Financing and control in The Netherlands: an historical perspective

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« L'ambition de la république est de s'enrichir et non de s'agrandir. »
- Denis Diderot, *Voyage en Hollande*, 1780.

0. Introduction

The goal of this paper is to place the current structure of Dutch ownership and control in a historical perspective. The historical development of Dutch financial markets and institutions is somewhat idiosyncratic. It mixes elements such as a stock exchange culture dating back to the Dutch golden age of seaborne trading dominance, a legal system handed down from a brief period of French occupation, and strong influences from neighboring Germany as well as England and the U.S.A. The paper first sets out, in Section 1, to describe in brief the historical development of Dutch industrial finance. The remainder of the paper then turns to a comparative analysis of Dutch listed firms over the course of the twentieth century by focusing on three years spaced at 35-year intervals: 1923, 1958 and 1993. A general description of the data and its sources is given in Section 2, focusing on a wide array of financial characteristics of the firms. This is followed in Section 3 by a closer analysis of corporate control mechanisms, and in particular shareholder rights and defences against hostile takeovers. Networks of influence are the focus of Section 4; and the main themes discussed in that section are the nature and composition of the supervisory and management boards: the degree to which there are interlocking directorships with banks and other industrial firms, and the presence of identifiable founding-family members on the board. Section 5 concludes.

1. Historical overview

1.1 General introduction

The Dutch have some claim to a pioneering role in stock exchange capitalism. The first shareholdings in a Dutch corporation came into being in 1602, when the *Vereenigde Oostindische Compagnie* (*VOC*), the first great limited-liability joint stock company in the world, was founded. The initial investors were, in 1602, unaware of their destiny: ostensibly, they were contributing money to a limited-term partnership which would send out a series of merchant ships to the East Indies, with a liquidating dividend promised at the end of 20 years. To the investors' dismay (and despite their vociferous protests), in 1622 the company's directors (who reported to the government rather than to the shareholders) decided to prolong the company's charter, thus shelving the liquidation and keeping this astonishingly lucrative[1] enterprise going for many years.

By the middle of the seventeenth century the Netherlands had developed an active shareholding culture, with speculation in *VOC* shares and even derivatives trading a

[1] By the time of its last dividend in 1782, an initial investment of *f* 100 in the VOC would have yielded *f* 360 033.33 in payouts (Steensgaard, 1982). Steensgaard gives an insightful discussion of how the novel corporate form of the *VOC* made this enduring profitability possible, for example by facilitating long-term investments in the military protection of trading routes and monopolies.

widespread popular pursuit. In the eighteenth century, the fortunes of the Dutch East India trade declined, and the *VOC* finally went under in 1799. Even so, the wealth amassed by the Dutch during the Golden Age was still largely undissipated, and primarily invested in a wide range of international government securities. A spate of defaults, notably by the French government, reduced this wealth and seriously undermined confidence in securities investment, but even in the nineteenth century there were still many wealthy rentier families whose riches were primarily held in the form of securities.[2]

In the early nineteenth century the Dutch nation emerged from the French occupation of 1795-1813; it assumed its present geographical contours with the separation of Belgium from the Netherlands in 1830. The first half of the nineteenth century was a period of continued economic stagnation: Dutch investment in infrastructure and the new steam-driven manufacturing technologies was minimal, and the country's industrial development lagged far, far behind that of Belgium, Germany, France and, of course, England. This period of retarded growth has been studied intensively by economic historians, and the consensus now seems to be that it cannot be attributed to a shortage of capital or to Dutch investors' supposed preference for foreign investments above domestic industry. Other factors seem more likely culprits. One was the disarray of government finances: the new Kingdom of the Netherlands inherited from the French a crushing debt burden of 420% of net national income, with concomitantly high interest rates on government paper; the situation was not brought under control until around 1850 (see Jonker, 1996). Another was the need to redefine the traditional division of labor within the low countries: the Southern provinces, now Belgium, had traditionally specialized in manufacturing while the North focused on commerce. Thus there was no strong manufacturing base to build on. Then there were the steep transport costs related to the extra cost of providing a proper infrastructure, with adequate drainage and flood defences, in such low-lying and water-logged territory; and various other factors such as the high cost of raw materials, and the high wage levels and the poor education of the citizenry.

Industrial development started coming to life in the second half of the nineteenth century, with new shareholder capital raised for a number of enterprises such as railway construction, albeit rather laboriously, buffeted by the vicissitudes of international political developments and the business cycle. The main source of capital for industry during that period seems to have been retained earnings, supplemented with contributions by members of the founding families and closely connected wealthy individuals. Interestingly, the rather meager contribution of publicly raised equity was not offset by long-term bank loan finance: such financing was also very scarce throughout the country's industrialization.

The long period of stagnation of the eighteenth and early nineteenth centuries, and the short period of French hegemony, create a natural break in capital market traditions and

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[2] The rentier class were popularly referred to as coupon-cutters: "… ces rentiers hollandais que le peuple appelle ironiquement *coupon-knippers*, parce qu'ils n'ont rien à faire, sauf à detacher les coupons semestriels de leurs fonds publics", Emile de Laveleye, L'économie rurale en Néerlande, *Revue des deux mondes* 49, 1864, p.329.

institutions. Only very late in the nineteenth century did substantive modern industrial development get off the ground, and therefore much of our enquiry into the origins of current corporate ownership patterns and institutions can start there, without going back all the way to the Dutch Golden Age. We turn now to a few specific themes that are of central importance for the genesis of today's landscape of corporate finance and control. First, the evolution of the Dutch framework of company law. Secondly, the role of the stock exchange, banks and private financing in providing capital for industry.

1.2 Evolution of the public limited company

Public shareholder finance requires an appropriate legal basis; and at the start of the seventeenth century, there was little in the way of precedent to draw upon. The earliest Dutch joint-stock enterprises of the seventeenth century (in addition to the *VOC*, several other trading companies and a number of insurance companies emerged) were explicitly created to further the public interest, with trading monopolies granted by the government and control exercised by public appointees. Almost from the start, Dutch shareholding culture was embroiled in a series of corporate governance skirmishes, as conflicts of interest became apparent and their resolution was hammered out.[3]

The legal form of the Dutch corporation evolved over time from the early days of the *VOC*.[4] Around 1720, the legal status of the limited company or *naamloze vennootschap* (*NV* for short) was largely remodeled along the precedent set by English company law; and the setting up of companies whose primary purpose was private profit, rather than the service of the public interest, became the norm. By and large, the companies set up at the time in Holland were reputable, unlike some of their English counterparts spawned by the prevailing stock market bubble. One Dutch innovation of the time was the Amsterdam broker Abraham van Ketwich's creation, in 1774, of the world's first investment trust[5]: the *Negotiatie onder de Zinspreuk "Eendraagt maakt Magt"* (Investment under the Motto "Unity is Strength"). The subsequent collapse of company profits and share prices

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[3] These disputes bear an amusing resemblance to the issues that are still being debated today. Those initial *VOC* shareholders who were not actively involved in the running of the company - known as the long-suffering or *dolerende* shareholders - had many reasons for complaint. Their objections are vividly preserved in the company's archives. The initial complaints centered around payout policy (when the interim dividend payouts were passed or fell short of the amount stipulated in the company's charter, and when the promised liquidating dividend of 1622 was shelved) and the murkiness of the company's accounts: letters and pamphlets calling for financial disclosure and speaking of abuses and damaging disorders were circulated; but they were ignored by the *Heeren XVII* – the "17 gentlemen" directors - until the strength of shareholder outrage prompted the government to require full and open accounts for 1622. Even so, a groundswell of protest about inadequate financial disclosure continued for decades after. Later documents regulate the conflation of management's personal interests with those of the company proper (there were numerous company directives reminding its employees that they were under no circumstances allowed to transport or trade goods on own account; and the *Heeren XVII* brought out a report in 1741 on abuses by company management at home and abroad). There is even the seventeenth century equivalent of the corporate jet (directors' travel on company business by inland yacht, and the declaration of travel expenses, was carefully regulated, for example in a document dating from 1698). See Frentrop (2003) for an English-language history of Dutch corporate governance.

[4] Our description is based on the introductory chapter of van der Heijden's (1992) handbook of Dutch company law.

[5] Albeit one containing a somewhat curious lottery element, intended to stimulate speculative interest.

led to a slowdown in the creation of new limited companies (and of new investment trusts: after 1779, there was a 90-year hiatus).

Following the French occupation of the turn of the nineteenth century, Dutch civil law was codified along lines closely following the French *Code Civil* of 1804. The *Wetboek van Koophandel* (commercial code) of 1838 set the legal parameters for public limited companies. From the start, it was felt to be inadequate to its purpose. At first, there was particular resistance to the "foreign" notion that the founding of a public limited company would require royal approval, even if the conditions that would ensure such approval were set down in the law. Camfferman (2000) mentions that, in particular, the relevant government ministry's practice of asking that financial accounts be sent in on an annual basis was very unpopular. The law also failed to address a number of issues such as the personal liability of founders, issuers, management and directors, the shareholders' obligations with regard to paying in their capital[6] and non-monetary contributions to the company. The last quarter of the nineteenth century saw a spate of banking and trading company bankruptcies, some of which involved the outright looting of company funds. The weaknesses of corporate governance safeguards in protecting investors, and in particular the inadequacies of monitoring by boards of directors, was already an open matter of public concern as evidenced by Figure 1, an 1898 cartoon depicting a supervisory board in action.

[insert Figure 1 about here]

After a very long period of public debate, with legislative proposals submitted, withdrawn, and resubmitted regularly from 1871 onwards, a new more comprehensive and flexible company law was finally enacted in 1928. Preventive government scrutiny was retained: the Minister of Justice would vet the proposed charter of an *NV* before it could be registered with the Chamber of Commerce, and thereby officially founded. The new regime was based on four principles (Van der Heijden, 1992, §28 p. 19):

(a) preventive government monitoring, including the possibility of judicial suppression;
(b) transparency of the internal organization and division of powers (including financial reporting);
(c) protection of the capital against excessive payouts to shareholders;
(d) strengthened liability of founders, management and directors;

One of the most controversial issues was the openness requirement, in particular the obligation to publish full annual accounts (a balance sheet and a profit and loss statement) open to the general public. Traditionally many companies had kept this information private within a small inner circle, for example by allowing only a small number of shareholder delegates to look at the accounts. Almost immediately, a commission was set up to examine if the obligation to publish accounts could be weakened. The law was criticized for not distinguishing between large, open companies that placed securities with the general public and closed or family companies that did not. Others countered that limited liability requires, in principle, openness of the financial situation of both

[6] For example, in the case of the *NCS* railway IPO in 1860, described in Appendix 1.

kinds of *NV*. Other objections concerned the law's restrictions on oligarchic clauses, the rights of redress awarded to minority shareholders, and the strengthened liability of management and directors.

Company law was again fully revised in 1970-1971. The main impetus was twofold.

Firstly, there was the need to adjust to the EEC's First Directive on Company Law of 1968. The biggest change in this regard was to create a new, separate, type of limited company, following the law of surrounding countries (Germany, France and Belgium): the *besloten vennootschap* (*BV*) or closed company, in addition to the traditional *NV*. The impact of this change was immediate. The great majority of smaller companies converted from *NV* to *BV*, primarily as a result of the lower level of financial disclosure required of the latter (*NV*s were now required to make their annual accounts readily available to the public at large by depositing them at the offices of the *handelsregister*). In addition, new arrangements were set in motion for the protection of minority shareholders (through *enquêterecht*: the right to ask for a judicial enquiry under certain conditions).

The second force driving change was the wish to increase the influence of employees. Dutch attitudes to the role of corporations had evolved over the course of the 20th century. In the beginning of the century, corporations were seen as vehicles for shareholder wealth creation. Over the course of the century, firms became seen as more independent entities oriented towards continuity, stability and the interests of multiple stakeholders, as expressed in a salient *Hoge Raad* (Supreme Court) decision of 1949. It is perhaps the relative homogeneity of the Dutch population that has fostered a sense of solidarity, expressed in a preference for consensus decision-making and a generous welfare system. The corporatist model of centralized, consensual economic decision-making, known as the *Poldermodel*, was very successful in the reconstruction of the Dutch economy after World War II. In particular, centralized collective bargaining made possible a lengthy period of wage restraint that contributed substantially to economic growth. In return, employee representation in decisions regarding job security and employment is considered appropriate. And indeed, any corporate restructuring that involves the loss of jobs imposes a significant cost on the public purse in the form of unemployment and/or disability pay. This means that corporate decision-making has a direct public interest dimension. Not surprisingly, the stakeholder view of corporate governance, which sees shareholders as just one of many interested parties entitled to a say in decision-making, dominates Dutch public opinion.

The *structuurregeling* or "structured regime", introduced in 1971, was designed to increase worker participation by imposing a carefully defined control structure on all larger firms (roughly speaking, those with at least 100 employees). Such firms must set up an *ondernemingsraad* or company council (to be referred to as *OR*), a body created to represent and consult the views of employees.[7] These and other large firms (those with

[7] It has a right to relevant information, a right to advise on major decisions (e.g. transfers of ownership, relocation and important investments); it can delay decisions it disagrees with for 1 month and appeal to the *ondernemingskamer* (company chamber) of the Amsterdam Court. Its permission is required for changes to

capital and reserves of at least ƒ25 mn) are also obliged to set up a Supervisory Board (*raad van commissarissen*) with some powers that might otherwise be held by the shareholders' meeting. Such a Board appoints new members itself by co-optation (unless the Shareholders' Meeting or Council object), and the statutes may determine that one or more are to be government appointees. The board supervises important managerial decisions, appoints and dismisses the management board (*raad van bestuur*) and establishes and approves the yearly accounts (De Jong *et al.* 2004).

A perhaps unintended side effect of the *structuurregime* is that, because it gives shareholders almost no say in the appointment or removal of Supervisory Board members and management, it protects entrenched management to an excessive degree. The co-optation system is currently the topic of intense public debate and unlikely to survive in its current form.

The most recent developments in the Netherlands are two best practices codes for publicly listed firms. The first code is a product of the Peters Committee, named after former Aegon-CEO Jaap Peters. This code contains 40 recommendations, about the role of management, supervisory boards and, most importantly, a reconsideration of the role of capital in governance. As 39 (out of the 40) recommendations did not involve legal changes, the code's implementation draws on self-regulation. De Jong *et al.* (2004) shows that this effort failed, as no observable changes were present and stock market reactions, if present, were negative. After the irregularities with Ahold an initiative was taken to restore investors' confidence in the Dutch market. In March 2003 a committee chaired by Morris Tabaksblat, former CEO of Unilever, started a new code and already released the final draft in December 2003. Following the successful UK codes, the comply-or-complain principle is introduced, forcing firms to explain to shareholders any deviations from the best practice. Although the contents of the code largely overlaps with Peters'ideas, the enforcement is more promising.

1.3 Equity financing and the role of the stock market in industrial finance

The Amsterdam stock exchange was a sophisticated and active market throughout the nineteenth century. The *prolongatie* system funneled large amounts of savings to the market. The market was overcrowded, open and competitive: the principle of unrestricted public access was carefully upheld by the city authorities, and premises were shared with commodities trading. However, the stock exchange did not initially play much of a direct role in the financing of industry. The bulk of the official list seems to have been made up of foreign state loans, American railway stocks, American industrial shares and colonial securities. The first date at which domestic industrial stock was officially listed on the Amsterdam stock exchange is generally reported to be a brewery listing in 1889, though Jonker (1996) suggests this date is misleading; four industrial issues (from a sugar refinery, a shipyard and an engineering firm) were already quoted in the early 1880s. In any case a listing meant little before 1903, when listing requirements and a vetting

social arrangements (pensions, working hours, wages, safety rules) and if it disagrees the employer must obtain a local judge's decision to go ahead.

process by the *Vereeniging voor Effectenhandel* (set up in 1876 to oversee the market and instill investor confidence) were formalized.

Meanwhile there was a large and active unlisted securities market on which domestic securities were both auctioned and directly placed; an example of a prime unlisted stock traded there during the last decades of the nineteenth century is Heineken. Shares were often initially privately placed, and Jonker (1996) cautions that a lack of domestic industrial stock exchange listings should not be interpreted as a definitive indicator of investor disinterest. A number of *NV*s set up in the 1840s and 1850s found ready backers; they did not seek a listing until the end of the century. By 1937/1939, private placements still encompassed 16.6% of bond issues and 4.8% of equity issues; and private "underhand" loans remained important right up until the eve of World War II: in 1938, institutional investors' portfolios still contained equal amounts of underhand loans and listed securities (Renooij, 1951, p. 186 and p. 190). Clearly, then, the Amsterdam stock exchange was not the sole venue for primary issues or for secondary trading. The dearth of domestic industrial listings cannot be interpreted as a sign of structural impediments to equity financing.

Van Zanden (1987, 1998) points out that external finance, albeit not obtained from the general public, played a major part in the industrialization of Amsterdam. Initially, money for capital-intensive new ventures would be supplied by the city's traditional trading elite. For example, merchants set up two companies for steamship transport and shipbuilding in hopes of stimulating trade. Similarly, rich and successful entrepreneurial dynasties would move into related industries: for example, the profits from sugar refining were plowed back into beer brewing and flour milling concerns. Meanwhile, the government and King William I at times provided crucial credit lines. And in 1883 Amsterdam's financial elite contributed a capital of *f* 0.5 million for a banking venture, the *Finantieele Maatschappij voor Nijverheidsondernemingen*, whose explicit purpose was to provide finance for industry in the form of credit, in anticipation of repayment when a public share issue was completed.

Still, it is fair to say that infusions from a network of family, friends and business associates, complemented by retained earnings, were, in the Netherlands as in most other countries, the dominant source of risk capital for much of industry in the late nineteenth century. For example, the textile industry developing in the East and South of the country was almost exclusively financed in this way. The exception, rather than the rule, were large, capital-intensive infrastructure projects like railways, which typically relied on an initial primary issue of shares to the general public, sometimes combined with some form of limited government support, to get off the ground. Appendix I describes the initial share ownership structure following four nineteenth century railway flotations.

1.4 The role of banks

A surprising feature of Dutch financial history (particularly when contrasted with the emergence of powerful universal banks in Germany in the late nineteenth century) is the negligible role played by banks in the financing of industrial growth, not just in the early period of industrialization of the late nineteenth century but well into the twentieth century. Dutch economic historians attribute the patchy record of late nineteenth century banking initiatives – banks were set up, but many failed, and the industry remained exceedingly fragmented well into the twentieth century – to a number of causes.

One major cause was the dominance of the *prolongatie* system of financing, which flourished throughout the late nineteenth and early twentieth century. *Prolongatie* refers to short-term callable margin loans, on the face of it a rather unlikely source of industrial finance. As a legacy from the successes of the Golden Age, the nineteenth-century Netherlands still had a strong stock market culture and a well-developed network of local agents (notaries, lawyers and brokers) who would collect savings from wealthy individuals and channel them to the Stock Exchange. Much of the money was not invested in securities directly, but made available to firms or other investors in the form of short-term margin loans. These, though of course callable at short notice, were typically rolled over or "prolonged", whence their name. They were backed by securities, commodities or other exchange-traded collateral. Thus industry and trade in effect obtained direct short-term capital in a very fragmented way, via margin loans provided by investors without the intermediation of a banking system. The *prolongatie* loans were considered safe, the interest rate was attractive and roughly tracked the London discount rate (hovering between 3 and 5% between 1820 and 1860, see Jonker (1996) Figure 12.4 p. 96). The system worked so smoothly that intermediation and liquidity transformation by a nascent banking system was effectively crowded out. This remained the case well into the twentieth century, as argued by Jonker (1995). On the eve of World War I, the amount outstanding on *prolongatie* at any point in time was around 400 million guilders; more than double the known deposits of all the banks taken together. Jonker (1996, see Figure 9.2, p.191) points out that the short-term interest rate on the Amsterdam exchange remained at or above the yield on government bonds until nearly 1920, effectively precluding substantive profitable deposit taking by banks. The *prolongatie* market did not disappear until short rates fell dramatically towards the end of the 1920s.

Another brake on banking development was Dutch savers' distrust of financial institutions. The sovereign bond defaults of the late eighteenth century and the parlous state of government finances in the early nineteenth century (with government debt hovering around a staggering 400% of national income) meant that even the paper money circulated by the *Nederlandsche Bank* (set up in 1814 at the behest of King Willem I, an energetic supporter of initiatives to revive the Dutch economy) was long considered an unsafe substitute for specie. Private banking institutions were considered even more dubious; a view confirmed when the first wave of new banking ventures of the 1860s was followed by a spate of banking failures in the long recessionary period starting in 1870.

The industrial boom that started in 1895 precipitated a period of intense interest in industrial finance in the early twentieth century, right up until 1920. During this period many new companies were listed and public share offerings were readily absorbed. Banks, for this short period only, were prepared to offer long-term financing to industry. Meanwhile, a wave of banking consolidation from 1911 onwards, together with a major shakeout of minor and regional banks in the crisis that started in 1920 (in 1920-22 a total of bad debts amounting to nearly 10% of the assets of the biggest five banks was written off), left the general banking industry dominated by the "Big Five" banks.

Financing for industry completely dried up in the deflationary 1920s and did not revive until after World War II. Banks' reluctance to provide long-term financing for industry was the subject of intense debate; whilst large companies could fill the gap by issuing stocks and bonds, small and medium-sized enterprises were seriously constrained. The government went so far as to attempt to set up a bank for industrial finance in 1935 (it succumbed to the bad economic climate). The banks limited their role to collecting deposits (though, as Jonker (1995) shows, in the interbellum years Dutch banking deposits, and in particular time deposits, were still extraordinarily low relative to the total money supply compared with neighboring countries), making short-term loans (maturities of over three months were avoided as much as possible), and underwriting new issues. While they dominated the new issue market from the 1930s onward, they acted only as a conduit, never retaining equity stakes in industry or making long-term loan commitments.

In short the Dutch banks most resembled the British banks, not the universal banks of neighboring Belgium and Germany, as stressed in Van Goor and Koelewijn's (1995) overview of Dutch banking in the twentieth century. Dutch bankers focused on mercantile finance and consistently veered away from long-term commitments. As "general" banks they did do a lot of underwriting and investment banking business (also carried out by some private specialized firms); there was no counterpart of the Glass-Steagall Act formally mandating the separation of commercial and investment banking.

In 1945, the *Herstelbank* (bank for reconstruction), a joint venture between the government and the financial sector, was set up to fill the perceived gap in finance for long-term investment by providing long-term loans (a subsidiary, the *Nationale Participatie Maatschappij*, was created to take equity stakes). It played an important role in the recovery of Dutch industry over the decade following World War II. Perhaps its example (and that of its various successors), together with other government policies, stimulated the commercial banks' slow evolution towards medium- and long-term lending in the 1950-60 period. Meanwhile, banks did adhere to the fundamental principle of non-engagement in industry; and indeed, industry spokesmen at the time explicitly expressed reservations about bank influence on commercial and strategic decision-making.

The boom years of 1955 to 1970 saw a period of increased diversification, as specialized institutions such as the mortgage banks lost ground. A spate of large-scale bank mergers led to a fear that banks had too much market power and were exposing themselves to an unacceptably wide range of risks. Thus starting in 1971 the *Nederlandsche Bank*, as industry regulator, put out a number of unofficial directives (some of which were later codified in the *Wet Toezicht Kredietwezen 1978*) that prohibited mergers of general banks with insurance companies or mortgage banks, restricted bank participation in the equity of other companies (financial or nonfinancial) to 5% without explicit permission from the *NB*, and limited the value of share stakes held by banks to 60% of their capital.

The 1980s were a difficult period of retrenchment for the banks, and again the accusations that banks were excessively cautious led to the adoption of various government measures (such as loan guarantees) to encourage the provision of risk-taking capital. Meanwhile the international expansion of Dutch industry brought with it a continuing trend toward the formation of large banking conglomerates offering a wider range of financial services.

In 1990 banking and insurance regulation was radically loosened. Participation in the European Union has meant that Dutch banks' market power is no longer considered a threat. As an immediate consequence, more mergers in 1991 created the three current giant banks (ABN-Amro, ING Bank and Rabobank). And restrictions on banking-insurance alliances were lifted in accordance with EU practice. This has led to the formation of conglomerate groups holding substantial share stakes in large numbers of companies. Thus a gradual trend away from the Anglo-Saxon model and toward a more Continental style of banking is in evidence.

1.5 Nonbank institutional investors: insurance companies and pension funds

Insurance companies and pension funds have played a role in taking equity stakes, absorbing bond issues and providing long-term loans at least since the beginning of the twentieth century. Our data for 1993 show that both the *ING Bank* and the *AEGON* insurance group had substantial long-term stakes in other companies (note that *ING* was formed in 1991 by a merger involving amongst others the large insurance company *Nationale Nederlanden*).

Institutional investors rose to a prominent place in the Dutch capital markets during the early decades of the twentieth century.[8] Traditionally, nineteenth century life insurers had invested primarily in securities that were judged to be particularly safe and liquid; many of them invested exclusively in Dutch government bonds, and indeed, many were restricted to do so by their statutes. The twentieth century saw a gradual lifting of these restrictions, but investment in private issuers' securities remained only a small fraction of their investments. In the pre-World War I burst of enthusiasm for industrialization, a typical life insurer, *Eerste Nederlandsche*, invested as much as 4% of its assets in banking and 7% in manufacturing securities; these were predominantly bonds rather than equity. Interest in privately issued securities then dwindled down to almost zero, until it revived in the late 1930s; by 1939, the precursor companies of *AEGON* held about 5% of their assets in manufacturing company securities, whilst over time the balance had shifted from bonds to equity (Gales, 1986). Still, round 1950 life insurers' investment in

[8] Renooij (1951, p. 63) reports figures illustrating the rising importance of such investors: between 1900 and 1939, deposits with private savings banks rose from *ƒ*80 to *ƒ*515 mn, those with the state *Rijkspostspaarbank* from *ƒ*85 to *ƒ*670 mn, while the capital of the life insurance companies rose from *ƒ* 130 to *ƒ* 1,359 mn. Meanwhile various social insurance funds were founded in the first quarter of the century in response to social legislation; and by 1939, the *Algemeen Burgerlijk Pensioenfonds* (the government employees' pension fund) held *ƒ* 794 mn in assets, the railway workers' and miners' pension funds held a combined *ƒ* 203 mn, private industry's *Ongevallenfonds* and *Invaliditeits- en Ouderdomsfonds* together some *ƒ* 491 mn, while the self-employed's voluntary *Ouderdomsfonds B* held *ƒ* 68 mn.

industrial securities remained modest, indeed, the proportion was lower than at the turn of the century. Insurers did also make some contributions to industrial finance in the form of direct long-term loans (*onderhandse leningen*)[9] and mortgages. But the trend towards equity and nongovernment bonds did not gather force until the second half of the twentieth century.

Regarding pension funds, to illustrate their contribution to equity financing, consider the combined Philips pension funds, founded in 1913, described in Appendix 2d of Van Nederveen Meerkerk and Peet (2002). Equity comprised a mere 2% of the fund's total investment in 1925; most of the fund was invested in (government) bonds. By 1950, equity took a 7% share, rising to 28% in 1975 and 46% in 2000. By then, the Philips pension fund was holding *ƒ* 16,771 mn in equity, together with *ƒ* 106 mn in venture participations. Here again we see very modest interest in riskbearing capital in the first half of the century, with a marked shift toward investment in corporate equity in the second half of the century.

In any case, it does not seem to be the case that institutional equity ownership has been matched by an active role in corporate decision-making. The discussion surrounding the recent management crises at *Ahold* and other major Dutch companies gives some insight into why the independent, public sector employee pension fund *ABP* (*Algemeen Burgerlijk Pensioenfonds*) is one of the few Dutch institutional investors to attempt an activist stance. As pointed out by an insurance company spokesman, banks and insurance companies are not only shareholders: for them, the firm in which they invest is at the same time a (potential) client: " You are in a difficult position if you want to present a new contract to the management board whilst you have voted against one of their proposals the day before."[10] Meanwhile, activism by private companies' pension funds is likely to be reined in by the parent company's management, in return for reciprocal restraint by their counterparts' pension funds. Institutional shareholder activism thus remains somewhat limited in scope and potential.

[9] These were exempt from stamp duty until 1939, and hence a popular substitute for bonds in the interwar period. The major place taken by direct long-term private loans in institutional investors' portfolios is distinctive to the Netherlands and Germany.
[10] D. Brilleslijper, Delta Lloyd spokesman, in *FEM Business*, 20 September 2003.

2. Empirical analysis: the data

2.1 The sample of firms

Our study focuses on all domestic firms that have equity officially listed on the Amsterdam stock exchange in the years examined. It should be pointed out that this concept is somewhat different from the usual definition of 'listed firms' for the Netherlands, which also includes firms whose bonds only are listed. Traditionally, many of the security issues listed and traded on the Amsterdam exchange have been bonds; though the proportion of listed firms that list only their bonds and not their stock as well is relatively small (for example, 17% in 1910). One reason to exclude these firms from our sample is that they are somewhat less likely to comply with the obligation to publish annual accounts.

The universe of firms for which we present data also excludes the financial sector. In 1923 this sector comprises mainly banks and mortgage banks. In the second half of the century insurance firms and collective investment vehicles such as mutual funds are important additional constituents of this group. Our main data sources for information about the nonfinancial firms are *Van Oss' Effectenboek* for 1923 and 1958, and the electronic database Reach (Review and Analysis of Companies in Holland) for 1993.

It should be noted that many of the largest Dutch firms are not listed, so that our sample cannot be said to represent all the most important Dutch companies. Sluyterman and Winkelman (1993) identify the 100 largest Dutch firms in terms of their assets. Even though they point out that their methodology probably underrepresents privately held firms because their balance sheet data are harder to obtain and their accounting practices are generally more conservative, they still find that only about ¾ of these firms are listed. Agricultural firms (and their food-processing outgrowths) in particular are often organized as cooperatives, as are the banks that specialize in agricultural loans (the *Rabobank* and its precursors).

2.2 The three sample years

Our data were gathered for three years spaced at 35-year intervals: 1923, 1958, and 1993. In choosing these particular years we were influenced by three considerations.

Firstly, we would like to have years that were in some sense typical of an epoch. 1923 comes towards the end of the first great boom in industrial development; it is still a year of relative prosperity, predating the subsequent collapse in share prices, the depression and the second world war. 1958 is a year in which the economic dislocation wrought by the war has receded: postwar reconstruction is virtually complete, and a new era of prosperity and growth has set in. Meanwhile, 1993 is a year in which the impact of European Union membership has already shaped many developments.

A second consideration is the availability of data. For example, large ownership stakes were only available following the 1991 disclosure law (*Wet Melding Zeggenschapsrecht*), which came into effect in February 1992 (De Jong *et al.* 2001). This makes 1993 an interesting year to study.

Lastly, our aim was to try and pick years which as much as possible enabled us to complement rather than duplicate the available body of work on Dutch economic history.

2.3 Data availability

For most limited-liability companies, the publication of annual accounts was not legally required in the Netherlands until 1928. However, from 1909 the stock exchange's *Fondensreglement* required all companies that wished to list their stocks or bonds to make available to shareholders annual published accounts comprising the balance sheet and profit- and loss statements. By 1910, about 80% of listed firms complied in whole or in part, though the level of compliance was considerably lower (around 50%) among manufacturing firms. By 1923, our first sample year, compliance (as measured by the availability of accounts in *Van Oss' Effectenboek*) had risen considerably.

Information on share ownership prior to the share ownership disclosure law of 1991, the *Wet Melding Zeggenschapsrecht* (*WMZ*), is very hard to obtain because as a rule Dutch public listed companies issue bearer, not registered, shares; and we have no easy access to public registries to trace share ownership. In principle, some information about share ownership can be retrieved from company archives. In particular the records of shareholder meetings, would give insight into, at least, the identities of shareholders actively involved in decisions about the company. Such archival research is far beyond the scope of this paper.

Thus for 1923 and 1958 the only way we investigate family influence and control is by tracking the identities of the management and the board of directors, both available for much of the late nineteenth and the twentieth century from published sources.[11]

2.4 Summary statistics

[please insert Table 1 here]

As shown in Table 1, the number of firms on the Amsterdam Stock Exchange's official list has actually declined over the last few decades studied. The decline in numbers is offset by a substantial increase in size; the average book value of assets increased more than hundredfold over the seventy years from 1923 to 1993, a period during which prices (as measured by the GDP deflator) rose by a factor of 12. To some extent these trends are attributable to mergers and consolidation; but a tendency to limit the Exchange's Official List to very large and liquid companies may also play a role.

[11] This information is in principle available for all public limited companies (*naamloze vennootschappen*) from both the yearbooks of *NV*s compiled by Van Nierop and Baak over the period 1880-1948 and from the yearbooks relating to listed securities, *Van Oss' Effectenboek* 1903-1978 (later continued as *Effectenboek*).

The data regarding the 3-year growth in assets show that 1923 followed upon a difficult period; indeed, there had been a serious economic downturn, and overall stock market equity prices had fallen by about one-half during the immediately preceding decade.

That Tobin's Q was extremely low in 1923 is not surprising; however, the low average value of 0.421 for 1958 is less easily explained. Tobin's Q is measured as the ratio of market value of total assets to book value of total assets. The market value of total assets is measured as book value of total assets minus book value of equity plus market value of equity. A problem arises here, because the book and market values of equity need to be 'comparable'. Especially in 1923, many firms have multiple types of equity. The market value is not available for each type of equity. In 1923 and 1958, we leave the types of equity for which we have no market prices in book value terms and attributed reserves to equity types on a pro rata and book value basis.

The median return on assets (ROA) fluctuated between a low of 4.7% in 1923 and a high of 11.3% in 1958, down to 7.4% in 1993. ROA in 1923 is net profits/equity; in other years operating income/book value total assets.

The median payout ratio of 0.31 that we obtain for 1923 is somewhat on the low side both in historical and international perspective. In the nineteenth century, the norm was to pay out most or all of earnings, perhaps with some retentions from extraordinary profits to create a reserve for use in smoothing dividends in bad years. In the first two decades of the twentieth century, it gradually became accepted practice to retain earnings for the purpose of expansion. However, payout ratios were generally still very high; and Post (1972, Table 5) cites a payout ratio of 0.78 in 1923 for all Dutch *NV*s (not just listed ones). One point to note is that 1923 was not a good year for the economy, coming at the end of the depression of 1921-23. Many of the firms in our data set made losses, and nearly half of the firms passed their dividend; the median payout ratio for the firms that did pay out a nonzero dividend was 0.75, which is very close to Post's figure.

Our data source, *Van Oss' Effectenboek*, sometimes gives fairly detailed information about the disposition of profits, both as stipulated in the company charters and as carried out *ex post*. A striking feature of the 1923 data is the substantial proportion that is statutorily destined for the executives and directors in the form of *tantièmes* or profit-sharing agreements. The norm for statutory payouts of this nature is in the region of 15% of profits, which suggests that such payments should perhaps be interpreted in part as a reflection of the ownership rights of the individuals concerned rather than just as remuneration for executive effort. But in practice, the actual payments made often fall far short of the profit sharing payouts stipulated *ex ante* in the company statutes.

By 1958 the mean (median) payout ratio was 0.72 (0.44), declining to 0.37 (0.36) in 1993. Payout ratios declined secularly until the 1980s, as firms chose to retain earnings to finance expansion. A probable contributing factor was the introduction of a corporation tax, phased in around 1941. A classical system is in force: corporate earnings are taxed at 35%, whether distributed or not, and dividends are subsequently taxed as personal income at a heavy 60% marginal rate, while there is no capital gains tax. Indeed, of the 33 countries studied by La Porta *et al.* (1998), the Netherlands tax regime has the rock bottom ratio of net-of-tax payout from dividends relative to capital gains. Accordingly, one would expect Dutch personal investors to have little enthusiasm for dividend payouts, and a preference for retained earnings. Such a preference would be less likely on the part of those institutional investors which are exempted from income tax. While the Dutch tax system does not attempt to mitigate the double taxation of dividends at the corporate and personal income tax levels, it has traditionally been exceptionally careful in ensuring that inter-corporate dividends are not double-taxed at the corporate level. This feature of the tax regime is one reason why the Netherlands (and in particular the Netherlands Antilles) is popular as a base for international holding companies.

Leverage as measured by the ratio of debt to total assets exhibits a marked increase from a median of 0.32 in 1958 to 0.54 in 1993. Again, the corporate tax shield from debt may explain this increase in leverage in the post-war half century.

The sizes of the managerial and supervisory boards remained fairly constant over the 70-year period studied.

Meanwhile, founding family influence seems to have declined dramatically. Our proxies for family influence are two: one is the presence of board members with the founding family surname; the other is multiple board members with a common surname. These indicators of family presence declined only slightly from 1923 to 1958; but there was a large reduction from 1958 to 1993. Both criteria for family influence dropped by a factor of about 5, from roughly 30% to 6%, leaving only a total of 10.4% of firms in 1993 still exhibiting one or both indicators of family influence.

3. Oligarchic clauses and takeover defences

3.1 Description of takeover defences and shareholder rights

Dutch corporations are insulated against the threat of hostile takeovers by an array of unusually strong and somewhat idiosyncratic defence mechanisms. In this section we will describe the main devices currently in use[12] and attempt to trace their historical origins. It should be pointed out at the outset that ever since 1881, Dutch corporate law does not permit the use of nonvoting or lower-voting shares, thus ruling out one obvious means of detaching control from ownership. Moreover, early Dutch corporate law from 1838 onwards mandated voting caps in order to protect minority shareholders from oppression by a dominant shareholder: one person should not have more than six (three) votes in a company with more (less) than a hundred shares. This means that before the new law of 1928, pyramids or large majority stakes were not a secure means of entrenching control, necessitating the development of alternative safeguards.

As a small country surrounded by powerful and at times warring neighbors, it should not be surprising that vulnerability to foreign influence has always been a source of serious concern among Dutch industrialists, particularly in the early part of the twentieth century. A number of defensive measures have been rationalized on this basis. As mentioned earlier, the Dutch stakeholder model (*poldermodel*) also induced a movement that shifted shareholder power to independent supervisory board members.

Statutory defences

With statutory defences we mean those that are enshrined in the company's statutes. Among the statutory defences, those that restrict the powers of the *algemene vergadering van aandeelhouders* (*AvA*) or shareholders' meeting are known as *oligarchische regelingen* (oligarchic measures/arrangements/devices). Such clauses give all or part of the control of the company to others than to the shareholders representing the majority of the capital at the shareholder meetings.

The most prominent oligarchic device is the use of *prioriteitsaandelen* or **priority shares**[13] with statutorily defined extra powers of decision within the corporation. Such shares were first introduced in 1898, when the main Dutch oil company operating in the Netherlands Indies (the progenitor of Royal Dutch/Shell) changed its statutes to ward off the threat of foreign influence. Such shares are often associated with a right of *bindende voordracht* (binding proposal) in the nomination of management and directors. Other oligarchic devices include arrangements to allocate decision-making powers to another organ of the company (such as the board or the priority shareholders), for explicitly specified important classes of decisions that would normally require shareholder approval: such matters can include the composition of management and board, their

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[12] Our description is based on Voogd's (1989) detailed investigation of Dutch companies' statutory defences.

[13] Confusingly, such shares were initially known as "preference shares", but this usage is now no longer allowed. They are also sometimes called "founders' shares" or, say, "A-shares".

remuneration, dividend payout policy, modification of company statutes or dissolution of the company. Lastly, there are devices such as voting restrictions and strengthened supermajority and quorum requirements for shareholder meeting decision-making.

Since World War II the **issue of shares into friendly hands**, and in particular of **preference shares** (*preferente aandelen*), has developed into a major defensive strategy. This is a non-oligarchic statutory device in that it attempts to influence the composition of the shareholder meeting rather than to restrict its powers. From 1949 to 1981 there were some 26 instances where companies defensively issued ordinary shares to friendly individuals, banks, institutional investors, potential merger partners or allied foundations. The motive for such defensive issues was to dilute the power of large shareholders, preserve independence in the face of a hostile takeover attempt, or ensure takeover by a white knight. The use of ordinary shares for defensive purposes waned after the mid-1970s because the issue of ordinary shares is costly in terms of cash requirements (the issue price must be fair to existing shareholders, and for registered shares, a down payment of at least 25% of the nominal value plus 100% of the *agio*, the difference between the issue price and the nominal value, is required), frowned upon by legal commentators and much circumscribed by the adjustments to Dutch company law made in 1981 to implement the Second European Directive on Company Law. In particular, the new law gave pre-emptive rights to participate in ordinary share issues to existing shareholders, unless the shareholders' meeting explicitly waived the right; and a five-year expiration limit was placed on any allocation of the power to make issue decisions to organs other than the shareholders' meeting.[14]

In the early 1970s preference shares quickly replaced ordinary shares as the instrument of choice for defensive issues. Provisions for issuing preference shares for defensive purposes first appeared in the statutes of a Dutch company, Rijn-Schelde, in 1969. There were two reasons for the switch to preference shares. Firstly, under the new law, ordinary shareholders do not automatically have pre-emption rights to new issues of preference shares (though the stock exchange did attempt to impose on listed companies a shareholder approval requirement for issues of preference shares of more than 50% of the existing capital). Secondly, preference shares can be designed to provide a much larger ratio of voting power to paid-in capital than ordinary shares; indeed, the net outlay can be made essentially negligible. Preference shares can be issued more or less at par, if liquidation rights are limited to the paid-in capital and the preferred dividend is suitably tied to the market interest rate. If the legal minimum of 25% of par value is paid in, the number of votes obtained for any paid-in sum of money is maximized. But that is not all. The preference shares are generally placed with financial institutions, institutional investors, or a foundation specially set up for the purpose. For such a foundation to be self-financing it would need to borrow the amount required for paid-in capital; therefore

[14] Even so, Voogd (1989) finds that on January 1 1988, 59% of the companies on the Stock Exchange's official list had statutes empowering an organ other than the shareholders' meeting to issue ordinary shares (in 76% of these cases, the management; 15%, the priority shareholders: 8%, the board of directors; and 1% the board and management jointly); while 51% of companies had made similar arrangements for the power to deny pre-emptive rights to shareholders (distributed 74%, 17%, 8% and 1% respectively among the various alternative organs).

the dividend on the preference shares must be carefully tied to the required interest on the loan, and cumulative preference rights are necessary to ensure that the foundation can reasonably be expected to meet its obligations. Voogd (1989) found that 48% of the listed companies he examined had **"defensive" preference shares**, defined as preference shares that were *op naam* (registered) and not *aan toonder* (bearer) shares, not fully paid in, with limited dividend and liquidation rights, and with dividend rights tied to the market interest rate. Of the companies issuing defensive preference shares, 66% had issued preference shares equal to 100% of the authorized ordinary shares, thus carrying 50% of voting power (20% of companies had preference shares ranging between 50 and 100% of the ordinary shares, and only 14% of companies issued 50% or less).

A further device for influencing the composition of the shareholder base is the issue of registered (*op naam*) shares[15] together with limitations on the transfer or ownership of such shares. Such **blocking devices** (*blokkeringsregeling*) can include a requirement for permission from a company organ for the transfer of shares, a requirement to offer shares to fellow shareholders before selling them to third parties, or statutory limitations on who can own the shares (Dutch nationals/residents, *etc*.).

Lastly, an important statutory defensive device is the **X% rule** (*X%-regeling*) that limits the ownership of shares (usually the ordinary shares, which are normally the ones that are listed and that thus change hands often) by a single shareholder. Voogd (1989) finds that 25% of listed companies (excluding mutual funds) have such a rule in their statutes. Usually the company's shares are registered (*op naam*) and placed with a specially created foundation or *administratiekantoor*, which issues nonvoting bearer certificates that are listed on the Stock Exchange. These are freely exchangeable into voting shares, but only up to the specified X% boundary.

Other less common statutory defensive measures include **voting limits**, though as these can be circumvented by the use of straw men, they are now out of favour. All 12 officially listed companies that included voting caps in their statutes in early 1988 were ones already in existence before 1929; taken together, these companies represented around 40% of the market value of Amsterdam listed companies (Voogd, 1989). Some corporate statutes include a varied brew of other measures limiting voting rights to long-term shareholders, Dutch nationals, *etc*.

Nonstatutory defences

A classic and quite common nonstatutory defense mechanism is the use of an **administratiekantoor**, typically a special-purpose foundation that owns all or most of the company's shares and issues nonvoting **certificates** on to the general public. The certificates carry all the underlying shares' economic rights (dividends, liquidation value, etc.) but no control rights. Especially in cases where these certificates are *niet royeerbaar*, that is, not exchangeable for ordinary vote-carrying shares, the effect is to give all voting power to the trustees of the *AK*, who are typically closely intertwined with

[15] Such shares cannot be listed; typically, these companies issue bearer certificates that are traded on the Stock Exchange.

the company's management, although the stock exchange imposes some independence requirements on the *AK*.[16] From the mid-fifties onwards the increasing use of certification of this kind has been roundly criticized from many quarters, including the legal profession and the *Vereniging voor de Effectenhandel*, the securities dealers' association running the Stock Exchange. Since 1992, listings of *niet-royeerbare* certificates are not allowed anymore. In a recent adaption of Dutch company law, all certificate-holders are allowed to vote by proxy with their certificates. Only under special circumstances (in case voting by certificate-holders interferes with the general interest of the firm) the proxy voting can be refused or limited.

The use of **pyramidal holding companies** to concentrate control is relatively rare in the Netherlands, given that certification is a readily available means of securing control without any appreciable outlay of capital. However a small number of such holding company constructions do exist[17]; and with certification likely to be phased out, pyramids may become more prevalent. Similarly **cross-shareholdings** along the French model are unusual but not unknown in the Netherlands.

The structured regime

In 1971, the "structured regime" was imposed on all large companies with a large number of employees in the Netherlands. The primary reason for its introduction was to give workers some power of consultation and influence through the *ondernemingsraad* (workers' council). In addition, some of the powers normally given to the shareholders' meeting (such as management appointments and the approval of the annual accounts), as well as the power to approve a set of other important management decisions, were vested in the *raad van commissarissen* (Supervisory Board), which appointed its own members by a system of co-optation that basically bypassed any shareholder influence. An exemption for the structured regime is allowed for multinational companies with a majority of employees working abroad. Also, companies that do not meet the criteria for compulsory subjection to the structured regime can still voluntarily apply it. Many have chosen to adopt the regime voluntarily or not to abolish the regime when as a result of international expansion the percentage of foreign workers passed to 50% threshold. The structured regime gives corporate insiders much more freedom at the expense of shareholder rights. Under very specific conditions firms have to adopt the mitigated structured regime, where the powers to appoint management and approve annual accounts would normally remain with the shareholders' meeting, although the co-optation system for supervisory board appointments remains in place.

Recently, the structured regime has been a topic of public debate. The influence given to employees via the *ondernemingsraad* is quite weak; a recently adopted proposal for the

[16] For example, at a chaotic shareholder meeting for Ahold in September 2003, 97% of votes supported a remuneration package for the incoming CEO that was widely denounced as excessively generous. No representatives of the *AK* were present; before even knowing the broad scope of the remuneration proposal, they had already authorized the secretary of the management board to exercise their votes, representing 50% of the total.

[17] Most notably, Heineken, where the Heineken family has 50.01% control of the unlisted Heineken Holding NV, which in turn controls the listed firm Heineken NV with 50.01%.

revision of the regime includes reserving positions on the Supervisory Board for employee appointees, a move that will clearly enhance worker power. At the same time the structured regime's allocation of shareholders' normal powers to an unaccountable, self-perpetuating supervisory board is the target of heavy criticism. A prominent Dutch legal scholar, Jaap Winter, has gone so far as to describe the structured regime as a "cynical compromise"[18] that transfers shareholder rights to corporate insiders without giving employees nor shareholders any real decision-making powers.

3.2 Data and analysis

Our data enable us to give an overview of the takeover defences employed by the companies in our sample; in the Netherlands, takeover protection has traditionally been very strong. Our sources are *Van Oss' Effectenboek* for 1923 and 1958, and for 1993 the *Gids bij de Officiële Prijscourant*.

[please insert Table 2 here]

One of the most prominent mechanisms, priority shares, has increased dramatically in importance; by 1993 43% of firms had such shares.[19] Meanwhile, voting limits were, in 1923, still a feature of all firms by law. Their prevalence in the statutes of listed firms had fallen to 6.3% by 1993, and in most cases these were firms surviving from the pre-1928 period when statutory voting limits were mandatory.[20]

The use of certificates or depository receipts has increased substantially over time; 38% of firms had some measure of certification present in 1993, rising steadily from 12% in 1923. A joint ownership construction was present in 3.5% of firms by 1993.

The issue of preference shares is a crucial defensive strategy in takeover situations. The use of preference shares for defensive purposes was initiated in 1969; by 1993, 60% of listed industrial firms had this defensive mechanism in place.

The structured regime, which gives some influence to the workers' council and devolves much of the authority of the shareholders' meeting to a self-constituted supervisory board, was introduced in 1971. By 1993, 53% of listed industrial firms were subject to the structured regime; and 10% of these had voluntarily chosen to have the structured regime apply.

Table 7 compares and contrasts the prevalence of takeover defences in family and non-family firms. The main distinction is that in family firms, there are more likely to be

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[18] "The starting point was the idea that labor and capital were equally valuable, and both should have equal power. In reality a cynical compromise was reached: the heart of their powers has been taken away from the shareholders, while little more was received by employees." *FEM Business*, 13 September 2004.

[19] The low figure for 1923 should be treated with some caution as the nomenclature for priority or founders' shares was somewhat less clearly established.

[20] In 1958 it is possible that *Van Oss* does not contain complete information about voting limits. Therefore, the percentage reported is likely to underestimate the actual presence.

priority shares, conferring upon the holders of these shares a varying set of decision powers that would otherwise fall upon the ordinary shareholders' meeting.

For 1993, ownership data are available, and it is possible to investigate the interactions between takeover defences and ownership structure. Table 8 shows that on the whole, takeover defences and concentrated ownership are substitute control mechanisms and thus negatively correlated. Large outside blockholders are negatively correlated with all defence mechanisms considered, and significantly so with the use of defensive preference shares and priority shares. Similarly, when management board members hold large stakes, certificates are less likely to be used. The results regarding the structured regime need to be interpreted with caution as it is generally compulsory for the largest firms. Such firms are less likely to be heavily management-owned and more likely to be partially owned by a bank. The finding that takeover defences and concentrated ownership are substitutes rather than complements agrees with earlier work by De Jong and Moerland (1999).

Table 9 explores the impact of takeover defences on corporate performance by regressing Tobin's Q cross-sectionally on dummies for the presence of the various common defence mechanisms (the third column of results for each of the three sample years in Table 9). Earlier research by De Jong, Moerland and Nijman (2000) on a cross section of 50 listed Dutch firms suggests that defence mechanisms such as certificates, defensive preference shares and most significantly the structured regime do reduce other performance measures such as the stock market return and the return on equity; they find that only the size of the supervisory board has a significant, negative, impact on Tobin's Q. De Jong *et al.* (2004) confirms these results for a sample of all Dutch listed firms over 1993-1999. In our larger sample, again, there is not much evidence of an impact of defence mechanisms on Q, though in 1958 the presence of priority shares seems somewhat detrimental.

4. Networks of influence: interlocking board memberships

4.1 Boards and networks

In this section we will focus on the phenomenon of interlocking directorates, that is of having the same individual occupy board seats in multiple firms. Two aspects of this practice will be looked at.

Firstly, the number of appointments per board member is studied. Members with multiple appointments may have reputational capital, *i.e.* they may be excellent managers or monitors. On the other hand, multiple appointments may reduce the time available for individual firms, reducing the effectiveness. Pritchard, Ferris and Jagannathan (2002) provide recent evidence in US firms and find no negative effects of multiple appointments. For the Netherlands, there is no evidence relating network relationships to firm performance but a wealth of descriptive evidence regarding interlocking directorates. To name but two prominent studies, Schijf (1993) describes networks in 1886 and 1902 and Stokman, Wasseur and Elsas (1985) focus on networks in 1976 in the context of an international comparative project.

A second aspect of interlocking directorates that is of particular interest is the relation between banks and non-financial firms. Bank relations may bring expertise to the board of non-financial firms. Besides, bank relations may offer monitoring, which reduces contracting costs. On the other hand, banks may abuse their power and information to expropriate wealth from other lenders and shareholders; recent studies on US firms are Booth and Deli (1999) and Kroszner and Strahan (2001). The relations between banks and non-financials have been studied in the Netherlands by, among others, van den Broeke (1988) and Jonker (1989). Van den Broeke selects four industrial firms and one bank and describes the interlocking directorships. The bank, *Rotterdamsche Bankvereeniging*, has joint board member with three out of four firms through eight interlocks in the period 1918-1939; even though throughout this period it did not make a single long-term loan to any of the firms concerned, in line with Dutch banking practice at the time. Jonker (1989) selects eight banks and measures interlocks with non-financial exchange-listed firms in 1910, 1923, 1931 and 1940. For example, in 1923, the eight banks had 43 board members and these persons held 431 board positions outside the banks.

Interlocking directorships can involve both executive and supervisory board members. Dutch firms have dual board systems on the German model. The first tier comprises the executive board (*Directeuren* or *Raad van Bestuur*): the management team that is responsible for the firm's strategy and daily operations. These executives are supervised by the second tier, the supervisory board (*Raad van Commissarissen* or *Raad van Toezicht*).

In 1923, supervisory boards were not a legal requirement (Bos, 1923, p.34). Nonetheless, all exchange-listed firms in 1923 do have a supervisory board. The members are normally appointed by the shareholders' meeting. In special cases, the owners of preferred shares, priority shares or bonds have the right to appoint all or a limited number of supervisors. Intermediate arrangements existed where other parties than the shareholders propose members, while the shareholders can reject the proposal.

In 1993, a supervisory board is a legal obligation for firms that adopt the so-called *structuurregeling* or structured regime, introduced in 1971. This regime is compulsory for firms that meet size criteria (in particular, those that have more than a cutoff number of domestic employees). In 1993, again, all the listed firms have supervisory boards.

4.2 Data sources

Our aim is to describe the relevance of interlocks for non-financial firms. First, we describe the interlocks with other non-financial firms. Second, we focus on interlocks between banks and non-financials.

The focus for non-financial firms is simply on all exchange-listed firms. For 1923 and 1958 we use *Van Oss' Effectenboek*. For 1993 we mainly use *REACH* and *Jaarboek Nederlandse Ondernemingen*.

For the identification of board members of banks we do not want to restrict ourselves to listed banks, because especially in 1923, several important banks were unlisted partnerships. Therefore we select the largest banks. For 1923 we use the *Financieel Adresboek voor Nederland* issued by J.H. de Bussy. This book contains the section *Financiëele instellingen in Nederland* with for each financial institution its name, its placed equity and reserves and the names of its board members. The book includes listed and non-listed institutions. For 1958 we use the same book and collect bank information from the section *Bank- en credietwezen.* For 1993 we use *Omzetcijfers 1993*, issued in 1994 by *Het Financieele Dagblad*. This guide contains the banks and other financial institutions in the Netherlands, including total assets. The board members of most banks are in the *Jaarboek Nederlandse Ondernemingen* and, if not, obtained from annual reports.

For 1923 we identify 504 banks, of which 423 banks have available a book value of equity (placed equity plus reserves). Total equity value is 1,319 million guilders. The first 60 firms have 1,213 million guilders of equity value, or 92% of the total. The smallest firm in the selection of 60 has equity worth 200,000 guilders. Of these 60, 32 are listed on the Amsterdam stock exchange. The five largest banks have 49% of the total equity value and the 10 largest 67%.

In 1958, we traced 148 banks, with total equity value of 1,099 million guilders. The largest 50 banks have 96% (1,061 million guilders). The five largest banks have 48% of the total equity value and the 10 largest 69%.

In 1993, we have 71 banks (general and savings banks) and for 56 we have a book value of total assets. Total value is 1,309,788 million guilders. We select the ten largest banks, but exclude two banks for governmental financing. We also include three smaller banks that are known for longstanding relations with non-financials. The eleven banks have a total asset value of 1,084,151 guilders, or 91% (excluding governmental banks). The difference with 1923 is striking and in particular caused by the dominance of three large banks: ABN-AMRO, Rabobank and ING.

4.3 Results and analysis

Table 3 describes the interlocks of board members of non-financial listed firms for 1923, 1958 and 1993.

[please insert Table 3 here]

The first six rows in Table 3 describe our sample of (non-financial) firms and banks. The average board size has fluctuated somewhat: the average total number of board members per firm decreased slightly from 7.03 in 1923 to 6.86 in 1958, increasing by 1 to 7.94 by 1993. It is important to notice that the number of banks in our sample declines from 57 to 12 over the 70-year period studied; as mentioned in our discussion of the data selection procedure, ongoing concentration in the banking system means that the proportion of total banking equity value represented by our sample remains roughly constant at over 90%. Not surprisingly, as the banks in the 1993 sample are so much larger, they have more board members: 15.2 on average, as opposed to 11.7 (10.4) in 1923 (1958). Meanwhile for both banks and industrial firms, the ratio of supervisory board members to management board members remained fairly steady, ranging between 1.82 and 2.27.

Table 3 shows us whether board members have more or less additional board seats. For managerial board members (including the chairman), our findings indicate that members in 1923 held many more positions than in 1958 or 1993: the average number of interlocks dropped from 1.82 in 1923 down to 0.24 in 1993. For supervisory board members the average number of interlocks decreased less dramatically, in the post-war period the average number fell by roughly one half. In 1923 we also find quite a few board members with more than 5 interlocks; by 1993, no board member had more than five additional seats.

In the remainder of this section we focus on industrial-firm board members who have affiliations with banks.

[please insert Table 4 here]

Table 4 contains the frequency distributions of bank interlocks in firms. Banking interlocks were more widespread in the earlier periods of our investigation: the proportion of firms with no bank interlocks was 40% (39%0 in 1923 (1958), rising to 55% in 1993. Thus in 1923 and 1958, presence of bankers was more widespread than in 1993. In 1923, 12 firms even had ten or more bankers on the board. The average number of board member with a bank affiliation decreases from 0.60 (0.61) in 1923 (1958) to 0.45 in 1993. However, it should be noted that the significant concentration in the banking industry over the 1958-1993 period would have led to a decline in the number of bank board members available for positions on industrial firm boards.

[please insert Table 5 here]

The use of interlocks by banks is illustrated in Table 5, which lists all banks with at least ten (fifteen) interlocks in 19958/1993 (1923). It is clear that there has been a substantial decline in the latter period of the century in the number of major-bank board members that sit directly on industrial-firm boards.[21]

[please insert Table 6 here]

Table 6 further documents the decline in interlocks, contrasting banks' and other industrial firms' board members' role on industrial-firm boards. Industrial-firm interlocks have declined steeply over the 70 years of our investigation; the overall decline in the average number of interlocks is by roughly a half. While multiple supervisory board memberships are still very common, interlocks involving management board members in particular have fallen steeply. Indeed, by 1993 there was no industrial firm in our sample sharing a common management board member with a bank or other industrial firm.

Meanwhile, the role of banks in industrial firm board interlocks was falling even more rapidly than that of industrial peers. Again, bank-industry interlocks involving a management board member fell very steeply, far more so than those involving two supervisory boards. A further decline in bank interlocks over the period 1976-1996 is documented by Heemskerk, Mokken and Fennema (2003), who find that finance-industry interlocks declined by almost 40% over that period, outpacing the 25% decline in overall interlocks.

[please insert Table 7 here]

Table 7 compares and contrasts the prevalence of interlocks in family and non-family firms; the criterion used to define family firms in this table is a board member with a surname that matches the firm's original name. In 1928, the only significant difference was that members of the management board of non-family firms were much more likely to be on the board of other industrial firms. By 1958, this difference had largely disappeared, as non-family firms' board members became more like those of family firms. In 1993, the situation had reversed, as the management board members of non-family firms became even less likely to hold supervisory board positions elsewhere.

[please insert Table 8 here]

To complete our description of the prevalence of interlocks, Table 8 illustrates their relation to takeover defence mechanisms. In both 1923 and 1958 interlocking directorships, especially those of the management board, show a strong positive

[21] Our data do not allow us to determine whether all or part of this decline may be offset by the placement of bank officials from below the board level on industrial firm boards.

association with certification of shares. By 1993 this was no longer the case. Instead, supervisory board cross-directorships were associated with the use of defensive preferred shares, and most types of interlocks were associated with subjection to the structured regime, which may simply indicate that these are the larger and less multinationally oriented firms.

[please insert Table 9 here]

As an exploratory enquiry into the impact of interlocks on industrial performance, in Table 9 the second of each year's set of regressions considers the impact of interlocks on Tobin's Q. The impact is insignificant in 1993, but in the two earlier years the association between interlocks and Q is negative whenever it is significant. This is weak evidence that interlocks, and especially those that involve management board members of other industrial firms or banks, were not beneficial in the 1923 and 1958.

5. Conclusions

Our paper gives a bird's-eye overview of financing and control of Dutch listed firms over the past century. Regarding the influence of families in firms, our data suggest a clear trend towards professional management taking hold in the second half of the twentieth century. The role of banks in the control and financing of Dutch industry seems to have been rather secondary, and more British than German in nature. While employees have been given some voice in corporate decision-making in the last few decades of the century, again their power is not as strong as in Germany. Real decision-making power currently seems to rest very strongly with a set of self-perpetuating management insiders, entrenched behind a quite formidable array of takeover defences. But the ongoing process of convergence towards a common European model is slowly but surely eliminating some of the idiosyncrasies of Dutch corporate governance.

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Table 1: Summary statistics

	1923	1958	1993
Book value total assets (× ƒ1000)	13,673 (3,158)	79,700 (9,314)	2,286,000 (360,000)
Past three year growth book value total assets	-0.077 (-0.074) n=303	0.161 (0.102) n=318	0.170 (0.080) n=141
Tobin's Q	0.372 (0.338) n=214	0.421 (0.411) n=245	1.270 (1.132) n=143
Return on assets	0.073 (0.047) n=317	0.159 (0.113) n=321	0.073 (0.074) n=143
Four year standard deviation ROA	n.a.	0.037 (0.024) n=298	0.032 (0.023) n=141
Payout ratio	0.375 (0.311) n=300	0.716 (0.440) n=323	0.369 (0.363) n=143
Debt/total assets	0.300 (0.280)	0.339 (0.325)	0.535 (0.536)
Fixed assets/total assets	0.552 (0.578)	0.404 (0.352)	0.381 (0.355)
Cash and liquid assets/total assets	0.114 (0.050)	0.124 (0.084)	0.107 (0.041)
Age	21.80 (18) n=317	47.12 (46) n=333	48.75 (36) n=84
Managerial board size	2.158 (2)	2.318 (2)	2.776 (2)
Supervisory board size	4.874 (5)	4.540 (4)	5.167 (5)
Family firm: (former) firm name equals board member's surname	28.1%	27.6%	6.3%
Family firm: at least two board members with same surname	31.5%	29.1%	5.6%
Family firm based on both criteria	16.4%	16.2%	1.3%
Family firm based on at least one criterion	43.2%	40.5%	10.4%
Number of firms	*317*	*333*	*143*

Medians are reported in parentheses below the means.

Table 2: Takeover defences and ownership structure

	1923	1958	1993
Priority shares	2.52%	28.23%	42.66%
Voting limits	(By law)	0.30%	6.29%
Certificates:	11.67%	24.92%	38.46%
- limited or fully exchangable certificates	8.52%	18.02%	-
- not exchangable	-	5.71%	3.50%
- X%-arrangement	-	-	10.49%
- certificates and traded ordinary shares	10.76%	21.62%	2.10%
Joint ownership construction	-	2.10%	3.50%
Preference shares (anti-takeover)	-	-	60.14%
Structured regime:	-	-	53.15%
- compulsory	-	-	41.96%
- voluntary	-	-	9.79%
- mitigated	-	-	1.40%
Ownership concentration:			
- largest outside blockholder	-	-	24.49%
- all outside blockholders	-	-	43.10%
Ownership identity of blocks:			
- banks	-	-	7.16% (77 non-zero)
- insurance companies	-	-	2.75% (50 non-zero)
- pension funds	-	-	0.73% (11 non-zero)
- state	-	-	0.61% (3 non-zero)
- industrial firms	-	-	12.58% (51 non-zero)
- managerial board members	-	-	5.31% (20 non-zero)
- supervisory board members	-	-	2.47% (12 non-zero)
Number of firms	*317*	*333*	*143*

Table 3: Boards and interlocks

	1923	1958	1993
Number of firms	317	333	143
- number of managerial board members	684	772	397
- number of supervisory board members	1545	1512	739
Number of banks	57	50	12
- number of managerial board members	238	159	60
- number of supervisory board members	432	361	122
Firms: number of managerial board members			
- with one interlock	137	127	38
- with two interlocks	56	38	13
- with three interlocks	32	21	6
- with four interlocks	39	6	3
- with five interlocks	11	19	0
- with more than five interlocks	61	25	0
- total interlocks	1248	599	94
- average number of interlocks	1.82	0.78	0.24
Firms: number of supervisory board members			
- with one interlock	371	328	170
- with two interlock	205	175	89
- with three interlocks	136	131	90
- with four interlocks	141	69	32
- with five interlocks	49	77	6
- with more than five interlocks	170	220	0
- total interlocks	3440	3606	776
- average number of interlocks	2.23	2.39	1.05

Table 4: Frequency distribution bank interlocks

	1923	1958	1993
Fraction of firms with:			
- no bank interlocks	40.38%	39.34%	55.24%
- one bank interlock	22.08%	26.43%	25.87%
- two bank interlocks	12.30%	13.81%	9.09%
- three bank interlocks	7.89%	6.61%	5.59%
- four bank interlocks	5.05%	5.11%	3.50%
- five bank interlocks	4.42%	3.00%	0.70%
- six bank interlocks	1.26%	0.90%	0%
- seven bank interlocks	0%	1.20%	0%
- eight bank interlocks	0.63%	0.60%	0%
- nine bank interlocks	2.21%	0.90%	0%
- ten or more bank interlocks	3.79%	2.10%	0%
- average number of bank interlocks	0.596	0.607	0.447

Table 5: Banks and their interlocks

Banks	Interlocks
1923 (over 15)	
Rotterdamsche Bankvereeniging	119
Nationale Bankvereeniging	56
Bank voor Indië	55
De Twentsche Bank	50
Nederlandsche Handel-Maatschappij	43
Hollandsche Bank voor Zuid-Amerika	31
Koloniale Bank	31
De Nederlandsche Bank	26
Kas-Vereeniging	26
Amsterdamsche Bank	19
Bank-Associatie Wertheim & Gompertz 1834 en Credietvereeniging 1853	18
Nederlandsch Indische Handelsbank	16
1958 (over 10)	
Rotterdamsche Bank N.V.	149
De Nederlandsche Bank N.V.	73
De Twentsche Bank N.V.	63
Nederlandsche Handel-Maatschappij N.V.	51
Amsterdamsche Bank N.V.	46
Nationale Handelsbank N.V.	20
Bank voor Handel en Scheepvaart N.V.	20
N.V. Export-Financiering-Maatschappij	19
N.V. Nederlandsche Bankinstelling voor Waarden belast met Vruchtgebruik en Periodieke Uitkeringen	19
Van Mierlo en Zoon N.V.	19
Nederlandse Overzee Bank N.V.	14
N.V. Hollandsche Disconteeringsmaatschappij van 1939	12
N.V. Hollandsche Koopmansbank	12
Kas-Associatie N.V.	11
Maatschappij voor Middellang Crediet N.V	11
Hollandsche Bank Unie N.V.	11
1993 (over 10)	
Abn-Amro	34
Internationale Nederlanden Bank (ING)	18
Nationale Investeringsbank	18
MeesPierson	14

Table 6: Interlocks at firm level

Own firm – other firm – type of other firm	1923	1958	1993
Supervisory board – supervisory board - industrial	5.997 (83.9%)	6.327 (79.9%)	3.441 (74.1%)
Supervisory board – management board – industrial	1.079 (46.7%)	0.901 (42.3%)	0.454 (37.8%)
Management board – supervisory board – industrial	1.530 (31.5%)	0.921 (24.6%)	0.454 (20.3%)
Management board – management board – industrial	1.000 (25.6%)	0.366 (12.3%)	0 (0%)
Supervisory board – supervisory board - bank	1.202 (46.7%)	1.285 (53.7%)	0.622 (40.6%)
Supervisory board – management board – bank	0.461 (29.0%)	0.198 (17.4%)	0.077 (7.7%)
Management board – supervisory board – bank	0.293 (11.4%)	0.201 (8.4%)	0.084 (7.7%)
Management board – management board – bank	0.287 (3.8%)	0.012 (0.9%)	0 (0%)

Average number of interlock and in parentheses fraction of firms with at least one interlock.

Table 7: Characteristics of family firms

	1923		1958		1993	
	Family	**No family**	**Family**	**No family**	**Family**	**No family**
Book value total assets	12043	14309	67937	84190	1885229	2312999
Past three year growth book value assets	-0.151	-0.048*	0.289	0.112***	0.372	0.159
Tobin's Q	0.400	0.362	0.464	0.405**	1.284	1.269
Return on assets	0.030	0.090**	0.152	0.162	0.076	0.073
Four year standard deviation ROA	-	-	0.040	0.035	0.036	0.032
Payout ratio	0.331	0.392	0.511	0.795	0.257	0.376
Debt/total assets	0.306	0.298	0.398	0.316***	0.537	0.534
Fixed assets/total assets	0.436	0.596***	0.331	0.432***	0.417	0.379
Cash and liquid assets/total assets	0.093	0.122	0.080	0.140***	0.068	0.109
Age	13.57	25.01***	37.28	50.88***	65.80	47.67
RvB size	2.52	2.02***	2.91	2.09***	2.67	2.78
RvC size	4.52	5.01*	4.36	4.61	4.22	5.23
Dummy certificates	0.090	0.130	0.20	0.27	0.22	0.40
Dummy priority shares	0.045	0.018	0.450	0.220***	0.56	0.42
Dummy preferred shares	-	-	-	-	0.44	0.61
Dummy structured regime	-	-	-	-	0.33	0.54
Dummy interlock RvC – RvC/industrial	0.87	0.83	0.80	0.80	0.56	0.75
Dummy interlock RvC – RvB/industrial	0.42	0.49	0.39	0.44	0.44	0.37
Dummy interlock RvB – RvC/industrial	0.18	0.37***	0.20	0.27	0.44	0.19**
Dummy interlock RvB – RvB/industrial	0.08	0.33***	0.09	0.14	0.00	0.00
Dummy interlock RvC – RvC/bank	0.43	0.48	0.51	0.55	0.33	0.41
Dummy interlock RvC – RvB/bank	0.36	0.26	0.18	0.17	0.11	0.07
Dummy interlock RvB – RvC/bank	0.08	0.13	0.11	0.07	0.11	0.07
Dummy interlock RvB – RvB/bank	0.02	0.04	0.00	0.01	0.00	0.00
Ownership largest outside blockholder	-	-	-	-	22.27	24.64
Ownership all outside blockholders	-	-	-	--	34.67	43.67
Ownership banks	-	-	-	-	7.79	7.12
Ownership RvB members	-	-	-	-	20.00	4.32***
Ownership RvC members	-	-	-	-	10.32	1.94**
Observations	89	228	92	241	9	134

*** indicates that difference of means is significant at the 1% level, ** is 5% and * is 10%.

Table 8: Relations between takeover defences and interlocks and ownership

	1923	1958		1993			
	Certificates	Certificates	Priority shares	Certificates	Priority shares	Preferred shares	Structured regime
Dummy certificates	1.000	1.000	-0.007	1.000	-0.188*	-0.120	0.080
Dummy priority shares	-	-0.007	1.000	-0.188*	1.000	0.009	-0.012
Dummy preferred shares	-	-	-	-0.120	0.009	1.000	0.323*
Dummy structured regime	-	-	-	0.080	-0.012	0.323**	1.000
Dummy interlock RvC – RvC/industrial	0.079	0.099	0.065	0.106	-0.072	0.171*	0.341*
Dummy interlock RvC – RvB/industrial	0.093	0.068	-0.024	0.066	-0.001	0.074	0.240*
Dummy interlock RvB – RvC/industrial	0.218**	0.202**	-0.018	-0.184*	0.163	0.055	0.195*
Dummy interlock RvB – RvB/industrial	0.144*	0.059	-0.052	-	-	-	-
Dummy interlock RvC – RvC/bank	0.113*	0.186*	-0.061	0.079	-0.050	0.207*	0.205*
Dummy interlock RvC – RvB/bank	0.071	0.065	0.011	-0.012	0.016	0.074	0.061
Dummy interlock RvB – RvC/bank	0.087	0.351**	0.026	-0.066	0.069	0.074	0.166*
Dummy interlock RvB – RvB/bank	0.134*	0.019	0.081	-	-	-	-
Ownership largest outside blockholder	-	-	-	-0.155	-0.155	-0.182*	-0.082
Ownership all outside blockholders	-	-	-	-0.084	-0.195*	-0.173*	-0.024
Ownership banks	-	-	-	-0.005	-0.241**	0.153	0.198*
Ownership RvB members	-	-	-	-0.165*	-0.006	-0.022	-0.273**
Ownership RvC members	-	-	-	-0.038	0.057	-0.083	-0.085

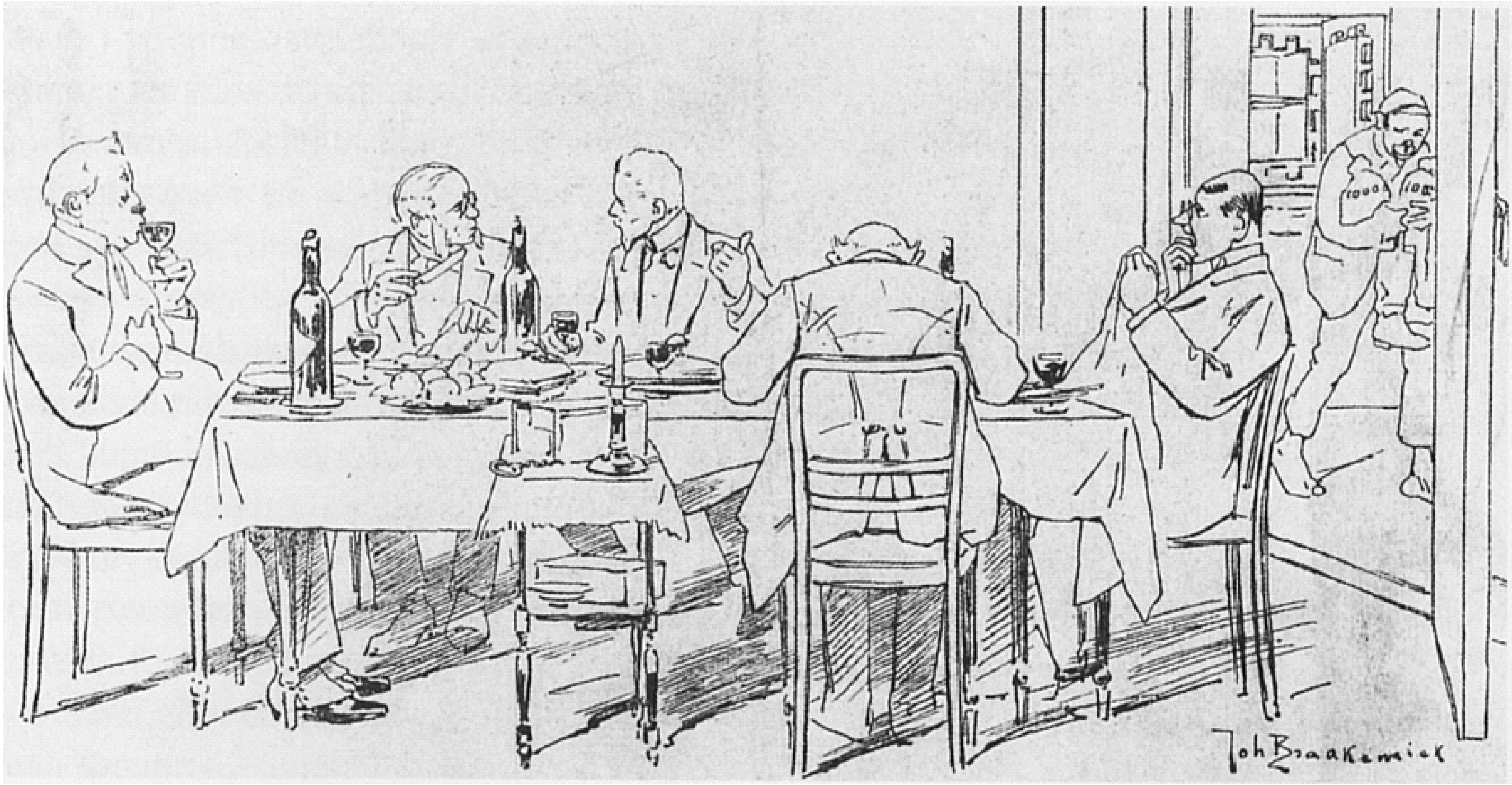
** indicates that Pearson correlation is significant at the 1% level, * is 5%.

Table 9: Q regressions

	1923			1958			1993		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Intercept	0.078 (1.65)	0.057 (1.09)	0.062 (1.22)	0.184*** (2.68)	0.236*** (3.46)	0.208*** (2.71)	1.126*** (5.09)	1.015*** (3.82)	1.191*** (5.08)
Log (book value)	0.009* (1.73)	0.012* (1.86)	0.011* (1.68)	-0.007 (1.18)	-0.012 (-1.61)	-0.012* (-1.70)	0.061** (2.08)	0.062** (2.17)	0.028 (0.95)
Debt/total assets	0.846*** (19.9)	0.841*** (19.14)	0.858*** (20.10)	0.951*** (18.29)	0.948*** (18.49)	0.958*** (17.61)	-0.028 (-0.11)	0.074 (0.27)	0.030 (0.11)
Past three year growth book value total assets	-0.015 (-0.94)	-0.016 (-1.01)	-0.019 (-1.06)	0.012 (0.84)	0.010 (0.64)	0.008 (0.52)	0.125 (1.23)	0.106 (1.02)	0.162 (1.45)
Fixed assets/total assets	-0.009 (-0.30)	-0.007 (-0.27)	-0.004 (-0.12)	0.078*** (2.73)	0.068** (2.52)	0.073** (2.41)	-0.642** (-2.27)	-0.602** (-2.09)	-0.569* (-2.21)
Log(age)	-0.009 (-0.92)	-0.009 (-0.90)	-0.008 (-0.72)	-0.018 (-.87)	-0.020 (-0.87)	-0.017 (-0.87)			
Cash and liquid assets/total assets	0.035 (0.93)	0.037 (0.95)	0.058 (1.42)	0.158* (1.83)	0.145* (1.70)	0.144 (1.53)	-0.037 (-0.10)	0.133 (0.40)	0.045 (0.13)
Payout ratio	0.001 (0.16)	0.0001 (0.02)	-0.002 (-0.25)	-0.002 (-0.88)	-0.003 (-1.05)	-0.002 (-0.83)	0.040 (0.67)	0.033 (0.54)	0.051 (0.74)
Dummy certificates		-0.018 (-1.23)			0.045 (1.63)			0.092 (0.90)	
Dummy priority shares					-0.023* (-1.72)			-0.068 (-0.89)	
Dummy preferred shares								0.092 (1.05)	
Dummy structured regime								-0.072 (-0.97)	
Dummy interlock RvC – RvC/industrial			0.005 (0.22)			0.009 (0.48)			-0.012 (0.11)
Dummy interlock RvC – RvB/industrial			-0.033** (-2.06)			0.015 (0.93)			0.002 (0.02)
Dummy interlock RvB – RvC/industrial			0.016 (0.86)			0.014 (0.60)			-0.130 (0.83)
Dummy interlock RvB – RvB/industrial			-0.003 (-0.19)			-0.042** (2.33)			
Dummy interlock RvC – RvC/bank			0.011 (0.60)			0.005 (0.36)			0.117 (1.22)
Dummy interlock RvC – RvB/bank			-0.027* (-1.75)			-0.012 (0.89)			-0.041 (0.20)
Dummy interlock RvB – RvC/bank			-0.015 (-0.64)			0.033 (1.22)			0.514 (1.08)
Dummy interlock RvB – RvB/bank			-0.008 (0.30)			-0.041 (1.43)			
Dummy Family firm			0.002 (0.12)			0.002 (0.17)			0.057 (0.37)
Adj R^2	0.78	0.78	0.78	0.74	0.75	0.74	0.07	0.06	0.08
Observations	193	193	193	224	224	224	139	139	139

White heteroskedasticity-consistent t-values. Observations with payout<0 removed. Significance at 1 %(***), 5%(**) and 10%(*) levels indicated.

Figure 1. Caricature of a Dutch supervisory board, by J. Braakensiek, 1898.[22]



Commissioner A (to his neighbor): “Is everything in order over there, with that safe ….?”
Commissioner B: “Now listen here, that is up to the management. We have our hands full supervising the company; if we have to start looking after the safe as well …”

[22] Currently in the Gemeente Archief Amsterdam.

Appendix 1. Railway finance in the nineteenth century

The flotation of a number of railway issues in the middle of the nineteenth century seems to have been fairly easy, with the exception of the *Nederlandse Centraalspoorweg Maatschappij* in 1860, which many industry insiders realized in advance would be unprofitable because it did not connect major industries or population centres.

These flotations are of additional interest because the disposition of the shares has been investigated, giving some insight into their initial ownership structure. Van den Broeke (1983, 1985) documents in detail how initial finance was raised. As a case in point, take the 1863 flotation of the *Maatschappij tot Exploitatie van Staatsspoorwegen*. The initial shareholders were 244 in number, holding a total of 24,000 shares of *f* 250 each (*f* 6 mn in total). The largest stake reported by van den Broeke is 3000 shares held by a Paris bank, Hottinguer & Cie; the second largest, 2765 shares, by Wurfbain en Zoon, an Amsterdam securities brokerage house. Four other stakes of 1000 shares and above are mentioned, all held by banks in Amsterdam, London and Brussels.

There is no sign that any of these shareholders were motivated by a desire to take a controlling stake in the venture: the largest stake was no more than 12.5%. The largest stakes were all held by banking houses or securities firms. Many of these were based abroad and therefore in no position to exercise meaningful control. In total, 74.5% of the capital was taken up by the banking/financial sector; and the Dutch banks never developed an active role in the management of industry as in the German model.

Nor is there any sign that the government saw shareholding as an attractive means of ensuring control. The King and his entourage, and various politicians, government officials and members of the judiciary contributed for less than 600 shares in total. When efforts to raise a further *f* 6 mn in the subsequent five years seemed to founder, the government repeatedly declined to step in and only came up with a loan of *f* 2.5 mn, to be paid off as soon as new equity was raised.[23] There seem to have been a couple of shareholders with direct commercial ties to the railway business: a shipping line connecting England to Vlissingen (Flushing), for example.

[23] Even this very modest form of government support was considered too much in some quarters, to judge by a pamplet published in Breda in 1866, entitled "May the money, that is contributed by the Dutch citizen as taxes, be lent to a private company for its own profit? A word to the Dutch people, by Someone" (*Mag het Geld, dat door den Nederlandschen Burger als Belasting Wordt Opgebragt, Worden Geleend aan eene Maatschappij van Partikulieren, Tot Haar Eigen Winstbejag? Een Woord aan het Nederlandsche Volk, van Iemand*. Breda, P.B. Nieuwenhuijs, 1866).

Dutch railway finance
Source: van den Broeke (1985).

Name	Hollandsche Ijzeren Spoorweg Maatschappij	Nederlandsche Rhijnspoorweg Maatschappij	Nederlandse Centraalspoorweg Maatschappij[24]	Maatschappij tot Exploitatie van Staatsspoorwegen
Year founded[25]	1837	1845	1860	1863
Initial equity capital (placed)	ƒ 1.24 million[26]	ƒ 24 million	ƒ 5 million (authorized), ƒ 4.1 million (subscribed)	ƒ 6 million
Number of shares	1,240	100,000	20,000	24,000
Nominal value	ƒ 1,000.-	ƒ 240.-	ƒ 250.-	ƒ 250.-
# of initial shareholders	140	35	105	244
# of stakes ≥ 2%	9	9	at least 2	9(?)
Largest stake	11.3%	14%	at least 16%	12.5%
Largest shareholders and no. of shares held	140 stockbroker A'dam 110 ” 79 ” 66 ” 65 ” 49 ” 35 manufact. A'dam 25 trade A'dam 25 unknown A'dam	14,000 merchant London 14,000 merchants London 14,000 merch.ts/bankers Ln 14,000 manuf.er 'sGravenh 14,000 manuf.er Haarlem 12,500 director SWRail Ln 6,250 banker London 6,250 banker Liverpool 3,545 merchant A'dam	3,200 rlwy constr cons Paris 1,600 businessman Paris	3000 bank Paris 2765 stockbrokers A'dam 2000 bank A'dam 2000 bank London 1730 bank A'dam 1400 rlwy eqpmt co Utrecht 1000 bank Brussels 500 bank Frankfurt 500 bank Basel
Foreign ownership	2.4%	67.0%	> 90 %	35.2%
Leverage (total capital)[27]				
1850	0.66 (ƒ 10.8 mn)	0.49 (ƒ 14.0 mn)	-	-
1860	0.71 (ƒ 11.1 mn)	0.38 (ƒ 26.5 mn)	-	-
1870	0.89 (ƒ 17.2 mn)	0.41 (ƒ 41.6 mn)	1.90 (ƒ 10.0 mn)	0.75 (ƒ 10.5 mn)
1880	1.50 (ƒ 37.5 mn)	0.64 (ƒ 49.9 mn)	5.26 (ƒ 9.9 mn)	0.43 (ƒ 18.0 mn)
1890	1.68 (ƒ 60.4 mn)	0.84 (ƒ 56.2 mn)	2.35 (ƒ 11.4 mn)	1.31 (ƒ 40.2 mn)

[24] The data for NCS are less meaningful because the initial offering was underscribed, and many initial shareholders subsequently reneged on their obligation to fully pay up. Stakes are those attending/represented at shareholder meetings. The French stakes were somewhat involuntary, as they were payments for construction services and materials.
[25] The year given is the date of incorporation and of raising capital (or attempting to) from the public. Concessions were generally granted a few years in advance to a small group of entrepreneurial individuals (*concessionarissen*) who then set up the company and raised capital.
[26] Raised to ƒ 6.2 million within the same year by a 4 for 1 rights issue that was heavily oversubscribed and entirely taken up by the initial shareholders.
[27] Debt is measured as long-term debt, equity excludes reserves. Leverage is debt/equity, total capital is the sum of debt and equity.