ERASMUS UNIVERSITY ROTTERDAM
THE NETHERLANDS

Code Tabaksblat

Where do we stand?

And

Does it really matter?

Master thesis

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Abstract

In this paper I analyze the integration of the Dutch corporate governance code, Code Tabaksblat, within the companies that are listed on the Dutch AEX index. I looked at the total compliance of the firms with the Code, at the information provided by the firms on corporate governance and also at the relevance of corporate governance. To do so I have used the available information on the Code in their annual reports and on their websites for the years 2004, 2005 and 2006 and set up a total sheet to do the testing. To check whether or not the effect of corporate governance can be measured I used several studies from all over the world to get to a conclusion as accurate as possible.

The results show that Code Tabaksblat is already quite integrated into the Dutch market as a high compliance percentage of around 90% can be observed. The supply of information is however not as good as a lot off differences can be observed in the way and extent of reporting.

Finally, making a conclusion on if the effect of corporate governance can be measured is difficult as in most cases an effect is observed but this effect cannot be allocated to only one variable, corporate governance, as also other variables such as the development of a country come into play.

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1. Introduction

1.1 Introduction

Corporate governance is the whole of processes, habits, rules, laws and institutions, which influence the way in which a corporation is being controlled. Within the science of business administration this term is being used to indicate how a corporation should be led in an efficient and justifiable way. Corporate governance is also about the relations between the players involved (the stakeholders) concerning the corporation and the targets for which the corporation is being controlled.
The most important players are the stockholders, the management and the executive board, but also players like employees, suppliers, customers, banks, legislatures, the environment and the community have an important role in the total process.

Nowadays firms are more and more faced with more thorough and faster changes on both the financial market and the legislation level. These changes prove to be both cause and effect of the scientific and technological developments which affect the firms on all their aspects. These changes not only have a negative effect, but also offer chances for these firms. To be able to seize these chances and to control the associated risks, building a system of efficient and effective corporate governance within the firm is said to be strictly necessary. Lacking of such a system could not only do severe damage to the involved firms, but also to the market as a whole.

But is corporate governance really a necessity? Do we really need corporate governance in order to keep the present markets in good health? Is corporate governance really necessary to prevent scandals like Ahold from happening in the future? Does good corporate governance leads to better companies with higher stock returns and firm value?

Corporate governance got much attention in the financial community after all these scandals and institutional investors started evaluating which role corporate

governance should play in their investment policies. As shown in the McKinsey[1] "Global Investor Opinion Survey" 15% of European institutional investors consider corporate governance being more important than a firm's financial issues, such as profit performance and growth potential and also 22% of these investors are willing to pay an extra premium for a well-governed company. These premiums averaged an extra percentage of 12-14% for North America and Western Europe, 20-25% in Asia and Latin America and over 30% in Eastern Europe and Africa. So already a conclusion can be made up out of the different premium percentages institutional investors are willing to pay in the different regions of the world. From the more than double premium percentage for Eastern Europe and Africa compared to North America and Western Europe you could make up that from the institutional investors point of view they expect that corporate governance in Eastern Europe and Africa is much less developed and they are therefore willing to pay a much higher premium for a company which has a good structure of corporate governance in these countries.

A lot of research has been done on the topic of corporate governance, for instance what corporate governance really is and why it should be implemented into the economy. Also one important question has been given more and more attention in recent years whether good corporate governance leads to higher stock returns and therefore to a higher firm value.

It is generally assumed that a state of bad corporate governance leads to value destruction and a state of good corporate governance improves the risk-return profile of investments in shares, this because the market risk decreases because already more information is implemented in the share prices.[2] The shareholder value can be maximized if a state of good corporate governance is taken into consideration.[3]

Also the research of Gompers, Ishii and Metrick of 2003 show that well-governed firms in the USA outperform their poorly governed counterparts. They researched the relationship between corporate governance and long-term equity returns, firm value and accounting measures of performance and they came to the conclusion that well-governed companies have higher equity returns, are valued higher and their

[1] McKinsey and Company, 2002, *McKinsey Global Investor Opinion Survey on Corporate Governance*, Key Findings
[2] Ferreira and Laux, 2005, "Corporate Governance, Idiosyncratic risk, and Information Flow"
[3] Madden, B. J., 2006, "For better corporate governance, A shareholder value review"

accounting statements show a better operating performance. So looking to the level of corporate governance in a USA company should be a measure worth taking for investors.
Another research by Bauer, Günster and Otten of 2003 based on most of the same principles as Gomper, Ishii and Metrick, but now on the European market, resulted in somewhat similar results, but only showed less significant differences between the levels of corporate governance and firm value.
The important issues of corporate governance lie deeper. What is the relationship between the structure of rules, laws and conventional practices within which companies operate and their style of management and the decisions which they make? There are increasingly widespread claims that the incentives, pressures and restraints on managers lead to short-term decision-making. This also leads to failures to invest in physical equipment, in people and in the development of businesses, and that these factors are ultimately damaging to the economic performance.[4]

The importance of corporate governance became dramatically clear in the 21st century as a series of corporate meltdowns, frauds and other catastrophes led to the destruction of billions of dollars (and euros, etc.) of shareholder wealth, the loss of thousands of jobs, the criminal investigation of dozens of executives and record-breaking bankruptcy filings. For example seven of the twelve largest bankruptcies in American history were filed in 2002, with companies such as Enron, Worldcom and Tyco. But also in Europe major frauds occurred, like at Parmalat (2003, Italy) and Ahold (2003, Netherlands).These companies looked very healthy in well running economic environments for the outer world and so it seemed as if there was nothing wrong, but because of several reasons as mentioned above these companies went (almost) bankrupt and millions of people have been harmed because of this. These major issues led to a big negative effect on faith in the financial markets as well as in the accountancy market.
To make sure the financial markets would regain the faith of their players, to prevent similar issues from happening and also to better inform the market and its players, some actions had to be taken.

[4] Kay, J., 1996, “The Business of Economics”, chapter 13, *Oxford University Press*.

In 2002 the United States of America introduced the Sarbanes Oxley Act. This act, which was incorporated into the United States federal law, was introduced to regain the trust not only in the financial markets, but also in the accountancy market. It further established rules on sound entrepreneurship to which all companies listed on an American exchange had to comply, and if they did not comply they risked severe punishments.
The European countries also responded to these frauds, several countries introduced their own corporate governance codes such as the ´Deutscher Corporate Governance Kodex´ in Germany, the ´Combined Code´ in the United Kingdom and 'Code Tabaksblat' in The Netherlands. The difference with these codes and the Sarbanes Oxley Act is that these codes are not or just to certain amounts incorporated into the federal law of the country.

In this thesis I will focus on the Dutch ´Code Tabaksblat' (Code from now on) and its acceptance among the Dutch market. After the introduction in 2004, three years have passed under the new corporate governance code, but how far has the Code been incorporated into the Dutch market and do all the listed companies comply with all the recommendations or explain why not? Are there any particular parts of the Code significantly less applied then others and is there a reason why? Is there a significant difference in application between the three years under the Code, did the firms apply the Code more and more complete along the years?

1.2 Hypothesis

Code Tabaksblat was introduced by the government to develop a more transparent market and to prevent such scandals as at Ahold from happening in the future. The Code has been active now for three whole years (2004-2006), but where do we stand right now? As they are obliged by law to comply with the Code through the 'apply or explain' principle, by testing the real percentage of implementation the result should be 100%. But is this also the reality?

The main goal of this thesis is to find out to what extend all companies listed on the AEX-index comply with all the principles and recommendations of the Code and if they do not comply, do they give a solid explanation why they do not comply? This will also be done for some subcategories of the Code, this to check when the total compliance significantly differs whether this difference can be allocated to particular parts of the Code. All this will be done to examine if the Code is being adopted by the Dutch listed companies and if the Code gets integrated more and more into their working standards. Also the importance of corporate governance as a whole will be checked by looking into other research papers to see what the real effect of corporate governance is and if it really matter so much as is being expected?

1.3 Arrangement thesis

In section 2 first an explanation of the Dutch corporate governance history will be given and also some of the corporate governance history in and outside Europe will be explained. In Section 3 the Dutch corporate governance code, Code Tabaksblat, will be explained of which it consist and how it should be interpreted by the Dutch market.

In section 4 the different aspects of the research are being explained, on which aspects I will focus this research, in which way the research will be done and how I will be able to make any conclusions. Also the results will be presented in this section Section 5 will be used to show how the information on compliance with the Code is being published in the annual report among the listed companies.

Section 6 will give an overview of some researches done on the importance of corporate governance and if it has any influence on firm characteristics such as firm value and firm performance and in section 7 the conclusions will be made.

2. Corporate Governance in The Netherlands

Before the Code Tabaksblat of 2004 was introduced, a lot happened in the process towards eventually introducing this Code.

The first action between corporate governance and the Netherlands came in 1992 when the 'Vereniging van Effectenbezitters' (VEB) published a 'minimum code of conduct of Dutch institutional investors'[5], in which they asked for more openness of the management of the companies involved.

Then in 1996 the first Dutch corporate governance commission (commissie Peters) was established under the chairmanship of J.F.M. Peters. This commission got the task to examine if the balance between supervision, governing board and shareholders within the listed companies was maintainable against the internationalisation of the Dutch economy. In July 1997 this commission presented the report, which contained recommendations to increase the transparency on the policies of the company and the justification of these choices. Also the report was published to give the shareholders more control, so that they could correct inadequate policies or inadequate conduct of policy.[6]
The so called 'duties' of these recommendations were to keep an eye on the composition and quality of the Council of Commissioners (CoC), the possession of shares and options among the governing board and commissioners, transparency on the rewarding policy of the governing board, to prevent conflicts of interest between the company and the governing board or commissioners and also on the supplying of information in the annual report on the corporate governance structure of the company.
This commission did not give any further recommendations concerning constantly improving corporate governance, they trusted the involved companies in complying with their recommendations and thought a form of self-regulation would be enough.[7]

[5] VEB, "Minimum code of conduct of Dutch institutional investors", www.veb.net
[6] http://www.commissiecorporategovernance.nl/Commissie%20Peters
[7] Peters, J.F.M., "Monitoring Corporate Governance in Nederland 1998", *Kluwer 1998*

Because of a new corporate governance policy, a drastically changing exchange climate and some controversial accountancy scandals in the USA, the Dutch Corporate Governance Foundation decided in 2002 to evaluate the developments in corporate governance and the way in which the Dutch exchange listed companies cope with these developments since the report of the commission Peters in 1997. This report is known as 'Peters-II' and is published under the name 'Corporate governance in Nederland 2002'.
The evaluation report concluded that on some points of the Peters report a positive reaction was observed, such as on transparency, responsibility and legislation. But the evaluation report also concluded that these companies did not take a good pro-active attitude towards corporate governance, they reacted and anticipated more to legislation then that they complied with the recommendations of the commission Peters by their own.[8]
These conclusions made the government realise that the current recommendations were not enough and that a new corporate governance commission should be appointed to renew the code of 'best practice'. This commission (commissie Tabaksblat) was appointed on the 10th of March 2003, presented their draft version on the 1st of July 2003 and the final version of the new Dutch corporate governance code was published on the 9th of December 2003. This code became active on the 1st of January 2004 and had to be complied with by all companies which have a statutory seat in the Netherlands and of which shares or certificates of shares are allowed to the official notation of a by the government acknowledged stock exchange. The code is also part of the Dutch law and can be found in article 2:391 paragraph 4 BW. Because this code is part of the Dutch law all involved companies have to follow the law of 'comply or explain'. This law obligates the companies to comply with all the recommendations of the code or explain why they do not comply with certain recommendations.

In Europe several different codes have been published in the last two decades which differ from each other on certain aspects, but the principal characteristics of effective

[8] www.commissiecorporategovernance.nl/Evaluatie%202002

corporate governance of all the codes where almost identical and can be summarized in the following aspects[9]:

- Transparency: disclosure of relevant financial and operational information and internal processes of management oversight and control
- Protection and enforceability of the rights and prerogatives of all shareholders
- Directors capable of independently approving the corporation's strategy and major business plans and decisions
- Independently hiring management, monitoring management's performance and integrity and replacing management when necessary

In order to implement the code into the market each country has two options to do so, it can use a principle-based approach or a rule-based approach. The rule-based approach is an approach in which the government sets the rules and most of these rules are fixed. For almost every situation the government has set up rules and a company is hardly allowed to deviate from these rules, no freedom of interpretation or a possibility to judge whether or not implementing these rules leads to favourable outcomes for the company. If a company does not apply with a rule, this company also runs the risk of being fined as all the rules are part of the law and so applying the rules is obligatory.

The principle-based approach on the other hand leaves a lot of freedom to the companies on mainly the way of interpreting and applying the rules. The basis of these rules, here called principles, is the same, but the main difference lies in the succession of the rules. As already mentioned before, the rule-based approach enforces the companies to comply with all the rules which are applicable to them because the law says so. The principle-based approach however let the companies decide which rules are applicable to their company and in which way these rules should be applied to get to the best possible result.

The reason why Europe uses a principle-based approach rather then a rule-based approach lies in the fact that they believe that good corporate governance is subject to constant changes. In Europe they also believe that it is not possible to develop a code in which all the specific characteristics (size, complexity of the organisation, the

[9] Maassen, G.F., 1999, "An International Comparison of Corporate Governance Models", page 12

shareholder structure, etc.) of all the companies are taken into account, as 'one size does not fit all'[10]. This principle-based approach gives the corporation the possibility to form their governing board requirements to their own needs, although also the shareholders have to agree with these requirements. This view has led to the possibility for all companies subject to a European code to explain why they did not comply with certain principles of the code. As well as the OECD[11] as the European Commission have a strong preference towards the principle-based approach.

One thing all the European corporate governance codes have in common is that they are not regulated by law, but as in the UK code by the 'comply or explain' principle. A list of all the other countries working on corporate governance is to be found in appendix I.

[10] Galle, mr J.G.C.M., 2007, "Het comply or explain principe door Europa opgelegd"
[11] Johnston, D. J., 2004, "OECD Principles of Corporate Governance"

3. Code Tabaksblat

Code Tabaksblat is nowadays one of the most known and discussed corporate governance codes in the Netherlands. The ministers of Finance and Economic businesses addressed some organisations, namely the VNO-NCW, the 'Nederlands centrum van Directeuren en Commissarissen' (NCD), the 'Vereniging Effecten Uitgevende Ondernemingen' (VEUO), 'Vereniging van Effectenbezitters' (VEB), Euronext Amsterdam and the 'Stichting Corporate Governance Ondernemingspensioenfondsen' (SCGOP), to select a group of people to take place in a Commission under the guidance of mister M. Tabaksblat to develop a new Dutch corporate governance code.
The Commission Tabaksblat established this code to get a more complete and up to date version, according to the standards of current markets, of the corporate governance recommendations of the Peters commission.

Code Tabaksblat has been subdivided into five chapters[12]:

I) Compliance with and enforcement of the code
II) Management board
III) Supervisory board
IV) The shareholders and general meeting of shareholders
V) Financial reporting

The code contains the principles as well as the best-practice provisions which all involved people (management board, supervisory board, etc.) and stakeholders (shareholders) of the company should take into account.
The principles in the code can be seen as the modern and widely used general conceptions of good corporate governance[13]. The best-practice provisions are said to create a normative guideline for the behaviour of the managers, supervisors and stakeholders and also reflects the national and international best-practice provisions. Companies are allowed to deviate from these principles and best-practice provisions, but only if they can motivate why they deviated (the 'apply or explain' principle). One of the functions of the principles as well as the best-practice provisions is to strengthen the position of the supervisory board and the shareholders,

[12]Code Tabaksblat, page 6, preamble nr. 9
[13] Code Tabaksblat, page 4, preamble nr. 4

through which a too large concentration of power at the management board can be avoided.[14] According to the Commission the checks and balances within the firm are being strengthened in this way.

Every year the company has to dedicate a part of their annual report to corporate governance. In this part they have to mention if they applied to all principles and best-practice provisions last year and in which way. If the company did not apply to some of the principles or only partly, they have to explain why in this part. This all because it is no longer permitted to choose whether or not the code will be followed, according to article 2:391 paragraph 4 BW you have to apply to the code or explain.
Deviating from the code can in some cases be justifiable, but which principles should not be followed and why should be decided after mutual consultation between the shareholders, the management board and the supervisory board.

Good entrepreneurship, including integrity and transparency of decision making by the management board, and proper supervision thereof, including accountability for such supervision, are essential if the stakeholders are to have confidence in the management board and the supervision. These are the two pillars on which good corporate governance rests and on which this code is based.[15]
The code is based on the system in which a separate supervisory board exists alongside the management board, whether under the statutory two-tier rules (*structuurregime*) or otherwise. In the Netherlands, companies which are not bound by law to apply the statutory two-tier rules may opt for the so-called one-tier management structure in which a single board contains both executive and supervisory (non-executive) directors. A few listed companies in the Netherlands have a one-tier structure. In view of the introduction in 2004 of a statutory scheme governing the European Company, under which it will be expressly possible to choose between a one-tier and a two-tier structure, the possibility is by no means excluded that other companies may follow suit in due course.[16]

[14] Raaijmakers, M.J.G.C., 2004, *"'Zelfregulering' van corporate governance van beursondernemingen. Enkele kanttekeningen bij de Nederlandse Corporate Governance Code"*, *weekblad voor privaatrecht, notariaat en registratie*, page 70
[15] Code Tabaksblat, Preamble page 3
[16] Code Tabaksblat, Preamble page 7

When it comes to supervision on the implementation of corporate governance a distinction can be made between internal and external supervision. Internal supervision is being done by the supervision holders which are registered in the code, the stockholders and the board of commissioners. For the external supervision an external monitoring commission can be appointed.

4. Research & Results

On the 1st of January 2004 Code Tabaksblat was introduced by the government and from that moment on all companies with a notation on the Dutch stock market had to comply with this Code. But did these companies indeed comply with all the principles and recommendations described in this Code?
The acceptance of the Code among the listed companies passed off quite smoothly, all companies agreed on implementing a corporate governance code into the Dutch market and quite a few companies were already working on some aspects of corporate governance before this Code got introduced.
But as it is a code and not a law, companies are allowed to diverge from this code. The companies can make their own decisions on complying or not with all the different principles of the code as long as they explain why (comply-or-explain principle). In this way every company can adjust the compliance of the code to their own company profile.

In this thesis I want to find out first of all whether or not the companies listed on a Dutch exchange comply with the Dutch corporate governance code and to what extend. Second of all I want to find out if there are principles in the Code which most of the listed companies do not comply with and if so what is the main reason why these companies do not comply with these principles. Furthermore I want to find out if the total compliance with the Dutch corporate governance code has grown through out the years in which it has been active, 2004, 2005 and 2006.

In order to do this I will base my research on all the companies listed on the Dutch AEX-exchange per the first of January 2006, except ArcelorMittal and TomTom.
The companies Arcelor and Mittal merged in 2006 and from then on continued by the name ArcelorMittal as the biggest steel company of the world. Arcelor is from origin a company from Luxembourg and Mittal comes from India. Why ArcelorMittal is also listed on the Dutch AEX-exchange is because of the fact that Arcelor took over the Canadian steel producer Dofasco in 2006 and accommodated this company in a trust company in the Netherlands. So nowadays part of the ArcelorMittal conglomerate is accommodated in the Netherlands and therefore ArcelorMittal is listed on the Dutch AEX-exchange. As they are listed in the Netherlands, they

should comply with the Dutch corporate governance code, Code Tabaksblat, as it is obligatory for each listed company in the Netherlands. After searching through their annual reports, Arcelor and Mittal have separate reports for 2004, 2005 and 2006 since they merged only in 2006, I could find things about corporate governance, but this was all related to the separate companies and the legislation in their home countries (Luxembourg and India). Arcelor and Mittal were not active yet on the Dutch exchange in 2004, 2005 and the main part of 2006, so for these years there was no compliance by any of those two companies with the Dutch corporate governance Code. For this reason I have chosen not to include ArcelorMittal into my research.

Also one of the companies which was listed on the AEX-exchange on the first of January 2006, TomTom, was only listed since the first of January 2005 and so they did not have the obligation to comply with Code Tabaksblat in 2004. Because TomTom only has two years of data available, 2005 and 2006, I have chosen to also exclude TomTom from this research. To be able to keep the t-test calculations consistent I will have to use the same number of observations for every year. So in order to do this TomTom will be excluded from the research group.

In this research the remaining 23 companies listed on the Dutch AEX-exchange will be examined for the years 2004, 2005 and 2006 and based on the outcomes of these 23 companies conclusions will be made on the effectiveness of the Code and on the compliance with the Code. To be able to make any conclusions on the subject of compliance with Code Tabaksblat I will examine all 23 companies, listed in table 1, on their compliance with the Code. I will do this by looking into their annual reports, as this is also one of the provisions of the Code to dedicate a chapter in the annual report on corporate governance, and other relative information on their websites.

Table 1

ABN Amro	Corporate Express	ING	Reed Elsevier	Unilever
Aegon	DSM	KPN	Royal Dutch Shell	Vedior
Ahold	Fortis	Numico	SBM Offshore	Wolters Kluwer
Akzo Nobel	Hagemeyer	Philips	TNT	
ASML Holding	Heineken	Randstad	Unibail-Rodamco	

I will do a check for each of the 23 companies on which principles and provisions are first of all relevant for the company and second of all which principles and provisions they comply with for the years 2004, 2005 and 2006. If they do not comply with certain provisions I will also check if they give an explanation for this non-compliance in their annual report or on their website.
To be able to make any calculations on all these outcomes, I will group all the data into an Excel document and will use the following values:

- **1**, if the company complies with the mentioned provision
- **0**, if the company does not comply with the mentioned provision
- **-**, if the mentioned provision is not relevant for the company

Once all the data is grouped it is now possible to calculate the percentages on each principle and provision for each of the researched years. Based on these percentages I am able to do some t-tests on for example the total compliance with Code Tabaksblat in 2004 against the total compliance in 2005. This to see whether there are some significant changes in compliance between the years in which the Code has been active.

4.1 Compliance with Code Tabaksblat

The main topic of this thesis is to find out to what extent the Dutch corporate governance code, Code Tabaksblat, is complied with by the listed companies on the AEX-exchange. Is the Code lived up to by each company for the full one hundred percent or are they lacking on some parts of the Code? Is a percentage of one hundred percent also a feasible and most of all a desirable percentage, as the Code has a comply or explain principle and so it is allowed for companies to diverge from the Code.

Because of this comply or explain principle the question rises what a feasible and desirable percentage really is? Is it still one hundred percent, either way the government wants to see each company comply with every single provision in the Code? Or is it already acceptable

when the total average of compliance lies above the seventy five percent level? Because of this comply or explain principle I do not believe the main goal of the government is to try to achieve a full one hundred percent compliance with the Code.

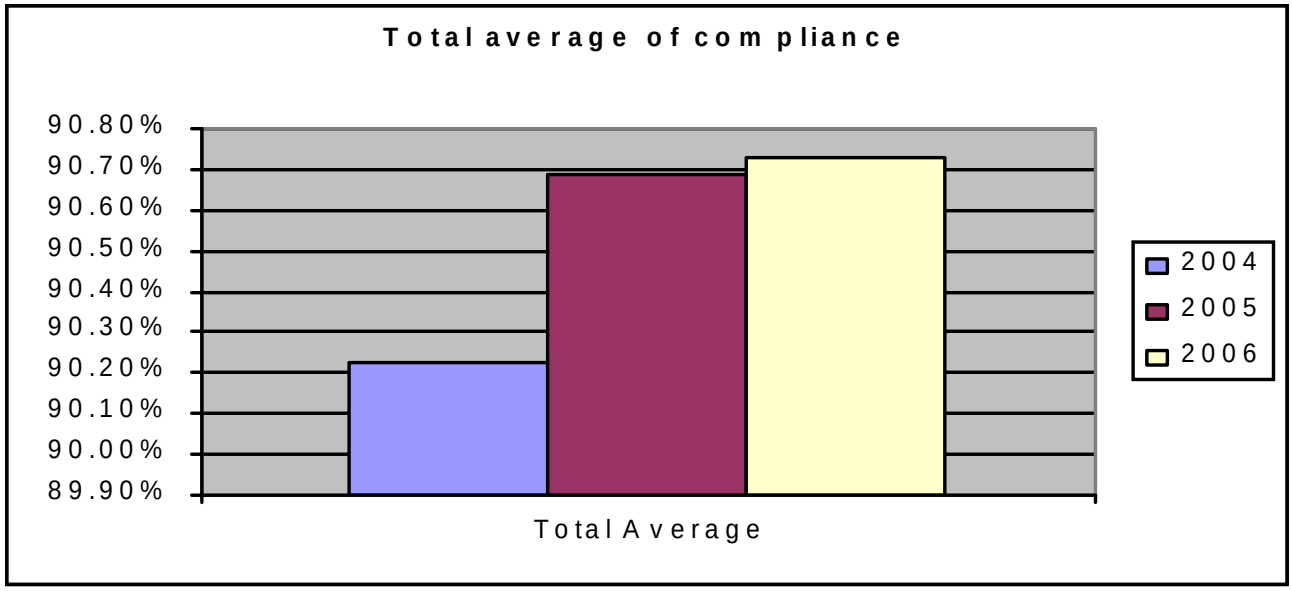
I believe this Code is designed based on the free market mechanism of the Dutch economy, so simply said leaving the integration of the Code to the market and not enforcing it into the market by law. A free market is in short a market in which prices of goods and services are arranged completely by the mutual consent of sellers and buyers. In theory the definition states that in a free market environment buyers and sellers do not force or mislead each other nor are they forced by a third party. In the aggregate, the effect of these decisions all together is described by the natural law of supply and demand.

On the other side of the free market is the controlled market. A controlled market is a market in which governments directly or indirectly regulate prices or supplies and so distorting the market signals of supply and demand. The government is the main controlling party in a controlled market as in a free market the majority of all the economic activities and transactions is controlled by all the participants of the market, such as the consumers and suppliers.

Because of the free market economy in the Netherlands and because the Dutch corporate governance rules are made on a code basis, I do not believe the government should try to achieve a one hundred percent compliance with the Code by all the listed companies on a Dutch exchange, instead they should focus on the compliance of all the listed companies on the comply or explain principle. So making sure that all companies have a clear clarification on all the principles and provisions about how they comply with the applicable principles and provisions and give a good explanation if they choose not to comply.

As can be seen in figure 1 the total average of compliance with Code Tabaksblat was just above 90.2% in 2004, around 90.7% in 2005 and a little over 90.7% in 2006. Looking at this figure you could say 2004 was a year in which most of the companies were still working on their compliance.

Figure 1

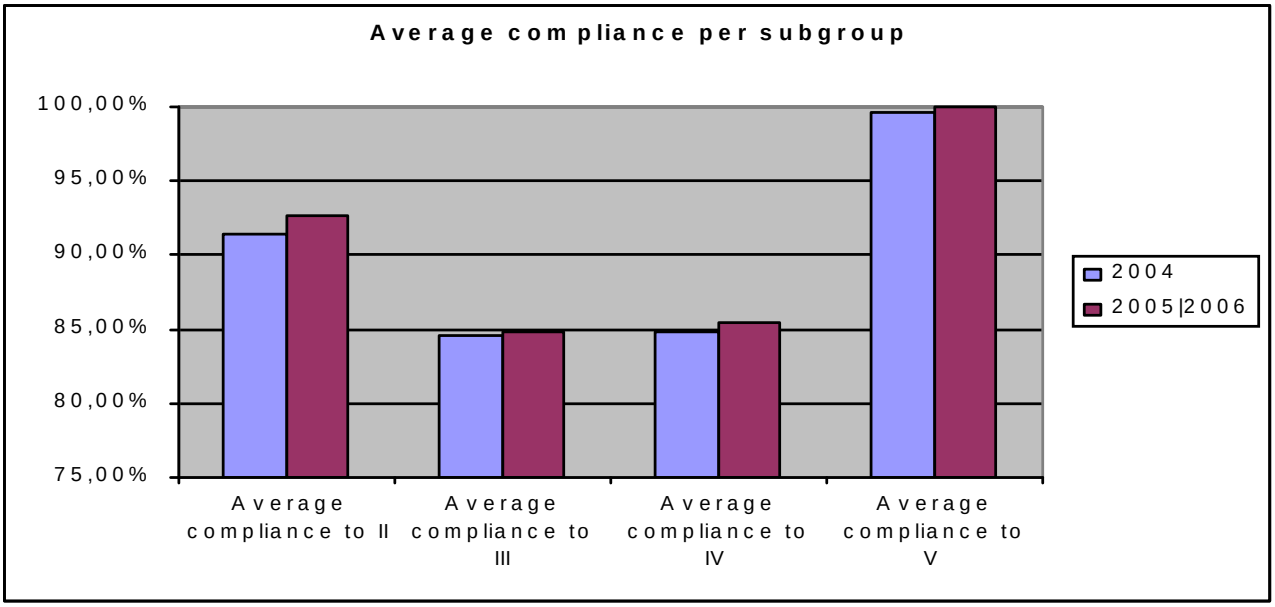


They already complied with most of the principles and provisions, but some of these could not be complied with from the first year on. Why these companies could not comply with all the principles and provisions from the first year on can be for example interfered by law, such as in provision II.1.1 where a lot of managers have a contract for an undefined period of time and so these companies can only comply with this provision for new managers, or by necessity of investment, such as the provisions in III.5 for which the company has to set up an audit committee, a remuneration committee and a selection and appointment committee and this can take time.

Comparing 2004 with 2005 and 2006 a rise of around 0.5% can be observed between 2004 and both 2005 and 2006. This rise of around 0.5% can be explained by the fact that 2004 was the first year Code Tabaksblat was active on the Dutch market and many companies had to make some adjustments or do some investments to comply with the principles of this Code. In 2005 most of these companies had made some changes in their company profile, their way of reporting or other issues which were striking with the Code in order to raise their total

compliance. But overall you can say that the compliance rate in these three years is rather constant at a compliance rate around 90%.

Figure 2



Also on the average compliance with the five different provision groups a t-test has been done to check whether or not there might be a significant change between the years the Code is active in, even if the total average change is not significant. For each of the following five provision groups a t-test has been calculated (2004 against 2005|2006):

I. Compliance with and enforcement of the Code
II. Management board
III. Supervisory board
IV. The shareholders and general meeting of shareholders
V. The audit of the financial reporting and the position of the internal auditor function and of the external auditor

The years 2005 and 2006 are almost identical if you look at the percentage of compliance and because of this very small, almost negligible difference the years 2005 and 2006 will be combined into one and averaged out. Meaning 2004 will be tested against the average values of compliance of the combined years 2005 and 2006.

For the first provision group, “compliance with and enforcement of the Code”, there are only three principles and each principle had the same compliance percentage in 2004 and 2005|2006 resulting in a t-value which could not be calculated because these percentages led to a standard deviation of zero.

For all the other provision groups the H_0 could not be rejected as can be seen in table 2. To further look into the compliance with all the provision groups a few examples of each group are pointed out which show a very low compliance rate.
Looking at the compliance percentage of this second provisions group, a few provisions stand out on their low compliance percentage. The first provision in this group which has a very low compliance percentage, 47.83% in 2004 and an average compliance of 54.35% in 2005|2006, is II.1.1: A management board member is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time. A compliance percentage of 47.83% means that out of the group of 23 companies only 11 companies complied with this provision in 2004, in 2005|2006 an average of 12.5 companies complied with this provision. Why this provision has such a low compliance percentage is mainly due to the laws in the Netherlands and the type of contract the management board has been given. In all the companies which did not comply with this provision the current management board was already active before Code Tabaksblat was introduced and all the members of the management board had a contract for an indefinite period of time. The issue between this provision which wants the companies to only give maximum four year contracts to the management board members and the contracts the members have right now is the Dutch law. In the Dutch law it is not allowed to change an employees contract from an indefinite period of time into in this case a maximum period of four years. Because companies cannot change these contracts into the contracts preferred by the code, they cannot comply with this principle as long as the members of the management board with this type of contract are still active. All of the companies which do not comply yet have confirmed in their annual report that they will apply this provision with new members of the management board.
One of the companies that do not comply with this principle yet is Akzo Nobel. Akzo Nobel gave the following explanation for not yet complying with this principal: “Starting with the appointments made in 2004, Members of the Board of Management are appointed for four-year terms, with the possibility of reappointment. This is in line with the Code’s provision II.1.1.

However, the contracts of the incumbent members of the Board of Management were not renegotiated, as this was not felt to be in the interest of the Company".

Another provision with a very low compliance percentage is II.2.7: The maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during his first term of office, such board member shall be eligible for a severance pay not exceeding twice the annual salary.
In 2004 12 and in 2005|2006 on average 11.5 out of the 23 companies complied with this provision, showing a compliance percentage of respectively 52.17% and 50.00%. Why this compliance is so low cannot be found in the Dutch law as with provision II.1.1, but is in most of the companies a decision they made internally.
TNT is one of these companies that chose not to comply with this provision and gave the following explanation in their annual report: "In relation to contracts with new members of the Board of Management we aim to set the severance payments at one-year of base salary. Contracts entered into before 2004 will remain unaltered. For members of the Board of Management, who are not a resident of the Netherlands, we follow local market practice for the severance for a portion of the base salary. This portion of the salary is earned in the country of residence and the severance on that part would be applied based on local practices".

Also in the third provisions group a few provisions stand out with their lower compliance percentages against the other provisions. For example provision III.3.4: The number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of his duties is assured; the maximum number is five, for which purpose the chairmanship of a supervisory board counts double. This provision showed a compliance percentage of 78.26% in 2004 and 84.78% in 2005|2006, resulting in a compliance with this provision of respectively 18 and 19.5 out of 23 companies. Why not all companies comply with this provision is mainly due to the Dutch law and the contracts the supervisory board members have with the companies of which they are part of the supervisory board. If a supervisory board member for example takes part in six supervisory boards on the first of January 2004 all six companies (if listed) do not comply with this provision and the supervisory board member should end one of his participations to be able to comply with this provision. If this member rather chooses not to end one of his participations

the companies could wait until his appointments term has ended with one of the companies or if this is in the eyes of the company to far away they could try to settle this with the supervisory board member.
Corporate Express, in 2004 still Buhrmann, did not comply with provision III.3.4 because of the following reason: “Buhrmann does not apply the limit of five board memberships in Dutch listed companies as recommended by the Code. Instead, the By-Laws of the Supervisory Board determine that a Supervisory Board member should limit the number and nature of his other positions so as to ensure due performance of his duties as Supervisory Board member. This topic is considered in the annual evaluation of the functioning of the Board. Our opinion is that the qualitative criterion we apply is a better standard than a limit on the number of board memberships, as is advised by the Code, as the amount of time involved in board membership in a Company can vary greatly and the availability of a board member is not exclusively dependent on the number of companies where he is a member of the supervisory board”.

III.5.11: The remuneration committee shall not be chaired by the chairman of the supervisory board or by a former member of the management board of the company, or by a supervisory board member who is a member of the management board of another listed company.
This provision showed a compliance percentage of 69.57%% for both 2004 and 2005|2006 which corresponds with compliance by 16 out of 23 companies.
ABN AMRO gave the following explanation in their annual report on why they did not comply with III.5.11: “As stated under best practice provision III.5.1, ABN AMRO’s Supervisory Board has a combined remuneration and selection/appointment committee, the N&C Committee. As ABN AMRO attaches great value to the coordinating role of the Chairman of the Supervisory Board, especially in respect of the selection and nomination process of Supervisory Board and Managing Board members, the Chairman of the Supervisory Board will continue to chair the N&C Committee”.

III.7.3: The supervisory board shall adopt a set of regulations containing rules governing ownership of and transactions in securities by supervisory board members, other than securities issued by their ‘own’ company. Philips is one of the companies that did not comply with provision III.7.3 and gave the following explanation: “With effect from January 1, 2005, the Company requires a notification to the Philips Compliance Officer of transactions in securities in Dutch listed companies by members of the Supervisory Board and the Board of

Management on a yearly basis (instead of on a quarterly basis as the Dutch Corporate Governance Code recommends)".

All provisions in III.8: One-tier management structure have a very low compliance percentage, but this is because only 3 out of the 23 companies have a one-tier board structure and so for all other companies these provisions are not applicable.

Table 2

T-VALUES, BASED ON A TWO-TAILED T-TEST	*2004 AGAINST 2005|2006*
I. Compliance with and enforcement of the Code	-
II. Management Board	0.7767
III. Supervisory Board	0.9786
IV. The shareholders and general meeting of shareholders	0.9179
V. The audit of the financial reporting and the position of the internal auditor function and of the external auditor	0.3306
Total Average	0.8582

Looking at table 2 it can be concluded that the changes which have been implemented by all the different companies listed on the AEX-exchange in 2005 and 2006 cannot be seen as statistical significant changes as all t-test outcomes are a lot bigger then the critical value of 0.025.

As these changes cannot be seen as statistical significant, is it still possible to certify these changes as critical and important from a business, moral perspective? The change of 0.5% from 2004 to 2005|2006 might not look like a big change, but can this really not be seen as a big change? If you take into account that in 2004 on average a little over 90% of the provisions were complied with, which means that on average the companies complied with 102 out of the 113 provisions described in Code Tabaksblat. Also the fact that a company doesn't have to comply with every provision, as some provisions might not be applicable to that company or a company chooses not to apply certain provisions consistent with the comply or explain principle, has to be taken into account when looking at the average compliance. If you now look at the 0.5% change, which shows an extra average compliance of 0.54 provisions in 2005|2006 compared with 2004, this might change the perspective of this change. This change still is not very large in a concrete number perspective, but I believe that every change which

increases the average rate of compliance is an important change on this level. This also because an average percentage of compliance of a little over 90% is already very high in a context in which 100% is not feasible because of the comply or explain principle, there will always be some companies which chooses not to comply with all the provisions.

4.2 Shareholder activity

One of the main reasons why corporate governance became so important the last few years is because of the lack of information the companies used to make public. Shareholders sometimes did not get to see all the information that should have been in the market and so they thought the companies they invested in where doing a good job, but it could happen that these companies would conceal some crucial information that would change the view of these investors. Concealing all this crucial information would for the moment keep the shareholders happy, because they thought nothing was wrong, but would in most cases eventually lead to a big burst in which all the concealed information comes out and the company involved will get a severe blow of negativity to cope with such as shareholder and market distrust, major penalties and more. An example is the Parmalat case in which information about the real amount of debt that was in the company was kept secret to make Parmalat look better to the market then it actually did. This fraud almost let to the bankruptcy of Parmalat.
To prevent certain events from happening in the future corporate governance became the new guideline of the market, forcing companies to disclose a lot more information to the market. The shareholders play an important role in the corporate governance process and Code Tabaksblat has stated this in the following way:

"Good corporate governance requires the fully-fledged participation of shareholders in the decision-making in the general meeting of shareholders. It is in the interest of the company that as many shareholders as possible take part in the decision-making in the general meeting of shareholders. The company shall, in so far as possible, give shareholders the opportunity to vote by proxy and to communicate with all other shareholders"[17].

[17] Code Tabaksblat, provision IV.1, page 25

With corporate governance the shareholders get a more important role in the company and then especially in the decision making process. For example the shareholders can pass a resolution during the general meeting of shareholders to cancel the binding nature of a nomination for the appointment of a member of the management or supervisory board and they can also pass a resolution to dismiss a member of the management or supervisory board if they have an absolute majority of the votes cast.

Code Tabaksblat confirmed the importance of the shareholders again by dedicating an entire provision group on provisions which should enforce the power of and the information supplied to the shareholders.
Also the companies in this research acknowledged the importance of their shareholders by complying with almost all of the provisions in this group. An average compliance of around 85% can be observed in 2004, 2005 and 2006, including provisions IV.1.1 and IV.2.1 – IV.2.8 which were only applicable to respectively three and sixteen out of twenty-three. If these provisions were left out of the average an even higher average of compliance percentage can be observed.

Looking at the percentages of compliance there are a couple of provisions that stand out, namely provision II.1.1, II.2.3, II.2.6, II.2.7, III.3.4, III.5.11, III.7.3, IV.1.1 and IV.1.2.
Provision IV.1.1 is about the power of the shareholders to cancel or make certain decisions when having an absolute majority of the votes cast during the general meeting of shareholders. This provision had a compliance percentage of 13.04% for 2004 and 2005|2006, meaning that 3 out of the 23 companies complied with this provision. But this is because this provision is only applicable for one-tier structured companies and there are only 3 out off the 23 tested companies.

Provision IV.1.2 is about that the voting right on financing preference shares shall be based on the fair value of the capital contribution. Provision IV.1.2 had a compliance percentage of 86.96% in 2004 and 2005|2006, meaning 20 out of 23 companies complied with this provision.

5. Level of compliance information in the annual report

Not just only the compliance rate of the Dutch listed companies on all the principles is worth researching, but because of the comply or explain rule also the level of explanations given by these companies is worth looking at. Does a company give any explanation at all when it does not comply with a principle of the Code? If they give an explanation, to what extend is this explanation sufficient enough to get a clear view of why they do not comply with this principle? And also, is the Code clear enough on how thorough an explanation should be or is just a simple "no" good enough? But also on the principles they do comply with, is a simple "yes" enough or should they also explain, in the chapter of the annual report they have to dedicate to corporate governance, how they comply and where this information can be found either in the annual report or on their website?

For example in the annual report of 2004 of Ahold, they state that they apply all of the relevant provisions of the Dutch Corporate Governance Code with a few exceptions, but they do not state what for Ahold the relevant or irrelevant provisions are. Is this also not a lack of information and should they also not explain why these provisions are not relevant for Ahold?

When looking into the Code on page 4, preamble 4 it says, "The company states each year in its annual report how it has applied the principles of the code in the past financial year. The Committee does not prescribe what form the relevant chapter in the annual report should take"[18]. So there are no clear guidelines on how this all should be stated in this corporate governance chapter.

Also on page 4, but then in preamble 6 the Code states the following: "In international legislation and codes, the flexibility is limited by the obligation of listed companies to explain in their annual report whether, and if so why and to what extent, they do not apply the best practice provisions of the corporate governance code (known as the 'comply or explain' principle)"[19]. The only clear rule for the applicable companies on the form of the corporate governance chapter is that they should state how they applied the principles of the Code and if some principles were not applied they should explain why and to what extent. The shareholders should hold a close watch

[18] Code Tabaksblat, page 4, preamble 4
[19] Code Tabaksblat, page 4, preamble 6

on the content of this chapter and if necessary call the board to account in respect of the application of the principles of the Code and the statement on observance of the best practice provisions. As stated on page 5, preamble 7, “The contents of this chapter of the annual report on the corporate governance structure and the corporate governance policy of the company and the statement on observance of the best practice provisions can be raised each year in the general meeting of shareholders at the initiative of the management board or of the shareholders or a group of shareholders. If desired, the chapter on the corporate governance structure, the corporate governance policy and the reason given for non-application of one or more best practice provisions may be put to the vote”[20].

Summarizing these rules of thumb, it can be said that a company should state the following in the corporate governance chapter of their annual report and they should consider the following things:

- The company should mention how it has complied with all the principles of the Code in the past financial year.
- The company should give a clear explanation on why and to what extent they did not comply with which principle.
- The company should state all principles and provisions that are not applicable and also explain why.
- The shareholders should approve the comply or explain policy of the company at the annual meeting.

Looking again at the example of Ahold and the four criteria mentioned above you could say that Ahold did not fully live up to these criteria as they did not state all the irrelevant principles and why these are not applicable. The irrelevant principles are still principles of the Code and because Ahold does not comply with these irrelevant principles they should also explain why they do not comply by stating why these principles are irrelevant. So by stating in their annual report of 2004 that Ahold applies all relevant principles of the Code, except II.2.3 and III.3.4, Ahold does not fully live up to the criteria’s of the Code. This lack of information is worth looking at and I will also review the twenty two other companies on their provided information to

[20] Code Tabaksblat, page 5, preamble 6

see if this lack of information is something you see at most companies or that only a few of them do not provide the necessary details?

After reviewing the annual reports of 2004, 2005 and 2006 of the remaining twenty two companies I came to the conclusion that there is no common way of reporting on this matter. You could divide these twenty three companies into four groups; one company did not mention anything in their annual report of 2004 and 2005 on corporate governance or the compliance with the Code, but referred to their separate "comply or explain" report in 2006, eight companies had just very little information (between 1 and 3 pages), twelve companies gave a more extensive explanation (more then 3 pages) and two companies had a separate report for the compliance with the Code in which they gave an explanation on each principle and provision how they complied or why they did not.
In the example of Ahold I already told that Ahold complied with all the relevant principles, but did not state which principles where not applicable. In all the other reports of the twenty two remaining companies only three companies reported which principles where not applicable to their company and why, and that where the two companies with the separate compliance report and one company of the group with the more extensive explanation. All the other companies did not mention anything about these irrelevant principles. This is one thing I believe that should be better explained and if necessary be enforced by law so the stakeholders have a clearer understanding on the corporate governance situation of the company and the extent of compliance with the Code.
Another thing which I believe should be consistent through out the companies is the way of reporting. Some companies just state that they follow the Code and that they do not comply with some of the principles, but they do not really give a clear explanation on which principles they do not comply with and why not. The other companies give a clear view on how they comply with the principles of the Code and give a clear summary of all the principles they do not comply with.
To prevent such big reporting differences between the companies I suggest that one common way of reporting should be created by the government to make sure that every company provides all the necessary information in the right way. Making it obligatory for every company listed on the Dutch exchange to make a separate

"comply or explain" report, would lead to a similar way of reporting and a similar type of available information. Setting up such a report could lead to some extra work in the first year, but after that it is no more work then adjusting the corporate governance part in the annual report but leads to much better and consistent information among all listed companies.

Table 3

COMPANY	CG REPORTING
ABN Amro	Separate "comply or explain" report
Aegon	Extensive explanation
Ahold	Reasonable explanation
Akzo Nobel	Reasonable explanation
ASML Holding	Extensive explanation
Corporate Express	Reasonable explanation
DSM	Very little explanation
Fortis	Extensive explanation
Hagemeyer	Very little explanation
Heineken	No information in 2004 and 2005
ING	Separate "comply or explain" report
KPN	Extensive explanation
Numico	Very little explanation
Philips	Extensive explanation
Randstad	Very little explanation
Reed Elsevier	Very little explanation
Royal Dutch Shell	Reasonable explanation
SBM Offshore	Very little explanation
TNT	Reasonable explanation
Unibail-Rodamco	Reasonable explanation
Unilever	Extensive explanation
Vedior	Very little explanation
Wolters Kluwer	Very little explanation

6. Does it really matter?

After looking at the compliance of the Dutch corporate governance code, Code Tabaksblat, among the companies listed at the Dutch AEX Index, it is also worth looking at the effect of this Code. Does this Code add anything positive to the current market and its conditions?; is there a clear way in which this effect can be measured if there is any?; even if a positive trend can be observed since the introduction of the Code can this all be allocated to the existence of the Code? These are some questions you can ask yourself when looking at the existence of corporate governance codes and their possible effects on the market.

Gompers et al. (2003)[21] did research on this area for the US market and analyzed the relationship between corporate governance and long-term equity returns, firm value and accounting measures of performance. They came to the conclusion that well-governed companies do better than companies with a poor corporate governance structure. The well-governed companies had higher equity returns, were valued higher and their accounting statements showed better operating performance. Looking at these results, investing in a good corporate governance structure is a thing that investors in US companies should definitely consider.
A research that came to the same conclusions as Gompers et al. is that of Brown and Caylor (2006)[22]. Brown and Caylor also did research on the relationship between corporate governance and firm valuation, but they used data of the Institutional Shareholder Services (ISS) instead off data from the Investor Responsibility Research Center (IRRC) to set up their measurement tool, the Gov-score. The advantage of using the ISS data instead off the IRRC data is that the ISS data also included internal governance factors and not only external factors as in the IRRC data, leading to a more reliable result as now more factors were tested .
Brown and Caylor also did research on the relationship between corporate governance and firm performance in 2004[23]. They used the same data from the ISS and related the Gov-score to operating performance, valuation and shareholder

[21] Gompers, P.A., Ishii, J.L. and Metrick, A., 2003, 'Corporate governance and equity prices', *The quarterly journal of economics 118*, pag. 107-155
[22] Brown, L.D., Caylor, M.L., 2006, 'Corporate Governance and firm valuation', *Journal of Accounting and Public Policy 25*, pag. 409-434
[23] Brown, L.D., Caylor, M.L., 2004, 'Corporate Governance and firm performance'

payout. They found that better governed firms are relatively more profitable, more valuable and pay out more dividend to their shareholders.

Drobetz, Schillhofer and Zimmermann (2003)[24] did a research on the German market to test the relation between the level of corporate governance and firm value. To test this they developed a corporate governance rating (CGR) which they based on 30 governance proxies divided into five categories: (1) corporate governance commitment, (2) shareholders' rights, (3) transparency, (4) management and supervisory board matters, and (5) auditing. Most of the proxies came from the German Corporate Governance Code. They found a positive relationship between the CGR rating and the firm value and a negative relationship between the CGR rating and the expected rate of return, showing that companies with a higher corporate governance level are being valued higher by the market and also a lower expected rate of return is required by the investors.

Clacher, Doriye and Hillier (2008) researched all UK companies listed on the FTSE 100 between 2003 and 2005 on the relation between the level of corporate governance and firm value, firm performance, level of capital expenditure and institutional shareholdings. They found that overall corporate governance is important, but not all governance characteristics of the firm have the same effect. Ownership and remuneration policies showed to improve the corporate performance, the quality of disclosure and audit have more effect on the firm value and the capital expenditures, whereas the board structure showed to have no effect on any of the tested indicators. This research thus also shows a positive relationship between the corporate governance level of a company and the firm specific indicators such as firm performance and firm value. However it also shows that not all governance characteristics from the London Stock Exchange Combined Code have an effect.

Also finding a significant positive relation between corporate governance and firm value were Di Miceli da Silveira and Barros (2007)[25]. They tested the influence of corporate governance quality, measured by a governance index (IGOV), on market

[24] Drobetz, W., Schillhofer, A. And Zimmermann, H., 2003, 'Corporate Governance and Expected Returns: Evidence from Germany', *European Corporate Governance Institute*, working paper No. 011/2003.

[25] Di Miceli da Silveira, A., Barros, L.A.B. de C., 2007, "Corporate Governance Quality and Firm Value in Brazil".

value (Tobin's Q) of 154 Brazilian listed companies using multiple econometric approaches such as Ordinary Least Squares (OLS), 2-Stage Least Squares (2SLS) and 3-Stage Least Squares (3SLS). For al calculation methods they found a significant relation between corporate governance quality and firm value. One other thing they found was a reverse causal relation between the governance quality and the firm value, showing that also a higher value of the firm could lead to a higher corporate governance level. Pointing out the exact influence of corporate governance on firm value is therefore not possible, but they do state that the influence is still significantly positive.

Gruszczynski (2005)[26] did the same type of research on the relationship between corporate governance and firm performance of listed Polish companies using the outcomes of a rating done by the Polish Corporate Governance Forum on the level of corporate governance and linking these to the financial statements using a logit model. He found a relation between the level of governance and financial performance, but only to some extent. The companies with a higher profit margin and a lower debt leverage ratio showed in most cases a better corporate governance rating. But most other financial indicators did not show any relation with the corporate governance level showing that there is not really strong evidence that the governance of Polish companies influences the financial performance.

Bauer et al. (2003)[27] did a research in the same manner as Gompers et al., but used the European market to test whether or not corporate governance also has a positive effect on stock returns, firm value and performance of European companies. They tested the UK and Euro zone markets and found substantial differences between these two. For the UK they found economically large excess returns to a zero investment corporate governance strategy, but no direct evidence of a relation between governance and firm valuation. For the Euro zone these excess returns were much smaller, especially after correcting for country effects, but they did find a stronger relation between governance and firm valuation. They conclude, based on these outcomes, that the UK market is still adjusting and that these excess returns

[26] Gruszczynski, M., 2005, "Corporate governance and financial performance of companies in Poland", *International Advances in Economic Research Vol. 12 No. 2*.
[27] Bauer, R., Günster, N. and Otten, R., 2003, 'Empirical evidence on corporate governance in Europe'.

should lead to a higher firm valuation for better governed companies in the long run. For the Euro zone market they concluded that it is possible that the current corporate governance standards have already been incorporated into the stock prices and this is because the Euro zone countries often have poorer governance standards so investors are willing to pay a higher price for a company with a good governance structure.

Bauer et al. (2003) showed that also the country can play a big role in the level of corporate governance and Doidge, Karolyi and Stulz (2006)[28] confirm this outcome. Doidge, Karolyi and Stulz did a research on how country characteristics, such as the level of economic and financial development, influence firms' costs and benefits in implementing measures to improve their own governance and transparency. They found that country characteristics explain much more of the difference in governance ratings than any visible firm characteristics, such as asset size and ownership. But why do countries, stakeholders, and more then matter so much for corporate governance? They say that having a good governance structure will lead to access to capital markets on better terms and so leading to cheaper financing and investing. But what they also found is that in countries with a poor financial structure this benefit is worth less, because it can only get a small amount of funds and so also just a little benefit from this cost of funds reduction. This little benefit might not even outweigh the costs made to improve their governance. Corporations in these countries will therefore invest less in a good governance structure showing the importance of the country characteristics on the level of corporate governance.
Another research that shows that the level of development of a country also plays a big role on how much the corporate governance level can influence the firm value is that of Black[29]. As the level of corporate governance vary a lot in Russia, Black tested a group of Russian companies using the governance rankings of these companies which where developed by a Russian investment bank and a value ratio of the actual market capitalization. He found that an improvement of one standard deviation in the governance ranking could lead to an 8-fold increase in firm value.

[28] Doidge, C., Karolyi, A., Stulz, R.M., 2006, 'Why do countries matter so much for corporate governance?', *European Corporate Governance Institute*, Finance working paper No. 50/2004
[29] Black, B., "Does corporate governance matter? A crude test using Russian data", *University of Pennsylvania law review Vol. 149,* pag. 2131 – 2150.

Also when a company went from the worst governance ranking to the best ranking, which was a difference of 44 rankings, could lead to a 600-fold increase in firm value. These results show a dramatic effect of corporate governance on firm value, but they also show that these results can only be observed in a country where other constraints on corporate behaviour are weak.

A lot off research has been done on corporate governance and if the level of corporate governance has any influence on for example firm value and firm performance. A lot off these researchers came to the conclusion that the level of corporate governance does have a positive influence firm value and firm performance, as for example shown in the research of Gompers et al. (2003) and that of Brown and Caylor (2006). But also a lot off researchers showed that it is not that clear or even no relation that corporate governance influences firm value and firm performance, as Bauer et al. (2003) or Doidge, Carolyi and Stulz (2006) showed.
After reviewing all these different researches and finding all these different outcomes it is difficult to give one general direction on the issue whether or not corporate governance has a positive influence on for example firm value and firm performance. Going on from what I have read I believe it is best to say that corporate governance is a good thing giving more transparency to the market, but determining what the real effect of this all is on the market is hard to say because also things like the country development characteristics come into play. Therefore I make the conclusion that corporate governance is important, but it is hard to measure the real effect of it as more variables have a part in this all.

7. Conclusion

The main goal of this thesis was to find out to what extend all companies listed on the AEX-index comply with all the principles and recommendations of the Code and if they did not comply, did they then give a solid explanation why they did not comply?

Looking at all the research that has been done on the sample group of twenty three companies which were listed on the Dutch AEX index certain conclusions can be made based on the outcomes of these researches.
First of all looking at all the t-tests that have been done on the total compliance of the sample group with the Code, the results show already a high compliance percentage since the start of the Code in 2004. An average total compliance of 90.2% in 2004 is a result which shows already a good integration into the company standards and also slight improvements on the compliance percentage can be observed in the two years after that.
There are still some provisions which have quite a low compliance percentage, such as provision II.1.1, but these provisions are mainly not yet complied with because of regulations which were already active before the Code such as for provision II.1.1 contracts for an indefinite period of time. This provision will get a better compliance rate in the future as it is not possible for a company to change a contract so they will have to wait until new board members join before they can comply with this provision.
Another conclusion that can be made after looking at the data outcomes is that there always will be one or several companies that will not comply with all the provisions of the Code as it is to their own consent whether or not they comply with a provision because of the comply or explain principle.

Now looking at the outcomes of section 5, in which the compliance information in the annual report of the twenty three sample companies was checked, it can be said that there are very big differences between the companies in the way and extensiveness they do the reporting. Some companies just devote one page to corporate governance and give a brief summary on their compliance status, while others give an extensive summary of even more then five pages or even make a separate corporate governance compliance document in which they discuss each provision separately. This difference of reporting creates in my eyes an undesirable gap

between one company and the other as one company gives a better view on the whole corporate governance situation in their company then the other and thus creating a difference on reporting information to the market. I therefore recommend to set up one type of reporting standard, preferably a separate corporate governance compliance document such as ING and ABN AMRO have, to first of all make clearer rules on what to report and how and second of all to provide every stakeholder with the same type of information.

Last I also looked at the relevance of corporate governance as a whole on influencing firm characteristics as firm value and firm performance. I found a lot of studies on this topic and also a lot of different outcomes. Some studies showed a positive relationship between the level of corporate governance and firm value and performance, but as already said before not always to the same extent. Other studies, such as Bauer et al. and Doidge et al., showed that also the country characteristics play an important role on the level of influence corporate governance can have on firm value and performance. Combining these outcomes into one general vision is quite difficult as there are so many variables that come into play. I believe it is therefore not completely possible to make one general conclusion on the question if corporate governance influences firm value and performance, but I do believe, as also most studies, corporate governance plays a big role in making the market more transparent and making it easier for all stakeholders to get more complete information.

Rounding up all my findings it can be said that the Dutch corporate governance code, Code Tabaksblat, has already been integrated in a big part of the listed AEX companies and also most companies live up to it on a very high percentage. The supplied information in the annual report however is in several cases not sufficient enough and there is also a big difference in reporting which should be resolved. The importance of corporate governance is in most studies agreed upon, but showing the real effect of it is very hard as also a lot off other variables such as country status come into play.

Appendix I

Argentina[30]

- Código de Mejores Prácticas de Gobierno de las Organizaciones para la República Argentina January 2004

Australia

- Revised Corporate Governance Principles and Recommendations 2 August 2007
- Principles of Good Corporate Governance and Best Practice Recommendations March 2003
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