative impact on firm value (Pound, 1988). The effect will be positive if they are more efficient monitors than atomistic shareholders. It will be negative if they collude with management. While McConnell and Servaes (1990) find a positive relationship in the U.S., in the Netherlands financial institutions are known for their passive attitude.⁸ With regard to industrial firm holdings, the

⁷ From 1982 to 1994, there was a second tier market (the official parallel market: "De Officiële Parallelmarkt") for firms with at least NLG 5 million of book value of equity. Beginning in 1997, a second tier market was again initiated (the new market: "Euro.NM") for firms with a minimum of Euros 1.5 million of book value of equity but without a three out five year track record of profitability. We include firms listed on these markets in our sample.

⁸ Cantrijn and Vente, 1997, sent questionnaires to Dutch institutional investors. The responses showed that the investors perceive liquidity to be more important than control. Exercising supervision on the firm's investment policies and the remuneration are considered to be tasks of the institutions by only 20% and 33% of the respondents, respectively.

effect may be positive due to improved monitoring or negative due to collusion and/or attempts to influence decisions for the benefit of their own company.

Two final factors related to monitoring and firm value are debt markets and cross-exchange listing. Debt markets can discipline management's deviation from value-maximizing behavior (Jensen and Meckling, 1976). Our tests use leverage and representation on the supervisory board by financial firms (i.e., interlocking directorates) as measures of this influence. We also consider separate variables for bank debt and interlocking directorates with banks because we expect the role of leverage to be more pronounced for this latter type of debt.

When companies are listed on exchanges outside the Netherlands, it is important to recognize the disciplining aspects this can have. For example, UK and US stock exchanges require more company and compensation disclosure than the Amsterdam Exchanges. Our tests investigate a hypothesized positive impact of cross-listing on UK and/or US stock exchanges on the value of Dutch firms (Lins, Strickland and Zenner, 1999).

Our empirical tests study the impact of the above factors on Tobin's Q. Tobin's Q is our measure of firm value and performance (Lindenberg and Ross, 1981) and it is measured as the market value of the firm divided by the replacement cost of its assets.

3.2 The Peters Committee

The Peters Committee issued its preliminary conclusions in October 1996 and its final recommendations (expected to be the same) in June 1997. The committee's report made a major appeal to re-evaluate the numerous constraints placed on the rights of shareholders. The committee spoke specifically to the accountability of the supervisory board (and management board) under the structured regime. However, they did not address the inherent problems of the structured regime. Rather, the committee addressed how to make the structured regime relatively more accountable to shareholders without changing the fundamental rights of shareholders. Clearly, this is likely to be a difficult task, given shareholders have very few rights under the full structured regime.

The committee's monitoring report of December 1998 contained all of the corporate governance information that was collected on the companies for 1997 by the committee (one-year after the release of the committee's formal report). We collected an additional two years of data. Using three years of data from the post-Peters period (i.e., 1997-1999), we conduct tests to assess the impact of the committee's recommendations on the corporate governance variables outlined above and their relationship with Tobin's Q. We use the results from the pre-Peters period as a benchmark. As a means to further assess the impact of the Peters Committee's recommendations, we also compare the governance characteristics of new listings during the pre-Peters period to those during the post-Peters period to see if any improvements in shareholder rights are observed.

4. Sample, variable definitions, and empirical tests

4.1. Sample

Our sample contains all non-financial firms listed on the Amsterdam Exchanges from 1992-1999. We exclude financial firms because of their distinct regulatory structure. Our starting point is the yearly overviews of all securities listed at the Amsterdam Exchanges (Gids bij de Officiële Prijscoûrant van de Amsterdamse Effectenbeurs). There are 208 firms with a listing for at least one calendar year in the 1992-1999 period. Three firms are excluded because their annual reports are not available or the firm had incomparable year-ends. For the remaining 205 firms, we collect data beginning in 1992 or the year following the year of the firm's listing. We collect data through 1999 or the full calendar year preceding the last year of the firm's listing. The data set consists of 205 firms with 1169 firm-year observations; the number of observations per year for the 1992-1999 period is 145, 143, 141, 138, 145, 146, 152, and 159, respectively.

Since our focus is the Peters Committee and its implications, we next exclude 26 firms (73 firm-year observations) that were only listed during the pre-Peters period (1992-1996) and 39 firms (61 firm-year observations) that were only listed during the post-Peters period (1997-1999). Our primary sample consists of 140 firms with 1035 firm-year observations that are listed in both the pre and post-Peters period.

Financial data, including bank debt and board compensation, are obtained from a data set of Statistics Netherlands (Centraal Bureau voor de Statistiek) and the Review and Analysis of Companies in Holland (REACH) dataset. We use the firms' annual reports to identify the board members and to complete annual report information missing from Statistics Netherlands and REACH. Ownership structure is obtained from the leading Dutch financial daily newspaper (Het Financieele Dagblad) that annually publishes a list of exchange-listed firms and their stakeholders, according to the notifications for The Law on Disclosure of Shareholdings (Wet Melding Zeggenschap). Takeover defenses and cross-listings are from the yearly overviews of all securities listed at the Amsterdam Exchanges (Gids bij de Officiële Prijscoûrant van de Amsterdamse Effectenbeurs). Data on structured regimes is obtained from the Monitoring Corporate Governance in Nederland (1998) and Honee, Timmerman and Nethe (2000) that provide structured regime classifications for 1997 and 1999, respectively. We use the firm's annual report for 1992 to classify the firms. The annual reports allowed us to investigate whether the supervisory board established (vaststellen) the annual accounts and whether the firms met the criteria for the structured regime. If we found a difference between 1992, 1997 or 1999, we investigated all annual reports over 1992-1999. In cases of inconsistency, we contacted the firm.

4.2. Variable definitions and summary statistics

Table 1a lists the variables used in our empirical tests along with the abbreviations used to refer to them in the tables and the text. The table also contains simple descriptive statistics. Table 1b presents descriptive statistics for three sub-samples of interest, no structured regime, legally required structured regime and voluntarily retained structured regime.

[Insert Table 1a and 1b Here]

The dependent variable, Tobin's Q (TQ), is measured as the book value of liabilities plus the market value of equity divided by the replacement cost of the firm's assets (see Perfect and Wiles, 1994).⁹

Appearing next in Table 1a are control variables. These variables are firm size measured as the book value of total assets (BVTA), growth measured as the log of one plus (Growth) the three-year historical growth rate of the firm's book value of assets, and leverage (LEV) measured as long-term debt divided by book value of assets. Based on prior research, we expect the coefficient on BVTA to be negative and those on GROWTH and LEV to be positive.¹⁰

Our first independent variable deals with cross-listing. This variable, XLIST, takes on the value 1 (0) if the firm is (not) listed on an exchange in the UK and/or US. The organizational form of the sample firms is addressed by the next two variables. SR takes on a value of 1 (0) if the firm is (not) a legally required structured regime while SR_V takes on a value of 1 (0) if the firm has (not) voluntarily retained the structured regime.

We capture limitations on shareholder rights by using PRIO which takes on a value of 1 (0) in the presence (absence) of priority shares, PREF which is set to 1 (0) if the company can (not) issue and place protective preference shares, and CERT which is set to 1 (0) when the company has (not) issued certificates.

The role of the debt market as a disciplining force first focuses on financial institutions (banks, insurance companies, pension funds and institutional venture capitalists). In particular, we consider LEV (leverage) and FIN_ILOCK, which is the number of interlocking directorates with financial institutions. We next focus on banks by using BANK_D measured as firm's bank debt (long-term bank debt divided by total assets) and BANK_ILOCK, which is the number of bank interlocking directorates on the supervisory board. Both measures of interlocking directorates reflect the number of relationships (interlocks) with banks or financial institutions, with bank interlocks being a subset of financial institutional interlocks. Due to data availability we do not have a complete set of BANK_D observations.

The five final independent variables capture the concentration and identity of outside shareholders as well as controlling for insider holdings. OSIDE_EQ is the stake of the

⁹ In the Netherlands, firms either present replacement values or historical costs in their annual reports. If replacement values are presented no adjustment is required. If historical costs are presented, we have to adjust the value to estimate replacement value. To do this, we assume that in the base year the replacement value equals the historical cost. For each subsequent year, we adjust this replacement value by adding new investments and corrections for the growth in capital good prices and subtracting depreciation. Growth in capital good prices is based upon the price index of investment goods, as provided by the Statistics Netherlands. The replacement value of the assets is the book value of assets adjusted for these replacement value changes.

¹⁰ A positive coefficient for leverage confirms the disciplinary role of leverage, as found in McConnell and Servaes, 1990. De Jong and Veld, 2001, documented the absence of this role of leverage in the Netherlands due to managerial entrenchment. This result is consistent with the "debt avoidance" hypothesis articulated by Zwiebel, 1996.

largest outside block-holder owning 5% or more of the shares,¹¹ INSTI_EQ is the sum of all institutional block-holdings (banks, insurance companies, pension funds and institutional venture capitalists) and BANK_EQ is the sum of all bank block-holdings. INDUS_EQ is the sum of the block-holdings by industrial firms. To isolate the influence of outside shareholders, we must control for the sum of the block-holdings by insiders, supervisory and management board members (INSIDE_EQ).

4.3. Regression model

The following regression model is used to test the relationships developed above:

$$\text{Tobin}Q = f(\text{Organizational Form, Limits on Voting Rights, Debt Market, Outside Block-holders, and Control Variables}).$$

The specific variables designed to capture Organizational Form, Limits on Voting Rights, Debt Market, and Outside Block-holders were discussed above. All regression t-statistics are based on White's heteroskedastic corrected standard errors. Estimation of the above model is based on OLS and we incorporate fixed-effects for each year and for each firm.¹²

5. Results

Our results are organized as follows. We estimate regressions to test the relationships hypothesized in section 3. Next, we isolate the impact the Peters Committee recommendations had on the corporate governance variables and the relation between these variables and Tobin's Q (section 5.2). Lastly, using event study techniques, we evaluate the impact of various corporate governance-related events and announcements related to the Peters Committee, Dutch government and European Union during the 1996-1999 period (section 5.3).

5.1. Regression results for the 1992-1999 period (pre and post-Peters Committee)

Our initial regression results are based on the 1992-1999 period. The regressions we estimate are variations of the model described above and the results are reported in Tables 2 and 3.

[Insert Table 2 Here]

Referring to model 1, consistent with prior research the coefficient on firm size is negative while that on growth is positive. The coefficient on the remaining control variable, leverage,

¹¹ Because the Dutch Law on Disclosure of Shareholdings requires the notification of shareholdings when thresholds of 5%, 10%, 25%, 50%, or 66,7% are passed, we do not have information for shareholdings below 5%. The percentage of firm-year observations with insider block-holdings in our data set is 16.7%. This is not a high percentage, but some block-holdings are over 80% and thus significantly influence the average.

¹² An obvious aspect of panel data, like we use in this study, is that over time there are likely to be unobserved factors affecting the behavior of the dependent variable that cannot be identified or measured and included in the model. A common approach to control for such factors is to incorporate firm-specific intercepts into the regression model. The resulting fixed-effects regression assumes that the impact of the unobserved factors is constant through time for a given firm but different across firms. An analogous argument is used to motivate the year-specific intercepts.

is insignificant.¹³ The disciplining aspects of increased disclosure and the resulting increased scrutiny is confirmed by the positive and significant coefficient on the cross-listing (UK and/or US) variable.

Models (2) and (3) in Table 2 address the impact of organizational form on Tobin's Q. Consistent with our most important hypothesis, the legally required structured regime has a significant negative impact on Tobin's Q. After controlling for the other shareholder rights variables (see model 3), the structured regime reduces Tobin's Q by 0.555. Similar results are found for firms that voluntarily retain the structured regime, where Tobin's Q is reduced by 0.639. It is important to view the effect of the required structure regime as distinct from the voluntarily retained structure regime because the former is not a managerial choice while that latter is.

The impact of takeover defenses on Tobin's Q is also addressed in model (3). Consistent with our predictions, the coefficients for priority shares, preference shares and certificates are negative and significant. As described in section 3, certificates have a direct affect on shareholder rights, while preference shares represent potential protection against a takeover. Priority shares deal with specific circumstances that constrain shareholder rights.

The regressions reported in Table 3 analyze ownership structure and relations with financial institutions. In model (1), we focus on the monitoring role of the major block-holders. The coefficients for the major outside shareholder, industrial block-holders and financial institutions are negative and significant. A large outside or industrial block-holder can force management to undertake activities that benefit the block-holder at the expense of other shareholders. For example, an industrial firm may act to reduce the competition between the companies or influence the prices at which transactions occur between the companies. The financial institutional result is consistent with both the collusion story of Pound (1988) and the passive attitude of Dutch financial institutions. (Later in this section, we provide additional evidence on the collusion interpretation). Finally, as expected, the coefficient on insider holdings is positive and significant.

[Insert Table 3 Here]

Model (2) in Table 3 focuses on financial institutions. Relative to model (1), we include the same ownership variables and also add interlocking directorates with financial institutions. The financial institutions that drive institutional holdings and interlocking directorates are essentially banks, insurance companies, pension funds and large venture capitalists. The coefficient for interlocking directorates is negative and significant, which reinforces the effect we previously documented for financial institutions on firm value.

Banks are important financial institutions in the Netherlands. Similar to other institutions, banks are block-holders and have interlocking directorates with firms. In addition, banks provide debt to firms. We investigate the influence of banks by including block-holdings by

¹³ The insignificant result differs from the McConnell and Servaes, 1990, result that documents a positive influence. Our result is explained by de Jong and Veld, 2001, who found for a sample of debt and equity issues that Dutch firms avoid leverage when its disciplinary role is most valuable. Our insignificant effect is consistent with the absence of leverage as a disciplinary factor.

banks, interlocks with banks and long-term bank debt divided by total debt.¹⁴ For this analysis we have 709 observations (due to missing observations for bank debt or firms with zero debt). The fixed-effect regression results (not tabled) show a negative coefficient for bank debt, -0.191 , significant at the 5% level. Due to the reduced number of observations, the other variables become insignificant. Without the firm fixed-effects (results not tabled), the coefficient for bank debt remains significantly negative (at 1% level). Bank block-holdings are significantly negative at the 5% level and interlocks are negative at the 1% level. The disciplinary role of bank debt is absent, which is consistent with the previously cited management entrenchment argument of de Jong and Veld, 2001, and Zwiebel, 1996.

We next address the relationship between ownership structure and takeover defenses. We know that ownership concentration may be a takeover defense as well as provide monitoring. Furthermore, the block-holdings of the largest outside equity-holder and the takeover defenses used (defined as the number of takeover defenses from certificates, priority and preference shares) are negatively correlated (-0.254). However, when we interact these two measures (regressions not tabled), the coefficient is insignificant. The coefficient for the takeover defenses used is negative and significant, as expected, since individually all three takeover defenses were already negative. Thus, no new information is obtained from viewing ownership concentration as a takeover defense.

We investigated whether institutional investors “collude” with entrenched management and supervisory board members by focusing on an important situation where this could occur, takeovers. Preference shares are frequently placed with friendly institutional investors during takeover attempts. Therefore, we expect that ownership by institutional investors is more likely to induce entrenchment in firms that can issue preference shares. Specifically, we consider preference shares and its interaction with institutional holdings. While the coefficient for the interaction term is significant and positive, it is very small. It is too small to compensate for the significant and negative effects of preference shares and institutional holdings. Thus, there is no indirect evidence of collusion between the boards and institutions in potential takeover situations.

5.1.1. Summary

Our major result addresses the structured regime. For domestic Dutch firms, the legally required structured regime has a negative impact on Tobin’s Q. A similar finding exists for firms that voluntarily retained the structured regime. However, the voluntarily retained structured regime is a management choice because firms are allowed to change organizational form if fifty percent or more of their employees are outside the country. Increases in Tobin’s Q due to international competition and/or increased disclosure are also apparent when firms cross-list their securities with UK and/or US stock exchanges. Major outside and industrial shareholders negatively influence firm value, which is inconsistent with their monitoring role. Financial institutions also fail in their monitoring role, although there is no indirect evidence of collusion. Finally, takeover defenses have a negative effect on firm value and this effect is significant.

¹⁴ We remove INSTI_EQ and FIN_ILK, because these variables are by definition highly correlated with bank equity and bank interlocks, respectively.

Given the importance of the supervisory board and its influence over the management board under the structured regime, and operations of the firm in general, a logical question to ask is whether our results are affected by the omission of supervisory board and management board characteristics. For the supervisory board, we collected data on its absolute size, its size relative to the management board, its shareholdings (previously included in selected regressions as part of insider block-holdings), compensation of its members, and the interlocking directorates the firm's board members have with other firms. We collected analogous data for the management board. Including these variables in the regressions with specific year-effects does not alter the basic tenets of our results (due to missing compensation observations, we cannot implement the firm fixed-effects regression).¹⁵

As an alternative to a fixed-effects model, we also estimated regressions where firm-specific averages (eight years of data) were used to measure the dependent and independent variables. While the significance of the coefficients was altered due to the reduction in sample size, the signs of the coefficients are unchanged. We also ran the regressions on a year-by-year basis, none of the significant coefficients changed signs when compared to the tabled regressions.

5.2. Univariate and regression results for 1997-1999 period (post-Peters Committee)

5.2.1. Univariate tests

To gain an overall perspective on the impact of the Peters Committee, we first compare corporate governance characteristics, pre and post-Peters Committee. It could be that entrenched management has the capability to forestall changes in a firm's corporate governance. One way to investigate this is to perform the same comparison as before but focus on firms that were listed for the entire sample period, 1992-1999. It could also be the case that change manifests itself not through existing firms but through the market for new listings. For new listings, we compare governance characteristics pre and post-Peters. Finally, to insure that our results are not sensitive to the characteristics of the firms that were de-listed, we compare governance characteristics of the de-listed firms pre and post-Peters.

For the firm characteristics and sample detailed in Table 1 (and supervisory and management board characteristics), we compared their values in 1992-1996 to those in 1997-1999 using univariate t-tests. The results show significant increases for Tobin's Q, book value of assets, growth, cross-listings on US/UK exchanges and voluntarily retained structure regimes. Significant decreases were noted in the holdings of the largest outside block-holder and the use of priority shares.¹⁶ We also compared firm characteristics in 1996 to those in 1997 (results not tabled). The only significant change was growth, which increased. The results for the 104 firms that were listed for the entire period, 1992-1999, are similar. There is a significant increase in Tobin's Q, growth and voluntarily retained structured regimes while there is a significant decrease in the use of priority shares.

[Insert Table 4]

¹⁵ The results are also robust to alternative specifications of the dependent variable. The correlation between Tobin's Q and the ratio of market to the book value of total assets is 0.998. The correlation between Tobin's Q and the ratio of market to the book value of equity is 0.545.

¹⁶ For supervisory and management board comparisons, the only significant change are board compensation, which is not inflation corrected and increased.

We also compared new listings in the pre-Peters period (21 firms) to those in the post-Peters period (39 firms). Though the sample size is small, there are substantive differences in the characteristics of these firms. The post-Peters new listings have a significantly lower number of takeover defenses and interlocking directorates with financial institutions and banks, lower equity holdings by financial institutions and banks, a lower proportion of voluntarily retained structured regimes (though no difference in the legally required structure regime), more insider equity holdings, and lower holdings by the largest outside block-holder. On balance, the new listings market appears to be a disciplinary force in the post-Peters period.

Finally, we compared the 26 firms that were de-listed in the pre-Peters period to the 20 firms that were de-listed in the post-Peters period. There were no significant differences in corporate governance characteristics between the two sets of firms.

5.2.2. Regression analysis

In Table 5, we perform two regressions, one for the 1992-1999 period (both the pre and post-Peters periods) and one comparing the pre- and post-Peters periods. In the first regression, we include all significant variables from Tables 2 and 3. These variables encompass the variables that changed significantly from the pre to the post-Peters period. The results are the same as those in Tables 2 and 3.

[Insert Table 5 Here]

To test for changes between 1992-1996 and 1997-1999, in the second regression we interact the governance variables with a dummy variable that has a value of 1 in 1997-1999, and 0 otherwise. The left-hand column of the regression in Table 5 contains the coefficients for the 1992-1996 period while the right-hand column contains the coefficients for the variables interacted with the 1997-1999 dummy variable. The results in the right-hand column document that the coefficient for the required structure regime is significantly negative, which implies that the already negative impact of this variable on firm value became more pronounced in the 1997-1999 period. The coefficients for certificates, the major outside block-holder and interlocking directorates with financial institutions become negative and significant in the post-Peters period. The coefficient for industrial holdings is significantly positive, which implies that while the overall influence of industrial holdings is still negative, its influence was reduced in the post-Peters period.

Giving the Peters Committee every advantage, our results suggest that the use of priority shares (per the univariate analysis) dropped and the adverse effects of industrial holdings (per the regressions) was reduced for firms that spanned the pre and post-Peters periods. The disciplining role of the new listings market changes for the better in the post-Peters period.

5.3 Stock price reactions to corporate governance events

5.3.1. Background

As the above univariate analysis and regressions using Tobin's Q illustrate, it is difficult to identify, at least in the short-run, an impact from the recommendations contained in the Peters Committee report. However, the Committee did not operate in isolation, as there were additional Dutch government and European Union events with the potential to influence a

firm's corporate governance structure and hence its value. In this section, we use "event study" techniques to assess investors' reactions to the various events associated with the evolution of corporate governance practices in the Netherlands. In a sense, the event study analysis provides a direct market test of the premise underlying the Peters Committee, namely that for firms already listed on the exchanges, market forces via self-regulation are sufficient to promote changes in corporate governance that enhance shareholder value.

Appendix A lists eleven events associated with corporate governance at the Committee, Dutch government and European Union level. Our data sources are the Dutch equivalent of the Financial Times (Het Financieele Dagblad), the preliminary and final version of the first report of the Peters Committee and the monitoring report of the Committee.

5.3.2. Event study analysis

The "event study" method we use is an application of Zellner's (1962) Seemingly-Unrelated-Regression (SUR) methodology (see Schipper and Thompson 1983 and 1985 for a detailed discussion). The returns-generating process of each firm is:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \sum_{k=1}^{11} \gamma_{ik} D_{ikt} + \epsilon_{it},$$

where R_{it} is the return to security i on day t , R_{mt} is the return to the market index on day t , D_{ikt} is a dummy variable that takes on a value of one on the day before and day of the announcement of event k ($k=1, 2, \dots, 11$) and zero on all other days, α_i is the model intercept of firm i , β_i is the slope coefficient or systematic risk of firm i , γ_{ik} is the abnormal return of firm i associated with event k , and ϵ_{it} is a random disturbance. For each firm the disturbances are assumed independent and identically distributed over time, but may be heteroscedastic and correlated in cross-section. The firm-specific parameters of the model are estimated using daily stock return data from January 1, 1996 to December 31, 1999 (1,045 trading days). The market index used is a value-weighted index of all firms traded on the Amsterdam Exchange (results using alternative market indices yield similar results). The availability of daily stock price data for the January 1, 1996 to December 31, 1999 period reduces our sample to 114 firms for this analysis.

The test of interest is the significance of the mean abnormal return of the sample firms at the time of each event. In particular,

$$H_0 : \sum_{i=1}^N \gamma_{ik} = 0, \quad (k = 1, 2, \dots, 11),$$

where k denotes events and N denotes the number of firms. Since the sum is a scalar multiple of the cross-sectional average, this test is equivalent to a test on the cross-sectional average abnormal return. In addition to using this hypothesis to assess the sample-wide price reaction to each event, we also use it to assess the abnormal returns for particular sub-samples of firms (e.g., the mean abnormal return of firms with the legally required structured regime). The significance of the sample (and sub-sample) mean abnormal return to each event is assessed using the F-test outlined in Schipper and Thompson, 1985.

5.3.3. Event study results

Of the eleven events listed in Appendix A, only event 8 (the release of the Peters Committee monitoring report and the related corporate governance information it contained about the companies) is associated with a significant stock price reaction. Consequently, to save space, Table 6 only reports results for this event.

[Insert Table 6 Here]

The results reported in Table 6 document that the sample-wide mean abnormal return to event 8 is -0.7% with an F-statistic of 6.80 (p-value = 0.0001). The rejection of H_0 suggests a pervasive overall negative reaction to this event, which is consistent with the finding that 77% of the sample firms exhibit a negative stock price reaction to this event. One interpretation of these results is that, based on the negative corporate governance information released with the report, the market was disappointed with the firms' lack of progress in their governance practices. Based on personal discussions with Peters Committee staff members, this interpretation is consistent with their view that Peters himself, built up market expectations about substantive change that was not realized given the data that was released. Another interpretation could be that this is just new information to the market.

Given the overall negative impact of event 8, we next address cross-sectional variation in the reaction. Our starting point is voting rights. Shareholders must have them for self-regulation to be a viable monitoring mechanism. Without them, shareholders have no way to effectively monitor the behavior of the supervisory board and management, nor can they initiate change. To evaluate this hypothesis, we compare the mean abnormal returns associated with event 8 for various sub-samples. The sub-samples are firms with and without: a structured regime, preference shares, certificates, priority shares, and cross-listings on a UK or US exchange.¹⁷ The sub-sample results are presented in Table 6 where we report the mean abnormal return for each sub-sample along with F-statistics for the null hypothesis that the sub-sample mean abnormal return is zero and an F-statistic comparing the mean abnormal return of the various sub-samples.

Focusing first on the structured regime, the mean abnormal return for firms with a structured regime is -0.9%, compared to -0.6% for firms without and -0.2% for firms with a voluntary structured regime. Only the return of -0.9% for the required structured regime is significantly different from zero. Of note however, is that the return for the required structure regime sub-sample is significantly more negative when compared to the no structured regime and the voluntary structured regime sub-samples. This is further evidence that the required structure regime has detrimental effects on firm value.

The results for cross-listing reveal that firms that are (are not) cross-listed exhibit a mean abnormal return of 0.5% (-1.0%). The -1.0% return for the non-cross-listed firms is significantly different from zero and significantly less than the 0.5% return for the cross-listed sub-sample. This provides evidence that the monitoring effect of cross-listing has a beneficial effect on firm value.

¹⁷ Cross-listing on the UK or US stock exchanges does not directly translate into voting rights. However, there is additional disclosure required with the cross-listing and this increases accountability. Thus, the indirect benefits could be better pricing but not necessarily higher firm value.

Turning to priority shares, we find that firms with (without) such shares have a mean abnormal return of -0.3% (-1.0%). Firms without priority shares experienced a more significant negative stock price reaction than firms with priority shares. The results for the remaining two constraints on voting rights are not as sharp. In particular, the mean abnormal return for firms with (without) certificates is -0.9% (-0.6%), but they are not significantly different from one another. Similar results are observed for firms with and without preference shares.

On balance, the market's reaction to the release of the monitoring report (event 8) is one of disappointment about substantive change through self-regulation. Furthermore, the market appears to differentiate its reaction across firms in a manner dependent upon the firm's existing organizational structure and exchange listing, the presence of the legally required structure regime and cross-listing of the firms shares. Our results for certificates, priority and preference shares are not definitive. The other ten events, which generated no significant investor reaction, dealt mainly with the other activities of the Peters' Committee including the release of its recommendations, private and government proposals on proxy voting, and the Minister of Finance's reply to the monitoring report. Overall, the market is skeptical about the substantive evolution of corporate governance practices in the Netherlands through self-regulation.

6. Conclusions

The purpose of this paper is to gather evidence on the ability of market forces to promote investor interests via self-regulation. It is of interest to determine when market forces are sufficient to monitor the managers of capital vis-à-vis when additional legal/political actions are required to write and enforce contracts between these managers and owners of the capital.

The Netherlands provides an ideal setting to investigate the role of self-regulation. For self-regulation to have a chance to succeed, shareholders must have voting rights. Under the "pure" form of the structured regime, shareholders in the Netherlands lose their ability to directly monitor the supervisory and management boards. However, the market for corporate control still functions since shareholders vote on mergers and acquisitions. With shareholder voting rights restricted permanently or via takeover defenses, shareholders lose their ability to initiate change through the market for corporate control as well as through conventional monitoring mechanisms. These points provide the basis for our findings associated with the Peters Committee and the market's skepticism about the evolution of corporate governance. These points also cast doubt on the Dutch corporate governance model as a prototype to be emulated by others.

It is often argued that the market provides management with the incentives to change because of the penalty it assesses firms with poor governance and hence performance. However, some preliminary analysis (not tabled), comparing annual (market adjusted) returns, suggests that the sub-sample of structured regime firms underperforms the sub-sample of voluntarily retained and non-structured regime firms by 55% annually. This argument is predicated on

the assumption that there are mechanisms in place that can facilitate change. With the supervisory and management boards already controlling the voting rights, it is doubtful that this change will take place without legal/political action to restore voting rights to shareholders. It is equally doubtful whether the prospects for change are any different for existing firms in the long run without voting rights for shareholders (one of the major recommendations of the Peters Committee). A possible exception is the disciplining role of the market for new listings; here, there are relatively fewer entrenched parties who control voting rights.

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Appendix A

Key events related to Dutch corporate governance practices

The data sources are Het Financieele Dagblad, the preliminary and final report of the Peters Committee, and the monitoring report that assessed the impact of the final report of the Peters Committee (one-year after its release).

Event 1: On February 13, 1996 Van Ittersum, chairman of the Amsterdam Stock Exchanges, announces a committee for code of best practice.

Event 2: On February 28, 1996 the Ministries of Finance, Law and Economic Affairs and VvdE (shareholders) and VEUO (exchange-listed firms) agree on an arrangement over takeover defenses.

Event 3: On March 15, 1996 there is an announcement of the members of Committee Corporate Governance. Given Dutch consensus approach, all the parties are represented on committee.

Event 4: On October 28, 1996, the publication of the preliminary conclusions of the Peters Committee took place.

Event 5: On June 25, 1997, the publication of the final conclusions of the Peters Committee took place. Conclusions are similar to the preliminary report.

Event 6: On April 18, 1998, an announcement of a Communication channel for shareholders. A small group of firms from a private sector initiate or experiment in “voting by proxy” using a system designed and owned by the participating firms.

Event 7: On May 19, 1998, announcement of participating firms in the Communication channel for shareholders.

Event 8: On December 3, 1998 the Peters Committee monitoring report is presented and published. This is the major event as it contains all the corporate governance information that was collected by the monitoring committee on the companies. Jaap Peters presented the report to the Minister of Finance. During this meeting the Minister of Finance announces that legislation on proxy voting will be proposed to the cabinet of ministers. The proposed legislation is independent of the private sector initiative.

Event 9 On April 29, 1999, the proposal to introduce proxy voting is approved by ‘Minis terraad’, which means it is approved by the “cabinet” of ministers and will be sent to parliament for consideration.

Event 10: On May 10, 1999 Minister of Finance replies to Peters in a ‘nota’ to the ‘Tweede Kamer’ (parliament): firms should provide more information on compensation and stock transaction by managers; proxy voting should be possible and limitations on voting power should be banned. However, no specific proposals are mentioned and the article described the reply as a ‘wensenlijstje’ (list of wishes).

Event 11: On June 23, 1999, a new European Union Directive is released which states that majority shareholders have to make a bid on the remaining shares of the company. Certificates and preference shares are allowed in a firm’s capital structure.

Table 1a

Variable definitions and descriptive statistics for a sample of 140 Dutch firms over the 1992 to 1999 period.
(Total sample size is 1,035 observations, 806 observations for bank debt.)

Variable	Description	Variable Name	Mean	Minimum	Maximum	Std.Dev.
Tobin's Q	Market value of total assets/replacement value of total assets	TQ	1.576	0.524	23.323	1.472
Total assets	Book value of total assets in 1,000,000 NLG	BVTA	3133.	3.79	109863.	9961.
Growth	Three-year historical growth of total assets	GROWTH	0.428	-0.760	9.810	0.930
Leverage	Long-term debt/book value of total assets	LEV	0.136	0	0.660	0.123
Listing abroad	Dummy variable with value of 1 for listing on a stock exchange in the UK and/or US, 0 otherwise	XLIST	0.160	0	1	0.360
Structured regime	Dummy variable with value of 1 for presence of legally required structural regime, 0 otherwise	SR	0.473	0	1	0.500
Voluntary structured regime	Dummy variable with value of 1 for presence of voluntarily retained structural regime, 0 otherwise	SR_V	0.132	0	1	0.339
Priority shares	Dummy variable with value of 1 for presence of priority shares, 0 otherwise	PRIO	0.390	0	1	0.490
Preference shares	Dummy variable with value of 1 for presence of preference share option, 0 otherwise	PREF	0.604	0	1	0.489
Certificates	Dummy variable with value of 1 for presence of certificates, 0 otherwise	CERT	0.370	0	1	0.480
Interlocks with banks	The number of interlocking directorates with banks	BANK_ILOCK	0.780	0	8	1.160
Interlocks with financials	The number of interlocks with financial institutions	FIN_ILOCK	1.080	1	9	1.560
Largest blockholder	The stake of the largest blockholder	OSIDE_EQ	22.10	0.0	94.00	19.35
Financial institution blockholdings	The stake of block-holdings by banks, insurance companies, pension funds and institutionalized venture capitalists	INSTI_EQ	12.68	0.0	90.73	14.95
Bank blockholdings	The stake of block-holdings by banks	BANK_EQ	7.66	0.0	67.35	10.41
Industrial blockholdings	The stake of industrial blockholders	INDUS_EQ	10.22	0.0	93.17	20.32
Insider blockholdings	The stake of supervisory and management board blockholdings	INSIDE_EQ	6.16	0.0	97.05	17.15
Bank debt	Long-term bank debt/book value of total assets	BANK_D	0.072	0.0	0.44	0.089

Table 1b

Select descriptive statistics for sub-samples with no structured regime, a legally required structured regime and a voluntarily retained structured regime.

Variable	No Structured Regime N=408			Legally Required Structured Regime N=490			Voluntarily Retained Structured Regime N=137		
	Mean	Minimum	Maximum	Mean	Minimum	Maximum	Mean	Minimum	Maximum
Tobin's Q	1.890	0.550	23.323	1.290	0.524	9.516	1.660	0.848	6.347
Total assets	5200	3.790	109863	1275	33	19205	3627	9	31481
Growth	0.490	-0.760	9.810	0.329	-0.630	8.510	0.596	-0.410	9.090
Leverage	0.111	0	0.460	0.144	0	0.660	0.180	0	0.530
Listing abroad	0.190	0	1	0.100	0	1	0.250	0	1
Priority shares	0.48	0	1	0.35	0	1	0.25	0	1
Preference shares	0.42	0	1	0.75	0	1	0.61	0	1
Certificates	0.28	0	1	0.48	0	1	0.26	0	1
Interlocks with banks	0.52	0	5	0.87	0	8	1.24	0	5
Interlocks with financials	0.80	0	8	1.14	0	9	1.69	0	7
Largest blockholder	25.33	0	94.00	20.36	0	82.62	18.71	0	67.35
Financial institution blockholdings	7.99	0	90.73	16.81	0	90.73	11.84	0	73.17
Bank blockholdings	5.43	0	58.28	9.26	0	49.99	8.61	0	67.35
Industrial blockholdings	11.56	0	93.17	9.89	0	93.17	7.41	0	62.00
Insider blockholdings	11.08	0	97.05	3.11	0	68.30	2.41	0	46.93
Bank debt	0.054	0	0.380	0.079	0	0.440	0.102	0	0.340

Table 2

Results of firm fixed-effects regressions focusing on shareholder rights variables. The sample consists of 1035 observations for 140 firms over the 1992 to 1999 period. The dependent variable is Tobin's Q (TQ) and all other variable definitions appear in Table 1a. The regressions contain year dummies that are shown and firm dummies that are not shown. *t*-values are in parentheses and significant coefficients are indicated by * (10% level), ** (5% level), and *** (1% level) based on a one-tailed test.

	Predicted Sign	Model (1)		Model (2)		Model (3)	
Constant		0.937	(5.28)***	1.145	(5.61)***	1.861	(4.45)***
Y93		0.281	(2.95)***	0.300	(3.12)***	0.306	(3.12)***
Y94		0.339	(3.64)***	0.391	(3.99)***	0.399	(4.02)***
Y95		0.295	(3.17)***	0.348	(3.63)***	0.332	(3.43)***
Y96		0.406	(3.42)***	0.477	(4.14)***	0.424	(3.66)***
Y97		0.504	(3.74)***	0.600	(4.43)***	0.539	(3.95)***
Y98		0.389	(2.94)***	0.487	(3.94)***	0.415	(3.14)***
Y99		0.431	(2.38)***	0.535	(2.76)***	0.456	(2.48)***
BVTA	-	-0.001	(-3.42)***	-0.001	(-3.45)***	-0.001	(-3.45)***
LOG(1+GROWTH)	+	2.257	(3.88)***	2.116	(3.96)***	2.019	(4.11)***
LEV	+	0.130	(0.15)	0.474	(0.59)	0.667	(0.40)
XLIST	+	2.362	(4.12)***	2.391	(4.19)***	2.261	(4.41)***
SR	-			-0.546	(-2.37)***	-0.555	(-2.52)***
SR_V	-			-0.682	(-2.43)***	-0.639	(-2.41)***
PRIO	-					-0.667	(-2.61)***
PREF	-					-0.357	(-1.97)**
CERT	-					-0.365	(-1.61)**
<i>N</i>		1035		1035		1035	
<i>Adj. R</i> ²		0.408		0.418		0.433	

Table 3

Results of fixed-effects regressions focusing on ownership structure and financial institution variables. The sample consists of 1035 observations for 140 firms over the 1992 to 1999 period. The dependent variable is Tobin's Q (TQ) and all other variable definitions appear in Table 1a. The regressions contain year dummies that are shown and firm dummies that are not shown. *t*-values are in parentheses and significant coefficients are indicated by * (10% level), ** (5% level), and *** (1% level) based on a one-tailed test.

	Predicted Sign	Model (1)		Model (2)	
Constant		1.401	(5.77)***	1.447	(5.72)***
Y93		0.310	(3.21)***	0.312	(3.22)***
Y94		0.384	(4.02)***	0.388	(4.02)***
Y95		0.350	(3.69)***	0.355	(3.70)***
Y96		0.501	(4.65)***	0.493	(4.61)***
Y97		0.632	(4.83)***	0.618	(4.78)***
Y98		0.505	(4.07)***	0.498	(3.99)***
Y99		0.566	(2.84)***	0.557	(2.83)***
BVTA	-	-0.001	(-3.80)***	-0.001	(-3.89)***
LOG(1+GROWTH)	+	1.849	(4.22)***	1.850	(4.25)***
LEV	+	0.261	(0.35)	0.343	(0.46)
XLIST	+	2.418	(4.75)***	2.469	(4.70)***
SR	-	-0.568	(-2.67)***	-0.514	(-2.65)***
SR_V	-	-0.825	(-2.67)***	-0.754	(-2.66)***
OSIDE_EQ	+	-0.005	(-1.35)*	-0.006	(1.47)*
INDUS_EQ	+ -	-0.009	(-1.71)**	-0.008	(-1.73)**
INSIDE_EQ	+	0.028	(1.92)**	0.028	(1.90)**
INSTI_EQ	+ -	-0.019	(-3.87)***	-0.019	(-3.87)***
FIN_ILOCK	+			-0.081	(-1.53)*
<i>N</i>		1035		1035	
<i>Adj. R</i> ²		0.463		0.465	

Table 4

t-tests comparing the means of the corporate governance variables in the pre-Peters Committee (1992-1996) period to those in the post-Peters Committee period (1997-1999). The sample consists of 1035 observations, 639 for the pre-Peters period and 396 observations for the post-Peters period. Significant differences in the means are indicated by * (10% level), ** (5% level), and *** (1% level) based on a two-tailed test.

Variable	Corporate Governance Variables Means		
	1992-1996	1997-1999	Sign Level
Tobin's Q	1.395	1.868	***
Total assets	2705	3824	*
Growth	0.262	0.695	***
Leverage	0.140	0.129	
Listing abroad	0.13	0.19	**
Structured Regime-required	0.48	0.47	
Structured Regime-voluntarily retained	0.11	0.16	**
Priority shares	0.41	0.34	**
Preference shares	0.62	0.58	
Certificates	0.39	0.35	
Interlocks with banks	0.82	0.72	
Interlocks with financials	1.08	1.07	
Largest blockholder	23.17	20.38	**
Financial institution blockholdings	12.56	12.86	
Bank blockholdings	7.38	8.13	
Industrial blockholdings	10.91	9.11	
Insider blockholdings	6.59	5.47	
Bank debt	0.071	0.073	

Table 5

Results of fixed-effects regression for governance variables for 1992-1999, 1992-1996 and 1997-1999. The sample consists of 1035 observations for 140 firms over the 1992 to 1999 period. The dependent variable is Tobin's Q (TQ) and all other variable definitions appear in Table 1a. The regressions contain year dummies that are shown and firm dummies that are not shown. *t*-values are in parentheses and significant coefficients are indicated by * (10% level), ** (5% level), and *** (1% level) based on a one-tailed test.

	Predicted Sign	Results for 1992-1999		Results for 1992-1996 vs. 1997-1999:			
				1992-1996		1997-1999	
Constant		2.117	(4.99)***	1.853	(4.56)***		
Y93		0.319	(3.30)***	0.308	(3.37)***		
Y94		0.396	(4.11)***	0.363	(4.00)***		
Y95		0.341	(3.55)***	0.317	(3.59)***		
Y96		0.444	(4.20)***	0.456	(5.07)***		
Y97		0.556	(4.32)***			1.199	(3.74)***
Y98		0.427	(3.32)***			1.080	(3.25)***
Y99		0.483	(2.56)***			1.138	(2.68)***
BVTA		-0.001	(-3.85)***	-0.001	(-4.26)***	0.001	(0.73)
LOG(1+GROWTH)	+	1.788	(4.29)***	1.578	(2.88)***	0.357	(0.39)
LEV	+	0.496	(0.67)	-0.552	(-0.82)	-0.771	(-0.85)
XLIST	+	2.348	(4.92)***	2.161	(5.25)***	0.272	(0.56)
SR	-	-0.542	(-2.86)***	-0.356	(-2.03)**	-0.613	(-3.11)***
SR_V	-	-0.692	(-2.66)***	-0.523	(-2.18)**	-0.196	(-0.78)
CERT	-	-0.236	(-1.30)*	-0.030	(-0.16)	-0.283	(-2.06)**
PRIO	-	-0.669	(-2.91)***	-0.722	(-3.18)***	0.031	(0.19)
PREF	-	-0.316	(-1.94)**	-0.232	(-1.51)*	-0.115	(-0.67)
OSIDE_EQ	+	-0.007	(-1.66)**	-0.004	(-0.81)	-0.007	(-1.40)*
INDUS_EQ	-/+	-0.008	(-1.51)*	-0.013	(-2.45)***	0.007	(1.38)*
INSTI_EQ	-/+	-0.020	(-3.92)***	-0.019	(-3.78)***	0.002	(-0.48)
INSIDE_EQ	+	-0.026	(-1.88)**	-0.024	(-2.05)**	0.004	(-0.61)
FIN_ILOCK	+	-0.081	(-1.55)*	-0.020	(-0.40)	-0.137	(-2.21)**
<i>N</i>		1035		1035			
<i>Adj. R</i> ²		0.478		0.497			

Table 6

Event study results for event 8 (the release of the Peter's Committee monitoring report). Of the eleven events listed in Appendix A, only event 8 is associated with a significant mean stock price reaction. The table reports mean abnormal returns for the full sample and various sub-samples as well as the F-statistic for those mean abnormal returns. F-statistics comparing the mean abnormal return of various sub-samples are also provided. Results are for a sample of 114 firms with complete security return data available over the January 1, 1996 to December 31, 1999 period. Estimation is based on the Seemingly-Unrelated-Regression (SUR) method described in Schipper and Thompson (1983 and 1985). Significance levels are indicated by *(10% level), **(5% level), and ***(1% level).

Sample	Mean Abnormal Return for the full sample and select subsamples.	F-statistic: (Mean abnormal return equals zero)	F-statistic: (Sub-sample mean abnormal returns are equal)
Full Sample (N=114)	-0.7%	6.80***	
Sub-Samples:			
Structured Regime Required (N=64)	-0.9%	8.08***	4.41**
No Structured Regime (N=28)	-0.6%	1.71	
Structured Regime Voluntary (N=16)	-0.2%	1.42	1.05
No Structured Regime (N=28)	-0.6%	1.71	
Structured Regime Required (N=64)	-0.9%	8.08***	8.59***
Structured Regime Voluntary (N=16)	-0.2%	1.42	
Certificates (N=46)	-0.9%	8.89***	0.01
No Certificates (N=68)	-0.6%	3.34*	
Preference Shares (N=63)	-0.7%	4.18**	0.02
No Preference Shares (N=51)	-0.8%	6.15***	
Priority Shares (N=42)	-0.3%	0.65	8.94***
No Priority Shares (N=72)	-1.0%	11.20***	
Cross-listed UK/US (N=18)	0.5%	0.90	12.71***
Not Cross-listed (N=96)	-1.0%	10.11***	

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