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Ownership, managerial control and the governance of companies listed on the Brussels stock exchange

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Abstract

This paper examines how corporate control is exerted in companies listed on the Brussels Stock Exchange. There are several alternative corporate governance mechanisms which may play a role in disciplining poorly performing management: blockholders (holding companies, industrial companies, families and institutions), the market for partial control, debt policy, and board composition. Even if there is redundancy of substitute forms of discipline, some mechanisms may dominate. We find that top managerial turnover is strongly related to poor performance measured by stock returns, accounting earnings in relation to industry peers and dividend cuts and omissions. Tobit models reveal that there is little relation between ownership and managerial replacement, although industrial companies resort to disciplinary actions when performance is poor. When industrial companies increase their share stake or acquire a new stake in a poorly performing company, there is evidence of an increase in executive board turnover, which suggests a partial market for control. There is little relation between changes in ownership concentration held by institutions and holding companies, and disciplining. Still, high leverage and decreasing solvency and liquidity variables are also followed by increased disciplining, as are a high proportion of non-executive directors

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1. Introduction

Whereas in Anglo-American countries, managerial performance is maintained by the complementary intervention of both internal and external control mechanisms (see Shleifer and Vishny, 1997, for an overview), the disciplinary function of the (hostile) take-over market in Belgium, and most other Continental European countries, is limited. Recent Belgian legislative changes with regard to ownership disclosure laws and anti-take-over procedures have further reduced the likelihood of take-overs as a corporate control mechanism. Consequently, as in recent codes of good corporate governance – the Dutch Peeters report (1997), the French Viénot report (1995) and UK Cadbury report (1992) – the Belgian policy recommendations of 1998 by the Stock Exchange Commission, the Association of Employers (VBO) and the Commission for Banking and Finance focus on the effectiveness of internal corporate control mechanisms. [1]

This paper investigates whether or not poor corporate performance triggers board restructuring and whether disciplinary actions are initiated by internal governance. This paper also examines whether the accumulation of shares into large blocks of shares mitigates the problems of free riding in corporate control, permitting control to be exerted more effectively. The relation between the nature of ownership and incidence of disciplinary turnover when corporate performance is poor is also studied.

Besides ownership concentration, capital structure choice may be an instrumental monitoring variable as it can be a bonding device triggering corporate control actions. Such creditor monitoring is expected to be intensified in case of low interest coverage and low liquidity.

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[1] The recent changes in legislation on disclosure of voting rights now allow detailed corporate governance studies in Europe. Description of ownership and voting rights in Europe can be found in Barca and Becht (2000, forthcoming. Who Controls Corporate Europe?, Oxford University Press). The countries covered are Austria (Gugler, Kalss, Stomper and Zechner), Belgium (Becht, Chapelle and Renneboog), France (Bloch and Kremp), Germany (Becht and Bohmer), Italy (Bianchi, Bianco and Enriques), Netherlands (De Jong, Kabir, Mara and Roëll), Spain (Crespi and Garcia-Cestona), Sweden (Agnblad, Berglof, Hogfeldt and Svancar), UK (Goergen and Renneboog, 2000a,b), US (Becht).

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