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Journal of Corporate Finance 11 (2005) 473–503

Journal of
CORPORATE
FINANCE

www.elsevier.com/locate/econbase

The role of self-regulation in corporate governance: evidence and implications from The Netherlands

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Received 10 June 2002; accepted 28 January 2004

Available online 26 April 2004

Abstract

This paper studies The Netherlands' private sector self-regulation initiative ("The Peters Committee") to improve corporate governance practices. We examine the relation between firm value and corporate governance characteristics before and after the private sector initiative. We find the initiative had no effect on corporate governance characteristics or their relationship with firm value. Event study results suggest the market was skeptical about the success of self-regulation of corporate governance practices in The Netherlands. Our results on The Netherlands self-regulation initiative suggest little should be expected from initiatives that rely on monitoring without enforcement (e.g., similar or weaker initiatives in other European Union (EU) countries).

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JEL classification: F36; G38; K22

Keywords: International economics; Financial economics; Law and economics; Corporate governance; Regulation

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1. Introduction

It is well known that agency problems are associated with the separation of ownership from control in corporations (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983a,b). To mitigate these problems, corporate governance mechanisms have evolved that enable companies to raise funds in debt and equity markets. Corporate governance plays a crucial role in determining where, in what form and at what cost capital is provided by outside investors (e.g., Price Waterhouse, 1997; Shleifer and Vishny, 1997; La Porta et al., 1998; Financial Times, 2000a).

It is generally recognized, particularly by European Union (EU) countries, that investors, both foreign and domestic, consider the quality of corporate governance when making investment decisions (e.g., Weil et al., 2002). In response, EU countries have initiated self-regulation efforts to improve corporate governance practices and thereby promote investor interests. The nature of the initiatives has differed from country to country and their overall success or failure is an open question. As such, it is of interest to determine when self-regulation (via market forces) is sufficient to promote change, as well as when legal action is required to enforce contracts between owners and managers of capital (Alchian, 1950; Stigler, 1958; Shleifer and Vishny, 1997).

This paper assesses the effectiveness of The Netherlands' self-regulation initiative as outlined in the Peters Committee report (see Committee on Corporate Governance, 1997). The rationale for studying The Netherlands is twofold. The first is the intense international interest shown by investors and policymakers in this private sector initiative. With its perceived ability to balance alternative interests within the firm, the Dutch structure has been proposed as an alternative for the European Union (e.g., Financial Times, 2000b). Further, outside Europe, the International Monetary Fund funded a project for Indonesia that has the Dutch corporate governance model as part of its focus, and the Korean government used the Peters Committee report during deliberations on corporate governance. Finally, the United States' Securities and Exchange Commission (SEC) closely followed the Dutch "experiment" in self-regulation. All of this interest suggests the success or failure of self-regulation to promote effective corporate governance that enhances firm value is an important issue to investors and policy-makers.

The Netherlands' initiative (hereafter, the Peters Committee) focuses on self-regulation through transparency and monitoring. Based on an agreement between the Association of Securities Issuing Companies and Euronext Amsterdam in 1996, a Committee on Corporate Governance was formed. The committee was chaired by J. Peters (retired CEO of Aegon) and its members included representatives from the business community, Euronext Amsterdam, security issuing companies, academics and a platform of investors (stockholder and pension representatives). The charge of the Peters Committee was to initiate debate and suggest change in the balance of power between a firm's management and investors in The Netherlands.

In June 1997, the Peters Committee issued recommendations designed to increase the effectiveness of management, supervision and accountability to investors in Dutch corporations (see Committee on Corporate Governance, 1997). A key element of the report was its reliance on self-enforcement, through market forces, to implement and enforce its recommendations. Not unexpectedly, the Dutch government was interested in seeing change take place. The Dutch Minister of Finance stated "... in the case too little is

done with the recommendations, the question arises whether legislation is needed,” (NRC Handelsbad, July 24, 1997). One year after the effective date of the report, the Peters Committee completed a project to assess the impact of its initial report (*Monitoring Corporate Governance in Nederland*, 1998).

In this paper we evaluate the impact of the Peters Committee’s recommendations by analyzing the Tobin’s Q of Dutch companies listed on Euronext Amsterdam over the 5-year period prior to, and 3-year period after the release of the report. The data we study include variables on organizational form, voting rights, board characteristics, outside block-holders and debt/financing characteristics. We use an event study to assess investors’ reactions to various events (e.g., the release of the Peters Committee monitoring report). We also document constraints on investor rights in The Netherlands and actions by major investors that not only impact firm value, but also temper the potential success of the self-regulation initiative.

When domestic firms in The Netherlands reach a certain size, they are legally required to organize as a structured regime. The structured regime requires a supervisory board comprised of outsiders. A key aspect of this board is it takes numerous powers from shareholders. For example, the supervisory board elects the members of the management board (i.e., management) as well as electing its own members. Due to the greater separation of ownership from control, we hypothesize the structured regime has a negative relation with firm value. The results support this hypothesis as firms under the legally required structured regime exhibit, on average, a significantly lower Tobin’s Q . A voluntarily retained structured regime is a management choice for multi-national firms with more than 50% of their employees outside The Netherlands. Firms electing this organizational form also exhibit, on average, a significantly lower Tobin’s Q . Contrary to the role of outside monitoring, we find outside and industrial shareholders have a negative influence on firm value in The Netherlands. Thus, outside institutions do not play a significant monitoring role (although there is no evidence of collusion). We also document the presence of takeover defenses in The Netherlands and their negative effect on firm value.

The monitoring problems we document suggest a pessimistic outcome for The Netherlands’ self-regulation initiative, even with the government’s “threat” of potential legislation. Consistent with this pessimism, we fail to document any positive share price effects to actions taken by the Peters Committee. To the contrary, our event study results suggest the market was pessimistic about any substantive evolution of corporate governance practices in The Netherlands, and reacted negatively to the release of the Peters Committee monitoring report. A notable feature of our findings is the disciplining role of the new listings market in the post-Peters period. In the post-Peters report period, new listings have favorable and significant corporate governance characteristics when compared to new listings in the pre-Peters period.

A further rationale to study The Netherlands self-regulation initiative is 13 of the 15 EU countries have initiated codes of corporate governance (these initiatives are outlined in more detail in the following section). The codes differ by whether compliance is “required” or voluntary, whether there is monitoring or not (i.e., whether information reported by companies is independently verified or not), and if there was monitoring, whether it was with or without enforcement. Our findings of no significant improvements in corporate governance resulting from The Netherlands self-regulation initiative (which is characterized by voluntary compliance, monitoring and no enforcement) cast doubt on the success

of 9 initiatives by other EU countries because they are based on voluntary compliance, no monitoring and no enforcement. Further, if monitoring with enforcement is a necessary condition for success, the outcomes of 2 additional initiatives merely requiring compliance are also questionable. A notable exception to these 12 EU initiatives is the United Kingdom's (UK) successful Cadbury Committee and report. However, this initiative was characterized by mandatory compliance, monitoring and enforcement.¹

The outcomes of the EU self-regulation initiatives noted above, and the recently passed German corporate governance legislation that excludes monitoring and enforcement confirm La Porta et al.'s (2000) skepticism about substantive legal/political action because of the intense opposition from the self-interested parties involved (and to a lesser extent the lack of appreciation for the importance of investor rights).

The remainder of the paper is organized as follows. The next section presents a framework for integrating the self-regulation initiative in The Netherlands with similar self-regulation initiatives in other markets. Section 3 provides a description of Dutch corporate governance practices and outlines hypotheses on the relation between corporate governance characteristics and firm value. Section 4 describes the data and Section 5 reports our results. Section 6 concludes and discusses the implications of our findings.

2. Self-regulation corporate governance initiatives

To place our study of The Netherlands' self-regulation corporate governance initiative in a broader context with other countries, we present a framework for analyzing and comparing it with similar initiatives in other (EU) countries. The Internal Market Directorate General of the European Commission underwrote a study of corporate governance codes of the European Union and its members (see Weil et al., 2002). For EU members, the study provides a detailed description of each initiative, the issuing or sponsoring body, the legal basis for compliance, and the objectives, scope and companies covered. From this information we can classify the corporate governance initiatives by whether compliance was required or voluntary, whether there was monitoring or not (whether companies' information was independently verified or not), and if there was monitoring, whether it was with or without legal enforcement. Table 1 summarizes the results of our classification.

At one extreme is the highly successful Cadbury Committee in the United Kingdom (row 2 of the table). While the Cadbury Report started as a voluntary code, it recommended a mandatory compliance report. The London Stock Exchange adopted the recommendations and firms were required to provide reasons if they did not comply with the Cadbury Committee's recommendations. Reviews of the compliance report by outside auditors were also required and there was the threat of litigation if companies did not comply with the guidelines. Dedman (2000) and Dahya et al. (2002) find significant

¹ In a study motivated in part by the recommendations of the Cadbury Committee, Dahya and McConnell (2004) find "announcement period stock returns indicate that investors appear to view appointments of outside directors and outside CEOs as good news." The authors conclude "Apparently, boards with more outside directors make different (and perhaps better) decisions."

Table 1
A classification and comparison of corporate governance initiatives and codes for 15 European Union countries^a

Country ^b	Anti-director index	Code of corporate governance	Compliance		Monitoring (i.e., independent verification)		No monitoring ^c (i.e., no independent verification)		
	Min=0 max=6		Required: explain non-compliance	Voluntary	With enforcement	Without enforcement	Self-reporting	Official survey	No official follow-up
Netherlands	2.0	Yes		Yes		Yes			
United Kingdom	5.0	Yes	Yes		Yes				
Italy	1.0	Yes	Yes				Yes		
Ireland	4.0	Yes	Yes				Yes		
Spain	4.0	Yes		Yes				Yes	
Belgium	0.0	Yes		Yes				Yes	
Portugal	3.0	Yes		Yes				Yes	
France	3.0	Yes		Yes				Yes	
Denmark	2.0	Yes		Yes					Yes
Finland	3.0	Yes		Yes					Yes
Sweden	3.0	Yes		Yes					Yes
Greece	2.0	Yes		Yes					Yes
Germany	1.0	Yes		Yes					Yes
Austria	2.0	No							
Luxemburg	N/A	No							

^a Source: Weil et al., 2002.

^b Since there are numerous initiatives in some countries, we chose the initiative with the explicit or implicit backing of the government. Variable definitions are as follows: anti-director index (which ranges from 0 to 6) is an index formed by adding 1 when: (a) the country allows shareholders to mail their proxy vote to the firm, (b) shareholders are not required to deposit their shares prior to the general shareholders' meeting, (c) cumulative voting or proportional representation of minorities in the board of directors is allowed, (d) an oppressed minorities mechanism is in place, (e) the minimum percentage of share capital entitling a shareholder to call for an extraordinary shareholders' meeting is less than or equal to 10% (the sample median in the study cited) or (f) shareholders have pre-emptive rights that can be waived only by a shareholders' vote. See Table 2 in La Porta et al. (1998), which details a country's compliance with each of the six criteria that make up the anti-director index. A "Yes" entry in the remaining columns of the table indicates the presence of the item in the particular country's code of corporate governance.

^c Self-reporting means firms in non-compliance with the requirements must "voluntarily" report their non-compliance. Official survey means the group responsible for the corporate governance initiative conducted an official follow-up survey that firms were asked to complete. However, there was no independent verification of the information firms provided. No official follow-up means there was no official follow-up or officially sanctioned follow-up to the publication of the respective code of corporate governance.

changes in board structure and management characteristics following the Cadbury Committee's recommendations, as well as an increase in firms' average performance. Stiles and Taylor (1993) document that significant changes took place within 1 year of the Cadbury Committee's recommendations.

With the exception of Italy and Ireland (rows 3 and 4 of Table 1), which require compliance like the UK, all of the remaining countries with a corporate governance code rely on voluntary compliance. Included in this set is the corporate governance code put forth in The Netherlands by the Peters' Committee (row 1 of Table 1). As stated above, the Peters' Committee advocated self-regulation of Dutch corporate governance practices via voluntary compliance, and monitoring without enforcement. Differences in the structure and implementation of the initiatives summarized in Table 1 make it impossible to perform a detailed comparative analysis of their (likely) outcomes with any degree of accuracy. As noted above, we use this framework simply to place the Peters Committee's corporate governance initiative in a broader context with other European countries. Nonetheless, using this classification framework, and based on the results we report below for The Netherlands, we can conjecture about the likely outcomes. If monitoring with enforcement is a necessary condition for success (e.g., UK), then the Italian and Irish initiatives requiring compliance can be evaluated. Specifically, the UK condition of monitoring with enforcement casts some doubt on the likelihood of success for Italy and Ireland. The remaining corporate governance initiatives summarized in rows 5–13 of Table 1 (for Spain, Belgium, Portugal, France, Denmark, Finland, Sweden, Greece and Germany) are weaker than The Netherlands in that compliance is voluntary, with no monitoring. The results we report below for The Netherlands lead us to be skeptical about the success of the initiatives in these nine countries.

Table 1 also presents information about investor rights based on La Porta, et al.'s (1998) anti-director index. The value of the index ranges from 0 to 6 with a low (high) value indicating a low (high) level of shareholder rights.² Since it is somewhat arbitrary deciding at what point on the scale a country shifts from anti-shareholder to pro-shareholder, we refrain from making precise statements and comparisons along such lines. Instead, we make the following general observations. Consistent with the discussion in the previous paragraph, the UK (index of 5.0) ranks quite high on the scale. Conversely, The Netherlands (index of 2.0) and the remaining countries (except Ireland and Spain) have values of 3.0 or lower. The lower index values for these countries (including The Netherlands), in conjunction with the point we made in the prior paragraph about the voluntary nature of compliance, with no monitoring, of the corporate governance codes in these countries, lead us to further doubt the likely success of these countries' corporate

² The anti-director index ranges from 0 to 6 and is formed by adding 1 when each of the following applies: (a) the country allows shareholders to mail their proxy vote to the firm, (b) shareholders are not required to deposit their shares prior to the general shareholders' meeting, (c) cumulative voting or proportional representation of minorities in the board of directors is allowed, (d) an oppressed minorities mechanism is in place, (e) the minimum percentage of share capital entitling a shareholder to call for an extraordinary shareholders' meeting is less than or equal to 10% (the sample median in the study cited) or (f) shareholders have pre-emptive rights that can be waived only by a shareholders' vote. See Table 2 in La Porta et al. (1998), which details a country's compliance with each of the six criteria that make up the anti-director index.

governance initiatives. We should mention that Ireland has since mandated independent monitoring with enforcement. These general observations are consistent with [Dyck and Zingales \(2004\)](#) who document the value of control, as measured by the premium paid for controlling blocks of shares, in the countries just considered.

Further evidence of the lack of success with self-regulation based corporate governance initiatives is illustrated by Germany's recently enacted corporate governance legislation (the final form of the legislation excludes monitoring and consequently effective enforcement). A lack of success with self-regulation initiatives confirms [La Porta et al.'s \(2000\)](#) skepticism about substantive legal/political action due to intense opposition from the self-interested parties involved. On the other hand, the lack of success is somewhat contrary to evidence suggesting governance mechanisms maintaining day-to-day accountability of management and boards are more efficient than relying on alternatives such as the market for corporate control ([Franks and Mayer, 1996](#); [Gugler, 2001](#); [Barca and Becht, 2001](#)).

3. Dutch corporate governance

3.1. Legal structure

Current Dutch company law was enacted in 1971 after a government committee (Verdam Committee) issued a proposal for company law reform in 1965 and a draft law based on the report in 1968.³ Its starting point is a shareholder-controlled firm with both a supervisory and management board. Shareholders elect members of the supervisory board and management boards and approve the annual accounts. Dividend policy is set by management with the consent of the supervisory board and is formally approved by shareholders. Shareholders vote on such issues as mergers and acquisitions. All votes are taken at the annual Meeting of Shareholders and physical presence is required (voting by proxy is not part of the Dutch structure).

A full "structured regime" is legally required for Dutch companies with more than 100 employees, a legally installed work council and book value of shareholders' equity in excess of 11.4 million euros. The full structured regime requires the supervisory board take over the following powers from shareholders: establishing and approval of the annual accounts, the election of the management board, and the election of the supervisory board itself (called co-optation). The supervisory board also has authority over major decisions made by the management board. The most prevalent exception to the full structured regime is Dutch multinationals with more than 50% of their employees outside The Netherlands. Such companies file and obtain an exemption

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

from the full structured regime. However, such a company may voluntarily retain the full structured regime, and Dutch multinationals typically do, even though there is no legal requirement.⁴

Turning to the two boards and the works council, a Dutch company operates under a two-tier management structure consisting of a Supervisory Board and Management Board.⁵ The supervisory board is “independent” of the company and comprised entirely of “outsiders.” These outsiders primarily consist of “professional managers” and can (and often do) include past members of management. With the rare exception of a retired politician, politicians and regulators are not members of a supervisory board. Board members receive a fixed payment (dependent on the firm’s size) for their services and very few hold shares in the company. Thus, reputation is important for getting and keeping such positions, which suggests supervisory board members are likely to be risk averse. The law requires the board serve the firm’s interest. However, under the structured regime, the supervisory board has very few restrictions on its ability to determine its own composition, re-appointments and other organizational matters, including the management board. The law requires that the management board serve at the pleasure of the supervisory board.⁶

The management board makes up the company’s management team and is responsible for attaining the company’s objectives, its strategy and policy and the ensuing results. Labor is not required to have an “outside” representative on the supervisory board nor is labor a member of the management board (Company Law of 1971). The legally installed works council, which is required when a company has more than 100 employees, has a right to relevant information and to advise on such major issues as transfers of ownership, plant closings and major investments. While this is more than a formality, the management board decides and can overrule the advice of the works council. The works council’s permission is only required for changes in social arrangements (e.g., pensions, working hours, wages, safety rules). If the council disagrees with a firm’s proposals on social arrangements, the firm must obtain a local judge’s decision to proceed.

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

⁵ Presently, the two-tier structure is used in Denmark, Germany, Netherlands and France (which gives firms the option of choosing either the one or two-tier structure, eight of the CAC40 in France use the two-tier structure). However, implementation differs across countries. In Germany, the supervisory board exerts substantial independent influence on management. In The Netherlands, there is a close relationship between the management and supervisory boards so as to include the management board’s influence on appointments to the supervisory board.

⁶ Under the *no structured regime*, at the annual meeting shareholders can nominate and elect supervisory board members. Under the *structured regime*, nominations for supervisory board members may be proposed and rejected by shareholders, but election is by the supervisory board. Large investors can influence the outcomes by refusing to approve the financial statements and supervisory board nominations (Chirinko et al., 2003).

3.2. Voting rights

At the time of organization, a company has an authorized capital structure consisting of ordinary shares. Such shares have voting, dividend and trading rights. When the company's organization and size require the full structured regime, the supervisory board is granted the rights (detailed above) previously held by shareholders. Shareholders still vote on mergers and acquisitions and dividend policy under the structured regime.

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

As takeover defenses, companies may have additional types of securities in their capital structure. The most common takeover defense is "protective preference shares." Management can issue such shares to a friendly trust office or outside investor during a hostile takeover. Preference shares are sold at nominal value to the trust office or friendly investor with an obligation to pay only 25% of the amount up front. Preference shares have voting rights and are restricted to a maximum of 50% or 100% of the current outstanding nominal capital depending on the anti-takeover amendments in place. Special voting privileges are also granted through "Priority shares" which give their holders special rights in situations such as merger approval, new public offerings, charter amendments and company liquidation. The provisions of Euronext Amsterdam 1997 only allow a company to have two of the three takeover defenses noted above (certificates, priority shares and protective preference shares).

Prior research finds that firm value is adversely affected by constraints placed on shareholders' voting rights and by management's attempt to prevent changes in corporate control (e.g., Stulz, 1988; Malatesta and Walking, 1988). In The Netherlands, the legally required structured regime is used to directly limit shareholder influence. Similarly, the voluntarily retained structured regime also directly limits shareholder rights. However, the voluntarily retained structured regime is essentially a supervisory and management board choice. Other explicit constraints on shareholder influence occur through the use of certificates, and preference and priority shares, which as takeover defenses mitigate the market for corporate control.

To help put the sour discussion of voting rights and the takeover market in The Netherlands in a broader context and link our discussion to related research, Maeijer and Geens (1990) enumerate anti-takeover measures in 11 European countries. Non-voting shares (certificates in The Netherlands) are used in France and Belgium, while priority shares are present in the UK and Germany. In Germany, specific shares may even have rights to appoint managerial and supervisory board members. Unlike The Netherlands, none of the 11 countries has preference shares as a takeover defense. Voogd (1989) presents a detailed review of takeover defenses in The Netherlands and identifies over 50 measures that are or have been used in The Netherlands. However, most of the measures are used by very few firms, or are not used anymore. Voogd (1989) identifies six measures widely used. They are the four measures we use, the structured regime, priority shares, preferred shares and certificates, along with binding appointments and voting limits. Binding appointments imply the right to appoint board members is granted to a specific party (not the shareholders).⁷ Voting limits occur only in 6% of Voogd's (1989) sample, thus are not widely used. Finally, stock markets of similar size and liquidity (to The Netherlands) in Europe face similar problems affecting disciplining takeovers. For example, Maeijer and Geens (1990) show legal measures are present in most countries and other countries have structural defenses like cross-holdings and pyramids (see also Becht, 1999).

3.3. Monitoring

The literature suggests major outside shareholders may constrain management's deviation from value-maximizing behavior (e.g., Agrawal and Knoeber, 1996; Cho, 1998; Holderness and Sheehan, 1988; La Porta et al., 1999; Morck et al., 1988). However, the ability to generalize these findings to The Netherlands is questionable, particularly for structured regime firms. We consider the influence of a major outside shareholder, and also the influence of major shareholdings by financial institutions (i.e., banks, insurance companies and pension funds, etc.) and industrial firms. Shareholdings by financial institutions can have a positive or negative impact on firm value (Pound, 1988). The effect will be positive if they are more efficient monitors than atomistic shareholders. It will be negative if they collude with management. While McConnell and Servaes (1990) find a positive relationship in the US, in The Netherlands financial institutions are known for their passive attitude. With regard to industrial firm shareholdings, the effect may be positive due to improved monitoring, or negative due to collusion and/or attempts to influence decisions for their own benefit.⁸

Two final factors related to monitoring are debt markets and cross-listing. Debt markets can discipline management's deviation from value-maximizing behavior

⁷ Unfortunately, this information is only available from the articles of association and we do not have access to such data. This is unlikely to bias our results because holders of priority shares normally receive binding appointment rights and we already include priority shares in our tests.

⁸ Cantrijn and Vente (1997) sent questionnaires to Dutch institutional investors. The responses showed such investors perceive liquidity to be more important than exercising control. Moreover, institutions exercising supervision over a firm's investment and remuneration policies were cited by only 20% and 33% of the respondents, respectively.

(Jensen and Meckling, 1976). To help put the strength of bondholder/creditor rights in The Netherlands in a broader context we draw on work by La Porta et al. (1998). La Porta et al. (1998, p. 1113) develop a measure of creditor protection in 49 countries. The measure is composed of four items: (1) no automatic stay on assets (i.e., a restriction exists in the law that prevents secured creditors from gaining possession of their security), (2) secured creditors are paid first (i.e., secured creditors are ranked first in the distribution of the liquidation, which means the absolute priority rule applies), (3) restrictions exist for going into reorganization (i.e., reorganization is only allowed after consent of creditors) and (4) management does not stay on in reorganization (i.e., an official is appointed who is responsible for the business during reorganization). Each of these four items is derived from countries' bankruptcy and reorganization laws. The Netherlands scores 2 out of 4 on this measure of creditor protection because secured creditors are paid first, and restrictions exist for going into reorganization. Other (French-origin) firms' score an average of 1.58, the US scores 1 and the sample average for all 49 countries is 2.3. A score of 2 implies debt-holders in The Netherlands have a stronger position than US peers, but overall (i.e., internationally), they do not have many rights. While La Porta et al. (1998) describe the legal rights of creditors, actual practices may differ in The Netherlands. Couwenberg (1997) explores four cases of bankruptcy and finds cooperative debt-holders in the sense that debt contracts are renegotiated. Couwenberg (1997) concludes creditors have influential positions in The Netherlands, suggesting debt has a disciplining effect in cases of bankruptcy.

Finally, it is important to recognize the disciplining aspects of listing on an exchange outside The Netherlands. For example, UK and US listings require more company and compensation disclosure than Euronext Amsterdam (Lins et al., 1999). Our empirical tests include a variable capturing cross-listings in the US and UK.

3.4. The Peters Committee

The Peters Committee issued its preliminary conclusions in October 1996. Its final recommendations were published in June 1997, which as expected, were similar to the preliminary report (the report is available at www.ecgi.org). The report made a major appeal to re-evaluate the numerous constraints placed on the rights of shareholders in The Netherlands. The committee spoke specifically to the accountability of the supervisory and management boards under the structured regime. However, the report did not address the inherent problems of the structured regime. Instead, the committee focused on how to make the structured regime relatively more accountable to shareholders without changing shareholders' fundamental rights. Clearly, this is likely to be a difficult task, because shareholders have very few rights to begin with under the full structured regime. The committee's monitoring report of December 1998 contained all of the corporate governance information collected on the companies for 1997 (1 year after the release of the committee's formal report). The "monitoring report" was an attempt by the committee to assess the extent to which Dutch firms were complying with the recommendations contained in the original Peters Committee report.

4. Research design

Data from 1992 to 1999 (covering both the pre- and post-Peters Committee periods) are used to examine organizational form, voting rights and monitoring relationships. By collecting data from the post-Peters period (i.e., 1997–1999), we are able to conduct tests to assess the impact of the committee's recommendations on the corporate governance variables outlined above. To do so, we use the results from the pre-Peters period as a benchmark. As a means to further assess the impact of the Peters Committee's recommendations, we compare governance characteristics of new listings during the pre-Peters period with those during the post-Peters period to see if any improvements in shareholder rights are observed. Lastly, using event study techniques, we evaluate the impact of various corporate governance-related events and announcements related to the Peters Committee and Dutch government during the 1996–1999 period and afterwards.

4.1. Sample

Our sample contains all non-financial firms listed on Euronext Amsterdam from 1992 to 1999. We exclude financial firms because of their regulatory structure. We start our sample selection with the yearly overviews of all securities listed at Euronext Amsterdam (Gids bij de Officiële Prijscourant van de Amsterdamse Effectenbeurs). There are 208 firms listed for at least one calendar year from 1992 to 1999. Three firms are dropped because their annual reports are not available. For the remaining 205 firms, we collect data from 1992 (or the year following the firm's listing) through 1999. Since we focus on the Peters Committee and its implications, we exclude 26 firms that were only listed during the pre-Peters period (1992–1996) and 39 firms that were only listed during the post-Peters period (1997–1999). The final sample contains 140 firms with 1035 firm-year observations.

Financial data, including bank debt and board compensation, are obtained from Statistics Netherlands (Centraal Bureau voor de Statistiek) and the Review and Analysis of Companies in Holland (REACH) dataset. We use annual reports to identify board members and to obtain information missing from Statistics Netherlands and REACH. Data on ownership structure are obtained from the leading Dutch financial daily newspaper (*Het Financieele Dagblad*) that annually publishes a list of exchange-listed firms and their stakeholders (in accordance with the notifications for The Law on Disclosure of Shareholdings, *Wet Melding Zeggenschap*). Information about takeover defenses and cross-listings are from the yearly overviews of all securities listed at Euronext Amsterdam (Gids bij de Officiële Prijscourant van de Amsterdamse Effectenbeurs). Data on structured regimes are obtained from the [Monitoring Corporate Governance in Nederland \(1998\)](#) and [Honée et al. \(2000\)](#), which provide structured regime classifications for 1997 and 1999. For years prior to 1997, we use the firm's annual report for 1992 to make the classification. The annual reports allowed us to investigate whether the supervisory board established the annual accounts and whether the firms met the criteria for the structured regime. If we found a difference between 1992, 1997 and 1999, we investigated all annual reports from 1992 to 1999. In cases of inconsistency, we contacted the firm.

4.2. Variable definitions and summary statistics

Along with some descriptive statistics, [Table 2](#) lists the variables used in our empirical tests along with the abbreviations used to refer to them in the text and later tables. [Table 3](#) presents descriptive statistics for three sub-samples, no structured regime, legally required structured regime and voluntarily retained structured regime.

Tobin's Q (TQ) measures firm value and performance ([Lindenberg and Ross, 1981](#)). TQ is the dependent variable in our regression tests and is measured as the book value of liabilities plus the market value of equity, divided by the replacement cost of the firm's assets (see [Perfect and Wiles, 1994](#)).⁹ Also appearing in [Table 2](#) are several control variables. These variables are firm size measured as the book value of total assets (BVTA), growth measured as the log of one plus (Growth) the 3-year historical growth rate of the firm's book value of assets and leverage (LEV) measured as long-term debt divided by book value of assets. Based on prior research, in a regression with Tobin's Q as the dependent variable, the coefficient on BVTA will be negative and those on GROWTH and LEV will be positive.¹⁰

Turning to our independent variables, the first deals with cross-listing. XLIST takes on the value 1 (0) if the firm is (is not) listed on an exchange in the UK or US. The organizational form of the sample firms is addressed by the next two variables. SR takes on a value of 1 (0) if the firm is (is not) a legally required structured regime while SR_V takes on a value of 1 (0) if the firm has (has not) voluntarily retained the structured regime. We capture limitations on shareholder rights by using PRIO which takes on a value of 1 (0) in the presence (absence) of priority shares, PREF which is set to 1 (0) if the firm can (cannot) issue and place protective preference shares and CERT which is set to 1 (0) when the firm has (has not) issued certificates.

The role of the debt market as a disciplining mechanism is first captured by focusing on financial institutions (e.g., banks, insurance companies and pension funds, etc.). In particular, we consider LEV (leverage) and FIN_ILOCK, which is the number of interlocking directorates with financial institutions. We next focus on banks by using BANK_D, which is measured as the firm's bank debt (long-term bank debt divided by total assets) and BANK_ILOCK, which is the number of bank interlocking directorates on the supervisory board. Both measures of interlocking directorates reflect the number of relationships (interlocks) with banks or financial institutions, with bank interlocks being a subset of financial institutional interlocks.

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

¹⁰ A positive coefficient for leverage confirms the disciplinary role of leverage (see, [McConnell and Servaes, 1990](#)). [de Jong and Veld \(2001\)](#) document the absence of this role in The Netherlands due to managerial entrenchment. The absence of this result is also consistent with the "debt avoidance" hypothesis articulated by [Zwiebel \(1996\)](#).

Table 2
Variable definitions and descriptive statistics for the variables used in the empirical tests

Variable	Description	Variable name	Mean	Median	Min	Max	Standard deviation
Tobin's Q	Market value of total assets/replacement value of total assets	TQ	1.576	1.228	0.524	23.323	1.472
Total assets	Book value of total assets in 1,000,000 NLG	BVTA	3133.0	452.0	3.79	109,863.0	9961.0
Growth	Three-year historical growth of total assets	GROWTH	0.428	0.224	-0.760	9.810	0.930
Leverage	Long-term debt/book value of total assets	LEV	0.136	0.115	0.0	0.660	0.123
Listing abroad	Dummy variable with value of 1 for listing on a stock exchange in the UK and/or US, 0 otherwise	XLIST	0.160	0.0	0.0	1.0	0.360
Structured regime	Dummy variable with value of 1 for presence of legally required structured regime, 0 otherwise	SR	0.473	0.0	0.0	1.0	0.500
Voluntary structured regime	Dummy variable with value of 1 for presence of voluntarily retained structured regime, 0 otherwise	SR_V	0.132	0.0	0.0	1.0	0.339
Priority shares	Dummy variable with value of 1 for presence of priority shares, 0 otherwise	PRIO	0.390	0.0	0.0	1.0	0.490
Preference shares	Dummy variable with value of 1 for presence of preference share option, 0 otherwise	PREF	0.604	1.0	0.0	1.0	0.489
Certificates	Dummy variable with value of 1 for presence of certificates, 0 otherwise	CERT	0.370	0.0	0.0	1.0	0.480
Interlocks with banks	The number of interlocking directorates with banks	BANK_ILOCK	0.780	0.0	0.0	8.0	1.160
Interlocks with financials	The number of interlocks with financial institutions	FIN_ILOCK	1.080	0.0	1.0	9.0	1.560
Largest block-holder	The stake of the largest block-holder	OSIDE_EQ	22.10	13.33	0.0	94.00	19.35
Financial institution block-holdings	The stake of block-holdings by banks, insurance companies, pension funds and institutionalized venture capitalists	INSTL_EQ	12.68	8.20	0.0	90.73	14.95
Bank block-holdings	The stake of block-holdings by banks	BANK_EQ	7.66	5.14	0.0	67.35	10.41
Industrial block-holdings	The stake of industrial block-holders	INDUS_EQ	10.22	0.0	0.0	93.17	20.32
Insider block-holdings	The stake of supervisory and management board block-holdings	INSIDE_EQ	6.16	0.0	0.0	97.05	17.15
Bank debt	Long-term bank debt/book value of total assets	BANK_D	0.072	0.003	0.0	0.44	0.089

The sample consists of 140 Dutch firms over the 1992 to 1999 period (sample size is 1035 observations, 806 observations for bank debt).

Table 3

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

Variable	No structured regime $N=408$				Legally required structured regime $N=490$				Voluntarily retained structured regime $N=137$			
	Mean	Median	Min	Max	Mean	Median	Min	Max	Mean	Median	Min	Max
Tobin's Q	1.890	1.378	0.50	23.323	1.290	1.107	0.524	9.516	1.660	1.381	0.848	6.347
Total assets	5200.0	169.0	3.790	109,863.0	1275.0	469.0	33.0	19,205.0	3627.0	1052.0	9.0	31,481.0
Growth	0.490	0.238	-0.760	9.810	0.329	0.199	-0.630	8.510	0.596	0.352	-0.410	9.090
Leverage	0.111	0.085	0.0	0.460	0.144	0.122	0.0	0.660	0.180	0.185	0.0	0.530
Listing abroad	0.190	0.0	0.0	1.0	0.100	0.0	0.0	1.0	0.250	0.0	0.0	1.0
Priority shares	0.48	0.0	0.0	1.0	0.35	0.0	0.0	1.0	0.25	0.0	0.0	1.0
Preference shares	0.42	0.0	0.0	1.0	0.75	1.0	0.0	1.0	0.61	1.0	0.0	1.0
Certificates	0.28	0.0	0.0	1.0	0.48	0.0	0.0	1.0	0.26	0.0	0.0	1.0
Interlocks with banks	0.52	0.0	0.0	5.0	0.87	0.0	0.0	8.0	1.24	1.0	0.0	5.0
Interlocks with financials	0.80	0.0	0.0	8.0	1.14	1.0	0.0	9.0	1.69	1.0	0.0	7.0
Largest block-holder	25.33	15.00	0.0	94.00	20.36	13.53	0.0	82.62	18.71	9.42	0.0	67.35
Financial institution block-holdings	7.99	0.0	0.0	90.73	16.81	12.68	0.0	90.73	11.84	8.94	0.0	73.17
Bank block-holdings	5.43	0.0	0.0	58.28	9.26	6.57	0.0	49.99	8.61	5.34	0.0	67.35
Industrial block-holdings	11.56	0.0	0.0	93.17	9.89	0.0	0.0	93.17	7.41	0.0	0.0	62.00
Insider block-holdings	11.08	0.0	0.0	97.05	3.11	0.0	0.0	68.30	2.41	0.0	0.0	46.93
Bank debt	0.054	0.010	0.0	0.380	0.079	0.048	0.0	0.440	0.102	0.098	0.0	0.340

The sample consists of 140 Dutch firms over the 1992 to 1999 period (sample size is 1035 observations, 806 observations for bank debt.). See Table 2 for variable definitions.

Due to data availability we do not have a complete set of BANK_D observations for all firms.

The remaining (five) independent variables capture the concentration and identity of outside shareholders as well as insider holdings. OSIDE_EQ is the stake of the largest outside block-holder owning 5% or more of the shares, INSTL_EQ is the sum of all institutional block-holdings (banks, insurance companies and pension funds, etc.), BANK_EQ is the sum of all bank block-holdings and INDUS_EQ is the sum of the block-holdings by industrial firms. To isolate the influence of outside shareholders, we must control for the sum of the block-holdings by insiders, supervisory and management board members (INSIDE_EQ).¹¹

The definitions of block-holder control rights follow [Barca and Becht \(2001\)](#) where nine European countries are studied (see [de Jong et al., 2001](#) for a detailed description of the Dutch data). [La Porta et al. \(1999\)](#) study voting rights using dummy variables for specific features such as pyramids and cross-holdings. In The Netherlands, deviations from one-share-one-vote are certificates, priority shares and preferred shares. Certificates take away all control rights, priority shares take away voting rights on specific issues, while preferred shares dilute voting rights in specific circumstances. We use the cash flow rights and control for the deviations from one-share-one-vote using three dummy variables.

Several aspects of the descriptive statistics in [Table 2](#) are worth noting. Forty-seven percent of the observations in the sample have structured regimes and 13.2% have voluntary structured regimes. With regard to cross-listings, 16.0% of the sample observations are drawn from years where a firm is listed in the US and/or UK. Turning to the variables reflecting limitations on shareholders' rights, 39.0%, 60.4% and 37.0% of the sample observations are associated with priority shares, preference shares and certificates, respectively.

Comparison of select variables across regime status in [Table 3](#) reveals the following. Firms with no structured regime tend to have higher mean and median values of Tobin's Q when compared to firms with a legally required structured regime, or firms with a voluntary structured regime. Mean and median values for the former are 1.89 and 1.38, compared to 1.29 and 1.11 and 1.66 and 1.38 for the other two groups, respectively. Based on median values of total assets, firms with no structured regime tend to be smaller (169.0) than firms with a legally required structured regime (469.0) and firms with a voluntary structured regime (1052.0).¹²

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

¹² A curious feature of the descriptive statistics in [Table 3](#) is the average total assets for the "No Structured Regime" sample exceeds that of the "Legally Required Structured Regime" sample. The difference is due to an outlier and the firm is Royal Dutch, which is the Dutch part of the dual-listed firm Royal Dutch/Shell. Since more than 50% of the firm's employees are employed outside the Netherlands, it is exempt from the structured regime and has not chosen to voluntarily adopt the structured regime.

4.3. Regression model

We use the following regression model to test relationships between the governance and control variables described above and firm value (Tobin's Q):

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

All regression t -statistics are based on White's heteroskedastic corrected standard errors and estimation of the model incorporates fixed firm and year effects.¹³

5. Results

We first estimate regressions to test the relationships hypothesized in Section 3. Next we isolate the impact the Peters Committee recommendations had on the corporate governance variables and the relation between these variables and Tobin's Q . Lastly, we report the results of our event study analysis.

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

Our initial regressions are based on the 1992–1999 period and the results are reported in Tables 4 and 5. Referring to model 1 in Table 4, consistent with prior research the coefficient on firm size is negative and that on growth is positive. The coefficient on leverage, the remaining control variable, is insignificant.¹⁴ The disciplining role of cross-listing is confirmed by the positive and significant coefficient on the cross-listing variable. As discussed in more detail below, this result appears to be driven by firms listed in the US.

Models (2) and (3) in Table 4 address the impact of organizational form on Tobin's Q . Consistent with our most important hypothesis, the legally required structured regime has a significant negative impact on Tobin's Q . After controlling for the other shareholder rights variables (see model 3), the structured regime reduces Tobin's Q by 0.555. Similar results are found for firms voluntarily retaining the structured regime (Tobin's Q is reduced by 0.639). It is important to view the effect of the required structured regime as distinct from the voluntarily retained structured regime because the former is not a managerial choice while the latter is.

¹³ A feature of panel data like that used in this study is over time there are likely to be unobserved factors affecting the behavior of the dependent variable that cannot be identified or measured and included in the model. A common approach to control for such factors is to incorporate firm-specific intercepts into the regression model. The resulting fixed-effects regression assumes the impact of the unobserved factors is constant through time for a given firm, but different across firms. An analogous argument motivates using year-specific intercepts.

¹⁴ This result differs from McConnell and Servaes (1990) who document a positive influence. Our result is explained by results in de Jong and Veld (2001), which document, in a sample of debt and equity issues, that Dutch firms avoid leverage when its disciplinary role is most valuable. Thus, an insignificant effect is consistent with the absence of leverage as a disciplinary factor for Dutch firms.

Table 4
The relation between Tobin's Q and shareholder rights

	Predicted sign	Model (1)	Model (2)	Model (3)
Constant		0.937 (5.28)***	1.145 (5.61)***	1.861 (4.45)***
Y93		0.281 (2.95)***	0.300 (3.12)***	0.306 (3.12)***
Y94		0.339 (3.64)***	0.391 (3.99)***	0.399 (4.02)***
Y95		0.295 (3.17)***	0.348 (3.63)***	0.332 (3.43)***
Y96		0.406 (3.42)***	0.477 (4.14)***	0.424 (3.66)***
Y97		0.504 (3.74)***	0.600 (4.43)***	0.539 (3.95)***
Y98		0.389 (2.94)***	0.487 (3.94)***	0.415 (3.14)***
Y99		0.431 (2.38)***	0.535 (2.76)***	0.456 (2.48)***
BVTA	–	–0.001 (–3.42)***	–0.001 (–3.45)***	–0.001 (–3.45)***
LOG(1+GROWTH)	+	2.257 (3.88)***	2.116 (3.96)***	2.019 (4.11)***
LEV	+	0.130 (0.15)	0.474 (0.59)	0.667 (0.40)
XLIST	+	2.362 (4.12)***	2.391 (4.19)***	2.261 (4.41)***
SR	–		–0.546 (–2.37)***	–0.555 (–2.52)***
SR_V	–		–0.682 (–2.43)***	–0.639 (–2.41)***
PRI0	–			–0.667 (–2.61)***
PREF	–			–0.357 (–1.97)**
CERT	–			–0.365 (–1.61)**
N		1035	1035	1035
Adj. R^2		0.408	0.418	0.433

The table reports the results of fixed-effects regressions focusing on shareholder right variables. The dependent variable is Tobin's Q and all other variables are defined in Table 2. The regressions contain year dummies (Y93–Y99) that are shown and firm dummies that are not. The sample consists of 1035 observations for 140 firms over the 1992 to 1999 period (t -values are in parentheses).

Significance levels: *: 10% level, **: 5% level, and ***: 1% level, based on a one-tailed test.

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

We turn next to the regressions reported in Table 5, which analyze ownership structure and relations with financial institutions. Model (1) focuses on the monitoring role of major block-holders. The coefficients for the major outside shareholder, industrial block-holders and financial institutions are negative and significant. A large outside or industrial block-holder can force management to undertake activities that benefit the block-holder at the expense of other shareholders. For example, an industrial firm may act to reduce the competition between the companies or influence the prices at which transactions occur between the companies. The negative coefficient for financial institutions is consistent with the collusion story in Pound (1988) and the passive attitude of Dutch financial institutions (later in this section we provide additional evidence on the collusion interpretation). Finally, as expected, the coefficient on insider holdings is positive and significant.

Model (2) in Table 5 focuses on financial institutions. Relative to model (1), we include the same ownership variables and also add interlocking directorates with financial

Table 5

The relation between Tobin's Q and ownership structure and financial institution characteristics

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

The table reports the results of fixed-effects regressions focusing on ownership structure and financial institution variables. The dependent variable is Tobin's Q and all other variables are defined in Table 2. The regressions contain year dummies (Y93–Y99) that are shown and firm dummies that are not. The sample consists of 1035 observations for 140 firms over the 1992 to 1999 period (t -values are in parentheses).

Significance levels: *: 10% level, **: 5% level, and ***: 1% level, based on a one-tailed test.

institutions. The financial institutions driving institutional holdings and interlocking directorates are essentially banks, insurance companies, pension funds and large venture capitalists. The coefficient for interlocking directorates is negative and significant, reinforcing the effect previously documented for financial institutions.

5.1.1. Some sensitivity tests

To investigate the influence of banks we include block-holdings by banks, interlocks with banks and long-term bank debt divided by total debt.¹⁵ For this analysis we have 709 observations (due to missing observations for bank debt and firms with zero debt). The fixed-effect regression results (not tabled) show a negative coefficient for bank debt of –0.191 (significant at the 5% level). Due to the reduced number of observations (low power), other variables become insignificant. Without the firm fixed-effects (results not tabled), the coefficient for bank debt remains significantly negative (at the 1% level), bank block-holdings is also significantly negative (at the 5% level) as are interlocks (at the 1% level). Thus, the disciplinary role of bank debt is absent, consistent with the previously

¹⁵ We remove INSTI_EQ and FIN_ILK, because these variables are by definition highly correlated with bank equity and bank interlocks, respectively.

cited management entrenchment argument of de Jong and Veld (2001) and Zwiebel (1996).¹⁶

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

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

Finally, we analyze in more detail firms with a secondary listing on US/UK exchanges (Doidge et al., 2001; Karolyi, 1998; Perotti and Cordfunke, 1998). When we split the cross-listings in our sample into two groups, UK and US, the effect is still significant for US listings, but not for UK listings. In the UK, all Dutch firms are listed at SEAQ International of the London Stock Exchange. UK rules for a secondary listing are less strict than for domestic UK firms and this includes exemption from the Combined Code containing the principles of good governance. The US has different disclosure requirements for the different types of American Depositary Receipt (ADRs). Level 1 ADRs are traded over the counter with minimum SEC disclosure, are exempt for SEC filings, and allowed to use home country accounting. Level 2 ADRs are exchange listed securities without capital raising capabilities. Level 2 ADRs require full SEC registration and reporting under the Exchange Act of 1934 and must include an annual Form 20-F reconciling financial statements to US requirements. Level 3 ADRs also require full SEC disclosure, but add compliance with the applicable exchange’s listing rules. Splitting the US listings into Level 3 and those below, both groups remain

¹⁶ The negative impact of bank-holdings contrasts with the positive and significant findings for Germany (Gorton and Schmid, 2000). One explanation for the difference is bank-holdings are higher in Germany than The Netherlands. Further, the typical German supervisory board is more powerful than in The Netherlands and a banker is often chairman of the supervisory board (not so in Netherlands). The proxy voting system where by banks vote individual investors shares (that are deposited with the bank) and the constraints placed on other shares amplify a German bank’s influence, particularly relative to a Netherlands bank where there is no proxy voting and bank-holdings are equally affected by voting constraints. Finally, at the time covered by our sample period, The Netherlands provided tax incentives for banks holding equity securities so long as holdings exceeded 5%. Thus, there is a tax incentive to hold (at least) 5%, but not a lot more. All this makes for a more benign block-holder.

significant, but the coefficient for Level 3 firms is larger by a factor of more than four. This is consistent with the SEC's full required disclosure and adherence to exchange's listing requirements.

5.1.2. Summary

With regard to organizational form and voting rights, the legally required structured regime, the voluntarily retained structured regime and takeover defenses all have a negative effect on firm value (Tobin's Q). Contrary to effective monitoring, major outside and industrial shareholders negatively influence firm value. Financial institutions also fail in their monitoring role, although there is no indirect evidence of collusion. Given the importance of the supervisory board and its influence over the management board under the structured regime (and operations of the firm in general), a logical question to ask is whether our results are affected by the omission of supervisory and management board characteristics. To address this, we collected data on the absolute size of the supervisory board, its size relative to the management board, its shareholdings (previously included in selected regressions as part of insider block-holdings), compensation of its members, and the interlocking directorates the firm's board members have with other firms. We also collected analogous data for the management board. Including these variables in the regressions (not tabled) does not alter the basic tenor of our results.¹⁷ As an alternative to a fixed-effects model, we also estimated regressions where firm-specific averages (based on 8 years of data) were used to measure the dependent and independent variables. While the significance of the coefficients was reduced due to the reduction in sample size, the signs of the coefficients are unchanged. We also ran regressions on a year-by-year basis and none of the significant coefficients changes signs when compared to the reported results. Finally, we also ran regressions with industrial fixed effects using the industrial classifications of Statistics Netherlands (similar to SIC codes). The inferences are unchanged.

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

5.2.1. Univariate tests

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

¹⁷ The results are also robust to alternative specifications of the dependent variable (e.g., market-to-book value of assets or equity). The correlation between Tobin's Q and the market to book value of total assets is 0.998 and that between Tobin's Q and the market to book value of equity is 0.545.

For the firm characteristics and sample detailed in Tables 2 and 3 (and supervisory and management board characteristics), we compared their values in 1992–1996 to those in 1997–1999 using a *t*-test. The results are reported in Table 6. The comparisons show significant increases for Tobin's *Q*, book value of assets, growth, cross-listings on US/UK exchanges and voluntarily retained structured regimes. Significant decreases are noted in the holdings of the largest outside block-holder and the use of priority shares.¹⁸ We also compared firm characteristics in 1996 to those in 1997 (results not tabled). The only significant change was growth, which increased.

We also compared new listings in the pre-Peters period (21 firms) to those in the post-Peters period (39 firms). Though the sample size is small, there are substantive differences in these firms. Post-Peters new listings have a significantly lower number of takeover defenses and interlocking directorates with financial institutions and banks, lower equity holdings by financial institutions and banks, a lower proportion of voluntarily retained structured regimes (though no difference in the legally required structured regime), more insider equity holdings and lower holdings by the largest outside block-holder. On balance, these findings suggest the new listings market appears to be a disciplinary force in the post-Peters period. Finally, we compared the 26 firms de-listed in the pre-Peters period to the 20 firms de-listed in the post-Peters period. We found no significant differences in the corporate governance characteristics of these firms.

5.2.2. Regression tests

In Table 7, we perform two regressions, one for the 1992–1999 period (both the pre- and post-Peters periods) and one comparing the pre- and post-Peters periods. The first regression includes all significant variables from Tables 4 and 5 because these are the variables that changed significantly from the pre- to the post-Peters period.

To test for changes over time between 1992–1996 and 1997–1999, the second regression interacts the governance variables with a dummy variable having a value of 1 in 1997–1999 and 0 otherwise. The left-hand column of Table 7 contains the coefficients for the 1992–1996 period, while the right-hand column contains the coefficients for the variables interacted with the 1997–1999 dummy variable. The results in the right-hand column show the coefficient on the required structured regime is significantly negative, indicating the already negative affect of this variable on firm value became more pronounced in 1997–1999. The coefficients for certificates, the major outside block-holder and interlocking directorates with financial institutions become negative and significant in the post-Peters period. The coefficient for industrial holdings is significantly positive, which implies that while the overall influence of industrial holdings is still negative, its influence is smaller in the post-Peters period.

Overall, the findings suggest the use of priority shares (univariate tests) dropped, and the adverse effects of industrial holdings (regression tests) were reduced for firms spanning the pre- and post-Peters periods. In addition, the disciplining role of the new listings market changes for the better in the post-Peters period.

¹⁸ For supervisory and management board comparisons, the only significant change is board compensation, which increased.

Table 6
Properties of corporate governance characteristics in the pre- and post-Peters Committee periods

Variable	1992–1996		1997–1999		Differences	
	Mean	Standard deviation	Mean	Standard deviation	Difference	<i>t</i> -value
Tobin's <i>Q</i>	1.395	0.962	1.868	2.032	0.473	(5.09)***
Total assets	2705.0	9214.0	3824.0	11,039.0	1119.0	(1.76)*
Growth	0.262	0.572	0.695	1.272	0.433	(7.47)***
Leverage	0.140	0.127	0.129	0.116	–0.010	(–1.30)
Listing abroad	0.13	0.34	0.19	0.39	0.05	(2.40)**
Structured regime—required	0.48	0.50	0.47	0.50	–0.01	(–0.19)
Structured regime—voluntarily retained	0.11	0.32	0.16	0.37	0.05	(2.19)**
Priority shares	0.41	0.49	0.34	0.48	–0.01	(–2.29)**
Preference shares	0.62	0.49	0.58	0.50	–0.04	(–1.32)
Certificates	0.39	0.49	0.35	0.48	–0.04	(–1.46)
Interlocks with banks	0.82	1.23	0.72	1.03	–0.11	(–1.43)
Interlocks with financials	1.08	1.59	1.07	1.51	–0.01	(–0.08)
Largest block-holder	23.17	19.82	20.38	18.45	–2.78	(–2.26)**
Financial institution block-holdings	12.56	14.89	12.86	15.08	0.29	(0.31)
Bank block-holdings	7.38	10.13	8.13	10.83	0.75	(1.13)
Industrial block-holdings	10.91	21.03	9.11	19.08	–1.80	(–1.40)
Insider block-holdings	6.59	17.46	5.47	16.64	–1.12	(–1.03)
Bank debt	0.071	0.089	0.073	0.088	0.003	(0.43)

A comparison of the means (two-tailed *t*-test) of the corporate governance variables in the pre-Peters (1992–1996) and post-Peters Committee (1997–1999) periods. The sample consists of 1035 observations, 639 for the pre-Peters period and 396 for the post-Peters period. See Table 2 for variable definitions.

Significance levels: *: 10% level, **: 5% level, and ***: 1% level, based on a one-tailed test.

5.3. Stock price reactions to corporate governance events in The Netherlands

5.3.1. Background

The above univariate analysis of governance characteristics and regressions using Tobin's *Q* illustrate little evidence can be found for a positive impact from the recommendations contained in the Peters Committee report. However, the Peters Committee did not operate in isolation, as there were additional Dutch government and European Union events with the potential to affect corporate governance practices and firm value. In this section, we use event study techniques to assess investors' reactions to the various events associated with corporate governance practices in The Netherlands. In a sense, the event study analysis provides a direct market test of the premise underlying the Peters Committee, namely, self-regulation of corporate governance practices relying on market forces are sufficient to promote changes that enhance shareholder value.

Table 8 lists 18 events associated with corporate governance in The Netherlands starting with the formation of the Peters Committee in 1996 and ending in 2003 with the release of a report of a second committee on Dutch corporate governance practices (i.e., a follow-up committee to the original Peters committee). The data sources are the Dutch equivalent of the *Financial Times* (*Het Financieele Dagblad*), the preliminary and final version of the Peters Committee's first report, the Peters Committee's monitoring reports

Table 7

The relation between Tobin's Q and corporate governance characteristics in the pre- and post-Peters Committee periods

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

The table reports the results of fixed-effects regressions for the governance variables for the 1992–1999, 1992–1996 and 1997–1999 periods. The dependent variable is Tobin's Q and all other variables are defined in Table 2. The regressions contain year dummies (Y93–Y99) that are shown and firm dummies that are not shown. The sample consists of 1035 observations for 140 firms over the 1992 to 1999 period (t -values are in parentheses). Significance levels: *:10% level, **:5% level and ***:1% level, based on a one-tailed test.

and the subsequent committee on Dutch corporate governance practices that followed-up the Peters Committee.

5.3.2. Event study analysis

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

$$R_{it} = \alpha_i + \beta_i R_{mt} + \sum_{k=1}^{18} \gamma_{ik} D_{ikt} + \varepsilon_{it}, \quad (1)$$

where R_{it} is the return to security i on day t , R_{mt} is the return to the market index on day t , D_{ikt} is a dummy variable that takes on a value of 1 on the day before and day of the announcement of event k ($k=1, 2, \dots, 18$) and 0 on all other days, α_i is the model intercept

Table 8
Event study results

Event	Description	Average return, <i>F</i> -statistic (<i>p</i> -value)
1	On February 13, 1996 Van Ittersum, chairman of the Amsterdam Stock Exchange, announces a committee for code of best practice on corporate governance.	– 0.04%, 0.03 (0.855)
2	On February 28, 1996 the Ministries of Finance, Law and Economic Affairs and VvdE (shareholders) and VEVO (exchange-listed firms) agree to an arrangement on takeover defenses.	– 0.08%, 0.08 (0.773)
3	On March 15, 1996 there is an announcement of the members of Committee Corporate Governance. Given the Dutch consensus approach, all the parties are represented on committee.	0.04%, 0.03 (0.859)
4	On October 28, 1996, the publication of the preliminary conclusions of the Peters Committee took place.	– 0.04%, 0.04 (0.838)
5	On June 25, 1997, the publication of the final conclusions of the Peters Committee took place. Conclusions are similar to the preliminary report.	– 0.01%, 0.00 (0.960)
6	On March 17, 1998 the Foundation for Corporate Governance Research by Pension Funds is founded. Its goal was to improve the influence of shareholders and to increase accountability by management.	– 0.005%, 0.00 (0.99)
7	On April 18, 1998, an announcement of a “Communication Channel” for shareholders. A small group of (11) firms form a private sector initiate or experiment in “voting by proxy” using a system designed and owned by the participating firms.	0.01%, 0.00 (0.976)
8	On May 19, 1998, an announcement of the firms participating in the “Communication Channel” for shareholders.	– 0.4%, 1.01 (0.315)
9	On December 3, 1998 the Peters Committee’s monitoring report is presented. This is the major event because it contains all the corporate governance information collected by the committee on Dutch companies. During this meeting the Minister of Finance announces legislation on proxy voting will be proposed to the cabinet of ministers. The proposed legislation is independent of the private sector initiative.	– 0.8%, 7.38 (0.007)
10	On April 29, 1999, a proposal to introduce proxy voting is approved by ‘Ministerraad’, which means it is approved by the “cabinet” of ministers and will be sent to parliament for consideration.	– 0.1%, 0.20 (0.654)
11	On May 10, 1999 the Minister of Finance replies to the Peters Committee report in a ‘nota’ to the ‘Tweede Kamer’ (parliament)—firms should provide more information on compensation and stock transaction by managers; proxy voting should be possible and limitations on voting power should be banned. No specific proposals are mentioned and the article described the reply as a ‘wensenlijstje’ (list of wishes).	– 0.05%, 0.04 (0.840)
12	On June 23, 1999, a new European Union Directive is released which states that majority shareholders have to make a bid on the remaining shares of the company. Certificates and preference shares are allowed in a firm’s capital structure.	– 0.1%, 0.27 (0.601)
13	On September 1, 2002 a new law became effective requiring firms to disclose information regarding the remuneration of individual management board and supervisory board members.	0.04%, 0.03 (0.86)
14	On December 15, 2002 a new law became effective facilitating proxy voting by allowing shareholders to register 7 days before the shareholders’ meeting instead of immediately before the meeting (see also event 7 where 11 firms began to allow proxy voting).	– 0.07%, 0.07 (0.753)

(continued on next page)

Table 8 (continued)

Event	Description	Average return, <i>F</i> -statistic (<i>p</i> -value)
15	On December 18, 2002, a second monitoring report related to the Peters Committee's recommendations on Corporate Governance in The Netherlands was published.	0.005%, 0.00 (0.99)
16	During 2002, the ministers of Dutch finance and economic affairs invited the	−0.01%, 0.04 (0.982)
17	Dutch employers association, Amsterdam Stock Exchange, Association of	−0.03%, 0.05 (0.87)
18	Stock Issuing Companies, Foundation for Corporate Governance Research by Pension Funds and the Association of Stockholders to establish a new corporate governance committee. The task of the committee was to develop a new corporate governance code. The process began in March 10, 2003 (event 16), a concept code was presented on July 1, 2003 (event 17) and the final code was released on December 9, 2003 event (18).	−0.04%, 0.03 (0.91)

For each event, we test the null hypothesis the mean abnormal return is zero. The right-hand column reports the mean risk-adjusted return for each particular event, the associated *F*-statistic and *p*-value. Results are based on a sample of Dutch firms with security return data available over the January 1, 1996 to December 31, 2003 period. Events during the 1996–1999 (2002–2003) period are based on a sample of 123 (97) firms. The sample is smaller in 2002–2003 due to mergers and acquisitions, etc. Estimation is based on the Seemingly-Unrelated-Regression (SUR) method described in Schipper and Thompson (1983, 1985). The data sources for the key events related to Dutch corporate governance practices are *Het Financieele Dagblad* (the leading Dutch financial daily newspaper, equivalent to the *Financial Times* in the UK and *The Wall Street Journal* in the US), the preliminary and final reports of the Peters Committee, the monitoring report that assessed the impact of the final report of the Peters Committee, and the report by the subsequent committee on Dutch corporate governance practices that followed the Peters Committee.

of firm *i*, β_i is the slope coefficient or systematic risk of firm *i*, γ_{ik} is the abnormal return of firm *i* associated with event *k*, and ε_{it} is a random disturbance. For each firm the disturbances are assumed independent and identically distributed over time, but may be heteroscedastic and correlated in cross-section. The firm-specific parameters of the model are estimated using daily stock return data from January 1, 1996 to December 31, 2003. The market index used is a value-weighted index of all firms traded on Euronext Amsterdam (results using alternative market indices yield similar results). Events during the 1996–1999 (post-1999) period are based on a sample of 123 (97) firms. The sample is smaller in the later years due to mergers and acquisitions, etc.

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

$$H_0 : \sum_{i=1}^N \gamma_{ik} = 0, \quad (k = 1, 2, \dots, 18), \quad (2)$$

where *k* denotes events and *N* denotes the number of firms. Since the sum is a scalar multiple of the cross-sectional average, this test is equivalent to a test on the cross-sectional average abnormal return. The significance of the sample mean abnormal return to each event is assessed using the *F*-test outlined in Schipper and Thompson (1985). To save space, the key findings are discussed in the text, while details of the results (i.e., a detailed description of each event, *F*-statistics and *p*-values for all 18 events) are reported in Table 8.

Of the 18 events, only event 9 (the release of the Peters Committee's monitoring report and the related corporate governance information it contained about Dutch firms) is

associated with a significant stock price reaction. The sample-wide mean abnormal return is -0.8% (F -statistic=7.38 and p -value=0.007). There is a pervasive negative reaction to this event as 78% of the firms have a negative stock return. One interpretation of these results is that, based on the (negative) corporate governance information released in the Peters Committee's monitoring report, the market was disappointed with firms' lack of progress in their governance practices.¹⁹

On balance, the market's reaction to the release of the monitoring report (event 9) is one of disappointment about substantive change in Dutch corporate governance practices. The other 11 events through 1999, which generated no significant investor reaction, dealt mainly with the other activities of the Peters' Committee including the release of its recommendations, private and government proposals on proxy voting, and the Minister of Finance's reply to the monitoring report (see [Ministry of Finance, 1999](#)), the latter of which was described as a "wish list" by the financial press. The six post-1999 events consist of follow-up activities associated with the "wish list" (e.g., proxy voting and compensation disclosure), the results of the second monitoring report of the Peters Committee in 2002, and the release of the new corporate governance code by the committee that followed the Peters Committee. A key aspect of the new corporate governance code is that it failed to address shareholder rights. Overall, the event study evidence suggests the market was skeptical about the substantive evolution of corporate governance practices in The Netherlands.

6. Conclusions and implications

The Netherlands and the structure of the Peters Committee's initiative on corporate governance provide an ideal setting to investigate the role of self-regulation. For self-regulation to succeed, shareholders must have voting rights. Under the "pure" form of the structured regime, shareholders in The Netherlands lose their ability to directly monitor the supervisory and management boards. However, the market for corporate control still functions since shareholders vote on mergers and acquisitions. With shareholder voting rights restricted permanently or via takeover defenses in Dutch firms, shareholders lose their ability to initiate change via the market for corporate control. These points highlight the basis for our findings on the Peters Committee's lack of success, and the market's skepticism about the evolution of Dutch corporate governance practices. They also cast considerable doubt on the Dutch corporate governance model as a framework for other countries.

It is often argued the market provides management with incentives to change because of the penalty assessed to firms with poor governance and performance. This argument is predicated on the assumption there are mechanisms in place to facilitate change. In Dutch firms where the supervisory and management boards already control the voting rights, it is doubtful change will take place without exchange or government action to

¹⁹ Based on personal discussions with Peters Committee staff members, this interpretation is consistent with their view that Peters himself built up market expectations about substantive change that was not realized given the data that were released.

restore voting rights to shareholders. Thus, the prospects for change are dim for existing firms in the long run without voting rights for shareholders (one of the major recommendations of the Peters Committee). A possible exception is the disciplining role of the market for new listings where there are relatively fewer entrenched parties who control voting rights. Our results suggest self-regulation which relies on monitoring without enforcement by either exchanges or governments, or where there is limited or no outside monitoring, is unlikely to be successful. The results also cast considerable doubt on the success of other (similar) self-regulation initiatives undertaken by European Union countries.

7. Data appendix

Table 2 defines the corporate governance variables used in the study and how they are measured. The sample contains all non-financial firms listed on Euronext Amsterdam from 1992 to 1999 (we exclude financial firms due to their regulatory nature) with available data. Sample selection begins by examining the yearly overviews of all securities listed at Euronext Amsterdam (Gids bij de Officiële Prijscourant van de Amsterdamse Effectenbeurs). There are 208 firms listed for at least 1 year from 1992 to 1999 (three firms are dropped because their annual reports are not available). For the remaining firms we collect data from 1992 (or the year after the firm's listing) through 1999. Since we focus on the Peters Committee's self-regulation initiative and its implications, we exclude 26 firms only listed during the pre-Peters period (1992–1996) and 39 firms only listed during the post-Peters period (1997–1999). The final sample contains 140 firms with 1035 firm-year observations.

The corporate governance variables are gathered from several sources. Financial data, including bank debt and board compensation, are obtained from Statistics Netherlands (Centraal Bureau voor de Statistiek) and the Review and Analysis of Companies in Holland (REACH) dataset. Annual report data are used to identify board members and obtain information missing from Statistics Netherlands and REACH. Data on ownership structure are obtained from the Dutch financial daily newspaper (*Het Financieele Dagblad*) that annually publishes a list of exchange-listed firms and their stakeholders. Information on takeover defenses and cross-listings are from the yearly overviews of all securities listed at Euronext Amsterdam (Gids bij de Officiële Prijscourant van de Amsterdamse Effectenbeurs). Data on structured regimes are obtained from the *Monitoring Corporate Governance in Nederland* (1998) and *Honée et al. (2000)*, which provide structured regime classifications for 1997 and 1999. For years prior to 1997, we use the firm's 1992 annual report to make the classification. Annual reports are also used to investigate whether the supervisory board established the annual accounts and whether the firm met the criteria for the structured regime. If a difference between 1992, 1997 and 1999 was found, all annual reports from 1992 to 1999 were examined. In cases of inconsistency, we contacted the firm.

The event study analysis uses market returns and firm-level stock returns for all firms in The Netherlands listed on the Amsterdam Stock Exchange with (stock price) data available on Datastream. The sources of event dates are the Dutch equivalent of the *Financial Times*

(Het Financieele Dagblad), the preliminary and final version of the Peters Committee's first report on Dutch corporate governance practices, the Peters Committee's monitoring reports on corporate governance practices and the report by a subsequent committee on Dutch corporate governance practices that followed-up the Peters Committee.

Firm-specific abnormal returns are estimated for each of the 18 event dates using an application of Zellner's (1962) Seemingly-Unrelated-Regression (SUR) methodology (see Schipper and Thompson, 1983, 1985). This approach specifies a return-generating process for each firm which conforms to the traditional market model, except at the time of various corporate governance-related announcements where the process is allowed to shift to capture the firm-specific effect on the announcement on the firm's return-generating process. The sample-wide significance of each corporate governance-related announcement is assessed using the *F*-test outlined in Schipper and Thompson (1985). The *F*-test is equivalent to a test of the significance of each event's sample-wide mean abnormal return.

Acknowledgements

We thank Sudipta Basu, Werner de Bondt, Piet Moerland, Bernard Taylor, Jerry Zimmerman, an anonymous referee, the editor (Jeffrey Netter) and participants at the following conferences and workshops, "Convergence and Diversity in Corporate Governance Regimes and Capital Markets" conference (Eindhoven, Netherlands), 1st European Conference on Corporate Governance (Brussels, Belgium), 11th Annual Conference on Financial Economics and Accounting, 7th Mitsui Life Symposium on Global Financial Markets, Hong Kong University of Science and Technology, European Financial Management Association annual meeting (London) 2002, University of Iowa, Tilburg University, University of Wisconsin-Madison and Stanford's Accounting "Summer Camp 2003." Abe de Jong gratefully acknowledges financial support from The Netherlands Organization for Scientific Research (NWO R46-406) and Charles Wasley acknowledges the financial support of the Simon School of Business at the University of Rochester.

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