



UvA-DARE (Digital Academic Repository)

Essays on Corporate Governance

van Oijen, P.H.

[Link to publication](#)

Citation for published version (APA):
van Oijen, P. H. (2000). *Essays on Corporate Governance*. Thela Thesis.

General rights

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <https://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.

Table of Contents

1	Introduction and Outline	1
1	Introduction and Motivation	1
2	Approach and Focus of Our Analysis	2
3	Outline of the Dissertation	6
4	Concluding Remarks	9
2	Why Finance Matters: From Capital Structure Theory to Corporate Governance	11
1	Introduction	11
2	Asymmetric Information, Agency Problems and the Capital Structure of the Firm	14
2.1	Separation of Finance and Control, Asymmetric Information and Agency Problems	14
2.1.1	Asymmetric Information about the Value of the Firm	15
2.1.2	Agency Problems	15
2.1.3	Conclusion	16
2.2	Asymmetric Information and the Debt-Equity Choice	17
2.2.1	Pecking Order Theory	17
2.2.2	Signaling through the Financial Policy	19
2.2.3	Concluding Remarks	20
2.3	Agency Problems and the Capital Structure of the Firm	21
2.3.1	Introduction	21
2.3.2	Conflicts between Shareholders and Creditors: Risk Shifting	22
2.3.3	Conflicts between Shareholders and Creditors: Debt Overhang	24
2.3.4	Managerial Incentive Problems, Insider Ownership and Capital Structure	25
2.3.5	Conflicts between Management and Shareholders: The Over-investment Problem	27
2.4	Conclusions	28
3	Design of Securities under Asymmetric Information	29
3.1	The Security Design Approach to Corporate Finance	29
3.2	Optimal Debt Contracts under Asymmetric Information	30
3.3	Security Design and the Production of Information	33
3.4	Ex Post Information Asymmetry: Costly State Verification	35
3.4.1	Costly State Verification and Optimal Securities: Basic Framework	36
3.4.2	Costly State Verification and Security Design: Extensions	37
3.5	Conclusions	39
4	The Design of Securities and Control over the Company	39
4.1	Introduction	39

4.2	Non-verifiability of Cash Flows and Liquidation Rights of Investors	41
4.2.1	Liquidation Rights and Voluntary Repayment by the Entrepreneur	42
4.2.2	Liquidation Rights, Short-term Creditors and Long-term Creditors	43
4.2.3	Non-verifiability and Outside Equity	44
4.3	The Design of Securities and the Real Decisions of the Firm	44
4.3.1	Design of Securities and Intervention in the Policy of the Firm	45
4.3.2	The Design of Securities and the Investment Policy of the Firm	47
4.4	Concluding Remarks	49
5	The Intimate Relationship between Corporate Finance and Corporate Governance	50
6	Conclusion	52
3	The Dutch System of Corporate Governance for Listed Firms	55
1	Introduction	55
2	Ownership Structure in the Netherlands	58
2.1	Sample and Data Sources	58
2.2	The Ownership Structure of Dutch Firms	61
3	Shareholder Control Rights in the Netherlands	65
3.1	One-share-one-vote Violations	65
3.2	Dilution of the Power of a Vote	70
3.3	The Different Control Rights Allocations of Dutch Firms	71
3.4	Ownership Structure and the Dilution of Shareholder Control Rights	73
4	Design of Internal Control by the Board	77
4.1	Supervisory Board Turnover in the Netherlands	79
5	Financial Conglomerates and Interlocking Directorships	90
6	Conclusion	91
4	Management Turnover and Corporate Performance in the Netherlands	95
1	Introduction	95
2	Description of the Data	99
2.1	Sample	99
2.2	Board Structure and Management Turnover in the Netherlands	100
2.3	Governance Data	102
2.3.1	Ownership Structure	102
2.3.2	Voting Rights in the Netherlands	103
2.3.3	Potential for Bank Control in the Netherlands	105
3	Management Turnover and Corporate Performance	106
4	Ownership Structure and Management Board Turnover	111
5	Voting Structure and Management Board Turnover	115
6	Bank Control and Management Board Turnover	120

7	Conclusion	127
5	Governance Mechanisms and Firm Performance in the Netherlands	129
1	Introduction	129
2	Literature Overview: Governance Mechanisms and Corporate Performance	134
2.1	Insider Ownership and Corporate Performance	135
2.2	Outsider Ownership and Corporate Performance	136
2.3	The Involvement of Banks and Corporate Performance	138
2.4	Concluding Remarks	138
3	Data and Methodology	139
3.1	Sample	139
3.2	Performance measures	139
3.3	Governance Data	140
3.4	Methodology	143
4	Results	145
4.1	Corporate Governance Channels and Corporate Performance: Base Case Regressions	145
4.1.1	Ownership Structure and Corporate Performance	146
4.1.2	Voting Rights and Corporate Performance	147
4.1.3	Ties with Banks and Corporate Performance	150
4.2	Ownership Structure and Corporate Performance: Other Specifications	151
4.3	Voting Blocks and Corporate Performance	157
5	Concluding Remarks	158
6	Monitoring, Shareholder Activism and the Correction of Managerial Failure	163
1	Introduction	163
2	Corporate Control through the Board of Directors: Theoretical Insights	166
2.1	Introduction	166
2.2	Attitude of the Board towards Management	167
2.3	Board of Directors and the Interaction with Takeovers	169
2.4	Board of Directors vs. Alternative Control Mechanisms	171
2.5	Concluding Remarks	173
3	Excessive Control or Monitoring by the Principal	174
3.1	Benefits of Arm's Length Monitoring	174
3.2	Benefits of a Lack of Control by Shareholders	175
4	General Discussion of Our Analysis	178
5	Outline of the Model	180
5.1	Timing of Events	180
5.2	Objectives of the Monitor and Information Structure	182
6	The Trade-off between Proximity and Objectivity	183
7	Control by Non-Monitoring Parties: Shareholder Activism	188
7.1	Introduction	188
7.2	Outline of the Extended Model	189

7.3	Analysis	190
8	Conclusion	195
	Appendix	197
7	Summary and Conclusions	201
	References	213
	Samenvatting (Summary in Dutch)	227