# Local Elites Versus Dominant Shareholders: Dividend Smoothing at the Dutch East India Company

**Wim VAN LENT**

ESSEC Business School / Huygens ING
Avenue Bernard Hirsch, BP 50105
95021 CERGY-PONTOISE, FRANCE

wim.vanlent@essec.edu

**Stoyan V. SGOUREV**

ESSEC Business School
Avenue Bernard Hirsch, BP 50105
95021 CERGY-PONTOISE, FRANCE

ABSTRACT

One of the most enduring questions in corporate governance is how corporations decide on the redistribution of economic rents. Focusing on a corporation that operated in early modern capitalism, this paper analyzes nearly 200 years of dividend policy at the Dutch East India Company (VOC). The main empirical finding is that the concentration of corporate ownership contributed to the stabilization of dividend payouts and formalization of corporate governance and not to rent-seeking behavior, as agency theory predicts. The reason is that the Company's largest shareholders and directors were not part of the same elite: the directors' constituencies tried to keep shareholder influence to a minimum, while the large shareholders criticized the lack of procedure at the VOC. Our study contributes to agency theory by relaxing the often-made assumption that the coordination between shareholders and managers of closely held firms is smooth. Especially in developing or suspect economies, where rational economic action cannot fully have its way, closely held firms cannot always be considered low agency cost environments. It is when dominant shareholders engage in the minimization of agency cost that they push for stable corporate governance and as such become important drivers of capitalist institutionalization.

*Keywords: Corporate Governance; Ownership Concentration; Dividend Smoothing; Rent-seeking; Agency Theory; Dutch East India Company.*

## INTRODUCTION

Corporations make up a large part of the economy in modern societies (Adams, Hermalin & Weisbach, 2008). Hence, any deviation from value-maximization as a result of defunct corporate governance presents huge public costs. One of the strongest and most observable signals of agency problems between shareholders and management is the annual dividend (Easterbrook, 1984; DeAngelo, DeAngelo & Skinner, 2009; Pindado, Riquero & De la Torre, 2012). Consequently, one of the key determinants of modern corporate governance is whether the rents of past activity are reinvested or paid out to shareholders (La Porta, Lopez-de-Silanes & Vishny, 2000; Gugler & Yurtoglu, 2003). Since the severity of agency conflicts is associated with corporate ownership (Michaely & Roberts, 2012), it is not surprising that the constellation of a firm's shareholders appears to affect the payout of corporate dividends (Gugler, 2003; Gugler & Yurtoglu, 2003; Renneboog & Trojanowski, 2007).

Research on the dynamics between different corporate owners commonly suggests that dominant shareholders are prone to invest the firm's capital in suboptimal projects (Morck, Wolfenzon & Yeung, 2005). Therefore, they are generally believed to pervert the capital market, reduce firm value and hamper innovation and economic growth (Gompers, Kovner & Lerner, 2009). This conjecture rests upon a body of literature that assesses the firm's ownership structure as a determinant of corporate dividends. Because the degree of information asymmetry between managers and shareholders is assumed to decline when ownership concentration increases (Dewenter & Warther, 1998; Chemmanur, He, Hu and Liu, 2007), several authors (e.g. Barclay, Holderness, & Sheehan, 2009; Farinha, 2003; Short, Zhang, & Keasey, 2002) have argued that managers of strongly held firms are less likely to use dividends to convey stability and credibility, which leads to more erratic dividends.

Even though the above facts are well established, there have been recent calls to push agency theory forward. For example, Michaely and Roberts (2006) have identified the need for deeper understanding of the economic mechanism that underlies dividend payout patterns. On top of that, Knyazeva (2008) has asserted that the intertemporal patterns in dividends remain an unresolved issue. Indeed, in its current state, extant research on corporate ownership in relation to corporate governance pays scant attention to the meaning and value attached to economic resources by their beneficiaries. Especially when considered from a long-term perspective, the perceived value of corporate ownership could be multifaceted. Needless to say, paid dividends represent a direct source of value for (regular) shareholders and a burden to management and associated dominant owners, limiting their degrees of freedom. However, value from dividends can also be derived indirectly through stock value, which is a reflection of (expected) future income. It is quite imaginable that both sources of value affect the way dominant shareholders use their position.

This raises the question what influence shareholder dominance has on the stability of corporate governance. This paper therefore aims to connect a fundamental structural property of corporations, ownership concentration, to a key corporate governance outcome: the payout of dividends. This effort is undertaken with the aim of answering the following research question: *(how) do dominant corporate owners affect a firm's dividend payout pattern?* Because prior research has involved such a wide array of theoretical perspectives to explain the morphology and significance of dividend policies, Braggion & Moore (2011) have stated that their relative importance is hard to disentangle. In order to establish a strong focus on the agency involved in dividend setting, the context for the present analysis is the Dutch East India Company (*Vereenigde Oostindische Compagnie* – VOC), which existed from 1602 until 1796. This company, operating at the dawn of financial capitalism, was among the first ever to issue shares and award dividends. As such, it did not face the institutional and legal complexity that characterizes the current corporate world and so its dividends were less ‘contaminated’ by considerations other than the agency within the upper echelons.

## THEORY

### Dividends as a signal of corporate governance

The payment of dividends by corporations is one of the most observable corporate governance mechanisms. Although Miller and Modigliani (1961) have argued that dividend payments should be irrelevant for value-maximizing investors, dividends are commonly believed to provide information about the firm’s future prospect (e.g. Bhattacharya, 1979; Miller & Rock, 1985). As such, they are likely to trigger a response from the shareholders (Knyazeva, 2008). What’s more, in a corporate world where management executives have access to resources and information that shareholders do not possess (Lau & Wu, 2010), the dividend policy is a prime instrument used by corporations to allay agency problems (Easterbrook, 1984; DeAngelo, DeAngelo & Skinner, 2009; Pindado, Requejo & De la Torre, 2012). A large stream of research has examined how and why firms distribute dividends (Ben-David, 2010) and indeed, both empirical (e.g. Allen & Michaely 2003) and survey evidence (Lintner 1956; Brav, Graham, Harvey & Michaely, 2005) suggests that dividends are anything but irrelevant to managers and markets and that corporate dividend policies often exhibit clear patterns (Michaely & Roberts, 2006).

Concerning these patterns, Michaely and Roberts (2006) have argued that corporations generally smooth their dividend payouts and do not often decrease them. This assertion matches with the outcome of Lintner’s (1956) seminal paper that dividends are tied to long-term sustainable earnings. According to the managers he interviewed, a major motivation for smoothing is the reluctance to cut dividends. That is, managers appear to reduce dividends only when they have no other choice and increase them only when confident that future cash flows will sustain the new dividend percentage. The motivation underlying this reasoning appears to consist of two strong beliefs (Dewenter & Warther, 1998; Guttman, Kadan & Kandel, 2008): 1) that investors put a premium on companies with stable dividends and 2) that markets penalize dividend cutters. Apart from Michaely and Robert's (2006), Lintner's (1956) conclusions have been confirmed throughout the decades with a body of empirical and survey evidence (cf. Fama & Babiak, 1968; Brav et al, 2005).

**The agency behind dividend smoothing**

Most scholars appear to view dividend smoothing as a solution to both *agency conflicts* and *information asymmetry* (cf. Aivazian, Booth & Cleary, 2006; Leary & Michaely, 2008). In general, managers seeking a more credible dividend policy will make regular persistent dividend payments to shareholders (Ben-David, 2010). The implication of the asymmetric information model is therefore that firms facing more uncertainty and greater information asymmetry will tend to smooth more (e.g. Kumar, 1988; Guttman et al, 2008). The agency model predicts that firms facing a conflict of interest will smooth more (cf. Leary & Michaely, 2011). Michaely and Roberts (2006) have indeed reported that dividend smoothing is more pronounced in public than in private firms, because potential agency issues and information asymmetries are more pronounced there.

*Ceteris paribus*, weakly governed managers can expect a more adverse shareholder reaction to deviations since their investment may be less efficient in the absence of dividends (Knyazeva, 2008). After all, for all the shareholders know, management may be tempted to use the firm's resources in a way that does not serve their best interest (Braggion & Moore, 2011). To show that they are not destroying shareholder value, managers can uphold the promise of continued dividends (Knyazeva, 2008), because the less cash available to management, the harder it is for them to waste it (Jensen, 1986; Ben-David, 2010).

Furthermore, dividend payments pressure managers to raise new capital and debts to fund new investment. Managers who award dividends are therefore met with greater external monitoring, which reduces the agency conflicts between them and the firm's shareholders (Easterbrook, 1984). Lowering agency costs generally increases the value of the firm, so managers who are under suspicion are likely to uphold the implicit dividend promise. Conversely, managers of better-governed firms are believed to be able to deviate from the implicit dividend promise at a relatively low cost because shareholders will expect more efficient subsequent investment behavior (Knyazeva, 2008).

According to Michaely and Roberts (2006), empirical evidence suggests indeed that management's reluctance to cut dividends is partly driven by investors' reactions to such announcements. For example, Michaely, Thaler, and Womack (1995) have found that the consequences for dividend omissions are severe. Furthermore, according to Grullon, Michaely and Swaminathan (2002), the reactions to increases and decreases are asymmetric with average returns reacting more strongly to dividend increases than to decreases. Dewenter and Warther (1998) have examined dividend smoothing at Japanese firms that were members of a Keiretsu. Keiretsu firms typically face less agency conflicts because their shareholders usually have close ties to management (Lau & Wu, 2010). Their results include that Keiretsu member firms pay dividends that are highly sensitive to corporate earnings. Similarly, Chemmanur et al (2007) have found that Hong Kong firms are less likely to smooth dividends than American firms. These authors attribute this result to Hong Kong firms' high degree of ownership concentration, which moderates agency conflicts.

**Dividend smoothing and ownership concentration**

Corporate governance is traditionally thought to evolve around an enduring agency problem that involves an agent – usually a CEO – and multiple principals – the shareholders (cf. Berle

& Means, 1932). However, several studies question the empirical relevance of the principal-agent characterization. For instance, Lopez de Silanes, La Porta and Shleifer (1999) have found that shareholders with dominant equity stakes are present in most large corporations around the world, including the US (Shleifer & Vishny 1986; Morck, Shleifer & Vishny, 1988; Holderness, 2009). Hence, the most important topic in corporate governance might not be the traditional principal-agent problem, but the behavior of powerful corporate owners. Chemmanur et al's (2007) hypothesis about the dividend smoothing at Hong Kong firms therefore makes sense, especially when it is considered that the structure of corporate ownership explains at least a part of the observed variation in dividend policies (Gugler, 2003; Gugler & Yurtoglu, 2003; Renneboog & Trojanowski, 2007).

In fact, Michaely and Roberts (2006) have conjectured that firms with higher levels of large shareholder ownership are less likely to smooth dividends. Conversely, firms with low insider ownership appear to commit more to a stable dividend policy as they attempt to alleviate the free cash flow problem (Rozeff, 1982; John & Knyazeva, 2007; Jeong, 2011). Supporting empirical findings include Brav et al's (2005) report on how closely held firms are much less serious about the consequences of dividend cuts and omissions. Consequently, the dividends of corporations with concentrated ownership are more likely to reflect temporary changes in earnings than those of widely held firms. In the same fashion, the agency and information asymmetry conflicts at family firms are commonly found to be lower than at regular companies (Jensen & Meckling, 1976). As a result, family firms engage less in dividend smoothing (Lau & Wu, 2010; Pindado et al, 2012).

**The role of the dominant shareholder in corporate governance**

The apparent consensus about the effect of ownership concentration on corporate dividend payouts matches well with the state of the art of the literature on the behavior of dominant shareholders in the corporate arena. For instance, Morck et al (2005) have listed two widely known problems between dominant shareholders and their less prominent peers: 1) interest divergence and 2) economic entrenchment. A typical manifestation of the first problem is non-value maximizing investment, for instance when the dominant shareholder is interested in 'empire building' rather than the maximization of shareholder value. Suboptimal investment decisions or the threat thereof may render the capital market suspect, reduce the supply of capital and drive up the cost of capital (Shleifer & Wolfenzon, 2002; Morck et al, 2005). The second problem stems from the fact that the dominant equity stake allows its beneficiary 'tunnel' the corporation's resources around to other projects in order to maximize the performance of a private investment portfolio (Stulz, 1988).

Dominant shareholders have also often been found to lobby against legal reforms that would enhance minority rights (Morck et al, 2005), because the value of control decreases with the potential to expropriate the minority shareholders (La Porta et al, 1999). The self-sustaining feedback loop created by such lobbying makes oligarchic capitalism highly stable. However, the purpose to which dominant shareholders consolidate their hold on corporations remains debatable. For instance, La Porta et al (1999) have stressed that equity markets are both broader and more valuable in countries with good legal protection of minority shareholders. This would mean that the value of the dividend rights that controlling shareholders retain increases as the position of minority shareholders improves.

An important related finding is that rent-seeking and corporate decisions are mostly endogenously determined (Pedersen, 1995). That is, rent-seeking at time *t* is largely determined by the policy of time *t-1*. The endogeneity argument transforms the coordination among principals from a 'one-shot' into a repetitive game. A core finding of game theory is that end games significantly change players' behavior in the direction of self-interest; reversing this situation might have the opposite effect for the agency between dominant and minority shareholders. While most research ascribes a destructive role to controlling shareholders, concerns regarding continuity might induce a much more constructive attitude. By departing from the one-shot settings commonly used in analyses of agency among different corporate principals one could factor in continuity, a potentially important yet understudied goal of corporate ownership, as a part of the corporate governance mechanism.

That the role of dominant shareholders in the stabilization of corporate governance is has not been explored to the full is reflected in Berk and DeMarzo's (2007) argument that the scholars who have identified reasons why companies smooth their dividends or why shareholders prefer particular dividend payouts have not produced conclusive evidence. In this connection Braggion and Moore (2011) have stressed that the current body of knowledge on corporate dividend patterns has come to include a list of determinants as varied as tax, regulation, asymmetric information and behavioral processes. According to these authors, the analysis of dividend policy would be helped not by offering new perspectives, but by ruling out ex ante some theoretical explanations. For instance, the examination of markets where taxes were largely irrelevant and regulation was non-existent would provide a good check on the actual agency-related theories on dividend policy. Broadening this argument, the examination of dividend payouts in institutional voids or little institutionalized environments and could shed new light on the role that dominant owners take up in their coordination with management and other shareholders.

**Setting the scene**

Answering to the need for an empirical field that has not been thoroughly shaped by the economic institutions that have clouded the analysis of corporate agency mechanisms, this study uses the Dutch East India Company (VOC) as its empirical context. This company, which operated from 1602 to 1975, witnessed the dawn of modern capitalism and although it was a rather formal organization (Meilink-Roelofsz, Raben & Spijkerman, 1992), its environment was little institutionalized. Being the first corporation to operate according to modern capitalist principles, some of them were invented and developed literally along the way (cf. De Vries & Van der Woude, 1997; Schalk, Gelderblom & Jonker, 2012). The VOC was a merger of several so-called ‘pre-companies’ founded in six Dutch cities (Amsterdam, Middelburg, Delft, Rotterdam, Hoorn and Enkhuizen), which were locally sponsored enterprises that had engaged in Euro-Asian trade in the late 16-th century. Reflecting the Company’s federal structure, its highest board of directors was a collection of seventeen delegates from the different cities – hence its name *Heeren Seventien* or 'Lords Seventeen' (HXVII). Eight delegates came from Amsterdam, four from Middelburg, one from the other cities and the 17-th seat rotated among all cities save Amsterdam. HXVII convened a few times a year and the location followed a cycle of eight years, where Amsterdam would host for six years and Middelburg for two.

HXVII did not operate in isolation. Interestingly, while the VOC depended on the Republic for its monopoly rights, for most of its history the States General gave the Company considerable leeway in its day-to-day management (Roos, 1987). Instead, it faced a host of local interests (Gaastra, 1989) because the Company was deemed of huge importance to the Dutch economy.[1] In addition, shareholders and directors were often members of the same dynasty (Roos, 1987). As a consequence, the principal shareholders were in the best position to become the next member of HXVII, so they generally took care not to obstruct HXVII and aimed to pamper their social network. As personal or elite continuity prevailed over the Company’s interest (Gaastra, 1989), the ‘unconnected shareholders’, while formally in indirect control over HXVII through elected *hoofdparticipanten* or 'principal shareholders' (Meilink-Roelofsz et al, 1992), exerted little *de facto* influence (Roos, 1987).

1 For example: ANRI, *Hoge Regering*, 3505

The Company started to pay out annual dividends from 1630 onwards. Before this year the VOC underwent a formative period during the individual chambers financed each expedition individually and separately (Schalk et al, 2012) and HXVII was unlimitedly liable (Gelderblom, De Jong & Jonker, 2012). With the collectivization of debt in 1617 and the introduction of limited liability in 1623 the Company's leverage was significantly improved (Gelderblom et al, 2012), which freed HXVII from immediate financial pressures. Figure 1 indicates that from 1630 onwards, when the Company started to pay out annual dividends, the percentages (which were based on nominal equity) were quite versatile. This pattern fits with historical descriptions that the dividend decision was marked by stark intercity tensions.[2] However, historical sources are silent about what happens after the turn of the 18-th century, when dividends smoothed considerably. Assuming that elite systems are usually quite stable, the dividend policy of the Dutch East India Company begs the question under what circumstance the payouts stabilized and why.

*Figure 1 about here*

## DATA AND METHOD

### Case selection and research design

This research consists of a longitudinal analysis of the VOC's dividends. The VOC was chosen as the empirical context for three reasons. First, the fact that the Company operated in institutional voids allows for a focused and uncontaminated analysis of agency dynamics in corporate governance. Second, the VOC has existed for nearly two centuries and thus offers

2 Stapel, F. W. (ed) *Pieter van Dam's Beschryvinghe van de Oostindische Compagnie*, Volume I, Part I, 1693/1924

the unique opportunity to examine the double-arrowed nature of the relationship between corporate ownership and governance. Third, the VOC's archives are declassified. This presents two practical advantages: first, identified dynamics can be embedded in a robust understanding of their historical context. Second, extracted evidence is likely to be authentic, which enhances reliability.

The study features two principal dependent variables: the dividend percentage and its ten-year standard deviation. The former captures the height of the payout; the latter is a measurement of long-term stability. Next to these variables this study involves scrutiny of a set of other dependent variables, including 1) the time to decision, which is the time between the start of a HXVII convention and the date on which a decision on dividends was reached, and 2) the time to effectuation, defined as the period between the day of the decision and the actual payout of the agreed upon dividend percentage. The primary independent variable is the Company's ownership constellation – in particular at the Zeeland chamber – which is measured as total nominal equity per registered party as registered in the dividend payout lists. This way of measuring was chosen because the share transfer ledger is an incredibly complicated and thick document and almost impossible to untangle. A consequence of this choice is that the number of shares per party has not been recorded. Because the Company's (and Zeeland's) equity remained constant over its entire history, there is no difference between currency and percentage as the denomination of equity control.

The power of the ownership variable was assessed by embedding it in a series of covariates that provide measurements of the decision-making context. Because of the Company's embeddedness in early modern Dutch society, the principal control in this study is the economic context. Hence, as covariates are included first of all the public revenues of the Dutch regions that housed the Company's two most important chambers: the northern quarter of the province of Holland, which is the best available approximation of the Amsterdam region, and the province of Zeeland. These figures serve as proxies for regional economic development around the chambers of Amsterdam and Zeeland, because regional public revenues consisted for an important part of taxations on economic activity. As a check of the efficiency of the regional variables the list of covariates also includes the national CPI index, which is a proxy for the general economic atmosphere.

The analysis also controls for performance, because past performance is traditionally considered to be a strong determinant of subsequent corporate governance. The performance-related covariates include the best available measure of the Company's domestic financial position, which is essentially the difference between investments and revenues (cf. De Korte, 1984), the price of VOC shares on the Amsterdam stock exchange and annual totals of outbound (to Asia) and inbound (to Europe) tonnage as measures of the Company's operational size. Lastly the analysis considers the financial behavior of private parties associated with the VOC because this might have interacted with the dividend rationales as advocated by the different elites and shareholder groups. The two associated variables are the dividends realized by the so-called Opium Society, which was a high-profile collectivity of VOC men who engaged in the highly profitable opium trade in Asia, and an annual count of the total amount of money sent back from Asia to Holland in the form of bills of exchange.

**Data collection**

Data collection took place on two levels: the mesoeconomic (regional) and organizational level. On the mesoeconomic level we attended specifically to regional Dutch economic development. To this aim we utilized the historical data portals where numerous kinds of economic and social data are stored. The consulted data portals are those of the *Huygens Instituut voor Nederlandse Geschiedenis* (historici.nl), the *Data Archiving and Network Services* (DANS) and the *Nederlands Economisch-Historisch Archief* (NEHA). The portals offer material for the construction of variables including regional Dutch public revenues, CPI figures, real wages, opium trade results and annual totals of bills of exchange sent to Europe from Asia. Historical literature was used to correctly interpret the quantitative data.

On the organizational level we aimed to capture processes relevant to the distribution of dividends. For a number of variables we used the aforementioned data portals. From there we extracted information on a number of variables such as the annual tonnage of inbound and outbound ships, bills of exchange and the opium dividends. For other organizational variables we resorted to the historical literature, because many works contain organized quantitative data. The VOC's stock price and financial performance were constructed in this way.

Next to the secondary sources the organizational analysis involved two kinds of primary data sources: contemporaneous policy reports and archival documents. Some of the policy reports have later been published in so-called 'source publications', which are collections of original documents published in book form. Others, like most original VOC documents, are contained in the VOC archive of the Netherlands National Archives (NA) in The Hague (archive nr. 1.04.02). Archival documents such as HXVII resolutions were used to extract corporate governance and ownership data including annual dividends, the location of convention, time to decision, time to effectuation and the names of the directors responsible for the decisions. These names were in turn used to measure experience and nepotism at the Company's highest echelon. The archive also contains chamber-specific shareholder ledgers and dividend payout registers which were used to establish who owned what share of the VOC's equity in what year. In our assessment of the background of some shareholders we were assisted by the cultural center of the Portuguese Synagogue in Amsterdam.

In order to get to the dividend data we approached the archive stepwise. First, using the VOC archive's thick catalogue the shareholder ledgers and HXVII resolutions were identified. For specific information on dividend decision-making we had to search through the

HXVII resolutions. These were tracked down by means of the so-called *toegangen* or ‘access points’, which are indices of all the topics HXVII concerned itself with in a given period of time. The toegangen were scanned for the synonymous key words used interchangeably by VOC officials to denote dividend payments: *afgifte*, *repartitie* and *uytdeelinge*. With these keywords the dates of all the dividend decisions were established. With these dates the resolution texts could be looked up and recorded, along with circumstantial variables.

**Analysis**

The analysis of the VOC’s dividend policy consisted of two branches: one focusing on the decision-making circumstances and another on the Company’s ownership structure. A prime variable in the first part of the analysis is the place of convention, which was used as a proxy for the support of the presiding directors’ local network. The location-effect was tested quantitatively using two ANOVAs: one that compared the dividend outcomes realized in Amsterdam and Middelburg and another that measured a set of decision-making variables such as time to decision and time to effectuation across the 17-th and the 18-th century. Two circumstantial variables that do not feature in the analysis are the merchant/regent ratio of HXVII members and HXVII experience. The former variable could not be measured systematically because professions of HXVII members are not consistently noted in the resolutions; furthermore, many directors held multiple positions. The latter variable was measured but showed very little variance.

The conceptual relevance of the ANOVAs is based upon qualitative analysis of resolutions and reports issued by the Company as well as regional economic histories. Particular attention was paid to HXVII’s reasoning underlying the payout decisions and (the evolution of) the positions of the different chambers on the dividend question in their economic and historical context. The resolutions and minutes were analyzed chronologically;

other policy documents and economic history were analyzed at the Dutch National Archive and the Royal Library of The Hague using a snowball approach until a point of information saturation was reached. Using Eisenhardt's (1989) propositions for case study research, we systematically identified themes and quotes that guided our assessment of the examined textual material. Because the normal resolutions don't go far beyond reporting the actual decision, qualitative analysis was expanded toward the so-called minute resolutions, which are resolution drafts that contain much more background information, and general policy reports that describe the procedure according to which decisions on dividends were formed. However, these minutes are generally quite difficult to read, which limited the extent to which HXVII boardroom discussion could be covered.

The second branch of the analysis was aimed at measuring the effect of equity ownership on the Company's dividend policy and its stability. These relationships were conceived on the basis of a qualitative analysis of Jewish history in the Dutch Republic and the VOC's financial history at the Royal Library, which once again followed a snowball approach until saturation. Principal analysis was quantitative and involved time series regression. One concern with this technique is autocorrelation of the regression residuals. Use was therefore made of Newey-West standard errors, which means that the calculation of coefficients takes this abnormality into account. Dickey-Fuller tests and normality tests of the regression residuals indicated no problem related to the effectiveness of the identified models. Different regressions were run with different lags of the independent variables in order to better understand the impact of ownership on dividend policy.

One final pitfall that could undermine the quality of the time series regressions is the structural break. Structural breaks in the course of a dependent variable lead to an incorrect estimation of the regression coefficients, because whenever there is a structural break, two separate coefficients for the two periods are more accurate than one coefficient for the total period. Because the development of the Company's dividends underwent a striking change from the 17-th to the 18-th century the presence of this problem had to be determined. The presence of a structural break was tested using a rupture point identified as the year 1703, which is the start of the first period of dividend stability. The Chow statistic was calculated in order to test the assumption that the two estimates for the pre and post 1703 period were not statistically different. With a Chow statistic of 1.921 the structural break test was insignificant. This means that a model covering years prior to and since the dividend smoothing can be assumed accurate.

## RENT DISTRIBUTION AT THE VOC

### 17-th century: two cities, two rationalities

Regional particularism stood at the cradle of the Company, which shows in the way trade was initially organized and financed (Schalk et al, 2012). After 1630, when the Company significantly increased its leverage, this particularism took on new dimensions. According to Van Dam's (1927 [1693]) *Beschryvinghe* or 'descriptions', the decision-making process was fueled by intercity tensions. Two chambers are explicitly mentioned: Amsterdam and Zeeland. Although there were six chambers, Amsterdam contributed more than half of the VOC's equity and Zeeland slightly more than 20 percent.[3] On this basis they were awarded significant voting power at the level of HXVII. Even though Zeeland was only half as big as Amsterdam, Van Dam has suggested that Zeeland, acting as the ringleader of the smaller chambers, pressed for immediate and high dividend payouts, occasionally preventing Amsterdam from realizing its preference for cash retention.

A number of examples are given. In 1630, 1633 and 1634 a majority of votes,

3 BESCHRYVINGHE book 1.1, p. 138; see also HXVII resolution d.d. 25 Feb 1603.

excluding Amsterdam, secured a pecuniary dividend payout of 17.5, 20 and 20 percent, respectively.[4] In 1649 Amsterdam yet again problematized the projected dividend payouts, contending that any payment should be postponed until finalization of the accounts. However, the other chambers declared to be 'forced to pay out as well'[5] and pushed through a dividend of 20 percent.[6] Similarly, in 1656 HXVII unanimously decided to pay out 27.5 percent in dividends after Amsterdam had ceased its push for a maximum of 20 percent. This was the result of exhortations from the other chambers, which again pointed at the pressure exerted by their constituencies.[7] In the late 1670s there would be two more clashes. In spite of Amsterdam's efforts a 'modest' dividend of 12.5 percent in the form of interest-bearing bonds was paid out in 1678, even though the Company faced heavy financial burdens, and in 1679 the VOC awarded a dividend of 25 percent in the form of unexchangeable bonds. [8]

Although Amsterdam seems to have been unsuccessful throughout the 17-th century, the dividend payouts between 1630 and 1700 do suggest that the place of HXVII's convention mattered for its height (see table 1). That is, while conventions in Amsterdam led to an average dividend percentage of 24.6 percent, meetings presided by the Zeeland chamber resulted in an average payout of 29.9 percent. Apart from this difference it should be noted that since 1630 a number of years have gone without dividend. This may be explained with Gaastra's (1989) suggestion that whichever city presided the convention of HXVII had the right to determine the agenda. As Amsterdam was the meeting place in most years, its representatives could postpone the dividend question to the next meeting. Still, because Amsterdam was one vote short of the absolute majority a consistent push for postponement might have frustrated other parts of that chamber's agenda. This might explain why even

4 BESCHRYVINGHE book 1.1, p. 418-9; see also HXVII resolution d.d. 23 Aug 1630, 29 Sep 1633 and 25 Aug 1634.
5 BESCHRYVINGHE book 1.1, p. 423.
6 See HXVII resolution d.d. 23 Sep 1649.
7 See HXVII resolution d.d. 27 Sep 1656.
8 See HXVII resolution of Sep 1678, point 17 and d.d. 26 Oct 1678, 9 and 21 Nov 1679.

under Amsterdam's presidency HXVII occasionally awarded dividends.

The lingering intercity conflict over the dividends that emerged throughout the 17-th century may have been a manifestation of a fundamental difference in thinking about the Company's economic significance. On the one hand, Zeeland was relatively little industrialized. Having been the subject of strife for centuries between the Hollanders and Flemish first and later the Spanish (Roos, 1987), Zeeland was never quite able to build an infrastructure conducive to economic growth. Where trade did succeed, for instance in shipping, it was occasionally disrupted by war (Enthoven, 1996). In this context industry was led by small artisanship, which presented little opportunity for long-term investment (Enthoven, 1996). This promulgated a preference for short-term economic transactions, which shows for instance in how the province's first Oriental trade expeditions were organized. Commercial expeditions lasted only as long as a single round-trip journey and all the associated assets would be liquidated upon return in Europe (Roos, 1987).

On the other hand, Amsterdam, one of the rebellions' strongholds in the Dutch strife for independence, was a city marked by tolerance and freedom. Having grown into the country's wealthiest city since the independence from Spain, Amsterdam attracted numerous immigrants of a mercantile disposition from Southern Europe, including many Iberian Jews (Sephardim) and French Calvinists (Bloom, 1931; Padgett, 2011). These groups saw in the Republic's capital a safe haven away from religious persecution. The immigrants introduced a tradition of commercial banking, which affected economic thinking in the city and contributed to the establishment of quintessentially modern institutions, such as the Amsterdam Exchange Bank and the Amsterdam Stock Exchange (Petram, 2011). When the Amsterdam Stock Exchange took off in the 1640s the way in which Amsterdam's VOC shareholders sought to derive value from their investment transformed because the financial market opened up the possibility to extract value indirectly through stock price fluctuations.

As a result, investors soon started to care about the signaling effect of the Company's dividends, rather than about the percentages per se (cf. Petram, 2011).

The schism between Zeeland's '*communal*' and Amsterdam's '*commercial*' thinking surfaces in the location effect that shaped the VOC's dividend decisions in the 17-th century. It is unlikely that regional economic developments brought change to this contrast. Figure 2 juxtaposes the public revenues of Zeeland and the Northern Quarter of Holland (Amsterdam's hinterland). Because taxes were raised primarily on the basis of economic transactions, figure 2 suggests that the two economies were diverging: starting from similar points, Holland's income developed linearly (the spikes are attributable to military events that required exceptional non-tax fundraising), while Zeeland's income stagnated. This supports Petram's (2011) suggestion that over the course of the 17-th century Amsterdam began to break loose from the rest of the Republic. For a Company rooted in society this economic divergence is likely to have aggravated regional heterogeneity, if anything.

| *Figure 2 about here* |
| --- |

**18-th century: smoothing policy**

However, the location effect on the Company's dividend policy did not endure. Table 2 (Appendix) shows a century-based ANOVA that clearly demonstrates a shift in dividend policy from the 17-th to the 18-th century. The standard deviation of the dividend percentages drops from 33.343 in the 17-th century to 8.319 in the 18-th and the percentages themselves also drop by almost 10 percentage points. Furthermore, where in the 17-th century it took HXVII an average of more than 18 days to reach a decision on the dividend for that year, it shrunk to almost 11 in the 18-th century. The time to effectuation dropped from nearly 80 days to nearly 50. Table 1 indicates that in this context all the intercity differences of the 17-th century disappear in the 18-th. In fact, time to effectuation becomes longer for Zeeland than for Amsterdam, which contradicts Zeeland's image of a short-term oriented region.

The nature of the change in the dividend-related variables indicates that the Amsterdam's commercial rationality largely but not completely took the upper hand. Instead, they seem to fit with a policy aimed at sending a signal of robustness to shareholders (cf. Van Zanden, 1996). In this connection, Willemsen's (2004) analysis of the VOC's dividend policy concludes that some form of rationalization took place. His findings include an average dividend yield of 3.37 and P/E-ratio of 20.63 for the 18-th century, which are ordinary figures even according to current standards. Another of Willemsen's observations is that although the dividend payout ratio (the proportion of profit spent on dividends) cumulatively remains around 100 percent over the 18-th century, it was realized over a long period of time instead of on a year-to-year basis like in the 17-century. This suggests that dividends became less reactive to the immediate interests of the VOC's chambers, but shareholder interests were never ignored. Instead, the 18-th century dividends seem to reflect a policy aimed at keeping the market value of share capital stable, which might be explained by the competition from government bonds that the Company faced on the capital market (Van Zanden, 1996).

It remains dubious however why the dividends stabilized, because strictly speaking HXVII had no economic interest in a stable stock course (Van Zanden, 1996). Indeed, with its orientation toward the signaling function of financial decisions, the shift served a clearly identifiable but latent 'third' party: the investors on the Amsterdam financial market. This suggests a rise of agency problems between shareholders and directors, which merits a look at how the VOC's ownership developed across the turn of the 18-th century. Interestingly, the VOC's ownership structure changed markedly over the years. This process started in Amsterdam, where throughout the 17-th century Portuguese Sephardic Jews took increasing ownership of the Amsterdam chamber (Smith, 1919; Bloom, 1931). While in 1602 there were only two Jewish shareholders with relatively low investments (Wätjen, 1914), by the 1650s the Sephardim controlled a 'good part' of VOC equity (Ben Israel, 1655). Around the turn of the 18-th century a quarter of all Amsterdam VOC shares was Jewish (Wätjen, 1914).

The Sephardim formed an extended international network, which gave them an information advantage (Willemsen, 2004) that profoundly changed trade at the Amsterdam Stock Exchange (Smith, 1919). At the same time, due to their exclusion from many economic sectors, the Jews were perhaps more than anyone else dependent upon securities as a means to manage their capital (Willemsen, 2004). On top of that, a long history of blame and expropriation had galvanized a strong Sephardic interest in impersonal types of economic transaction (Bloom, 1931). Because unregulated markets with unknown parties were considered risky, the influential Jews of Amsterdam actively pursued market regulation (Bloom, 1931). The best-known example is a document issued on 20 April 1739, when a collectivity of 32 prominent traders (among which 22 Jews) issued regulations for securities trade. They were supposed to prevent misunderstanding and conflict and offer protection against fraud. The document also shows that by the 18-th century the Sephardim controlled securities trade in Amsterdam (Smith, 1919).

Remarkably, what started in Amsterdam eventually trickled to Zeeland. By 1650 the first names from Amsterdam started to appear among Zeeland's shareholders. By the turn of the 18-th century parties from Amsterdam started to take substantive control of the chamber's equity, among whom many Sephardim (Van der Bijl, 1981). Figure 3 displays total Jewish ownership of VOC equity in Zeeland. Considering that Zeeland's equity has always remained constant at £ 212,609 (the Flemish pound was a calculation unit and equaled 6 guilders), the graph shows that the Sephardim controlled almost 40 percent of shares in the early 18-th century; together with other Amsterdam merchants the 'Amsterdam' share of Zeeland's stock at times exceeded 50 percent (Van der Bijl, 1981). This development took place against the backdrop of increasing ownership concentration, because figure 4 indicates that the number of shareholders went down sharply between 1680-1720. Furthermore, figure 5 displays how ownership continuously moved from small to large shareholders. That the Sephardim did not seek a marginal role can be seen in figure 6 in which the average Jewish share rises from about £ 700 around 1680 to double that value almost a century later.

*Figures 3, 4, 5 and 6 about here*

**Ownership concentration and dividend payouts**

The significance of the growing Sephardic presence among the VOC's shareholders is that the rapid Jewish seizure of ownership in Zeeland immediately preceded the overall stabilization of the Company's dividends. The critical importance of the Zeeland chamber is not surprising, because where Jewish preferences matched reasonably well with other merchants in Amsterdam, they found in Zeeland a rather obnoxious province. It is not unthinkable that the Sephardim, along with other Amsterdam investors on the stock market who appreciated stability and the signaling function of certain corporate governance decisions, considered the lingering Amsterdam-Zeeland quarrel over dividends a source of instability. Taking into account Zeeland's influential role of ringleader in the dividend negotiations,[9] it would have made sense to target Zeeland rather than one of the small chambers.

In order to determine whether the rise of Jewish ownership of the VOC in this chamber was of influence on the Company's dividends, time series regressions were performed using two dependent variables: the dividend percentage and dividend stability, measured as a 10-year moving standard deviation. Table 3 compares the effect of a number of economic variables with the effect of ownership concentration and generally indicates that the

9 Van Dam's (1693) BESCHRYVINGHE, book 1.1, chapter 15 elaborates on how on several occasions Amsterdam's agenda was undermined by the collective of other chambers led by Zeeland.

Company's profit and average stock course – two variables traditionally closely associated with dividends – both positively increased the amount of dividend awarded. Both findings make sense: more profit meant more room to award dividends and share prices usually anticipate expected or announced future dividend payouts. Another observed effect is the negative effect of the bills of exchange: where the Company received funds in Asia, it had to pay them back in the metropolis, which lowered the capital available to pay out dividends. The effect of the bills of exchange is immediate, but the other variables retain their power when lags of one and two years are assumed. The addition of ownership variables in the second and third models changes little to the regressions in the first models, which indicates that agency is unlikely to have affected the dividend payouts.

The story is different for the dividend's standard deviation. Depicted in figure 7, it follows neatly the development of the number of shareholders in Zeeland (figure 4) and is horizontally symmetrical to the total Jewish share in Zeeland (figure 3). Table 4 (Appendix) displays the coefficients of the time regression models. Where the economic variables were prominent determinants of the Company's year-to-year dividend percentage, they do not seem to have been important in explaining the dividend's variability. The organizational variables such as profit, stock course and operational outcomes appear to be unimportant throughout the different models. Regional economic development does appear to have a short-lived effect on dividend stability, but its effect is wiped out when the ownership variables are added to the regressions, regardless of lag. The measure of Sephardic ownership (which has been reflected in the analysis) and the number of parties holding equity at the VOC appear to the whimsicality of the dividends. This suggests that as the Jewish investors took ownership of the Zeeland chamber and ownership concentrated, dividends smoothed.

| *Figure 7 about here* |
| --- |

If there was indeed a Jewish force that stabilized the VOC's dividends by taking control over the Company's most stubborn chamber, how did this process unfold in an organization known for its oligarchic practices? To illustrate, from the early 17-th century until the very last moment there are no Sephardic names in Zeeland's fraction of HXVII. However, Van der Bijl (1981) has asserted that the Jewish influence in the Zeeland chamber can be identified through private correspondences, especially those from times when the shareholders were to elect a new HXVII member. For example, in 1716, when the Sephardim had already taken up a significant portion of Zeeland's VOC equity, members of the prominent Hurgronje family explicitly mentioned the Jews in their correspondence. In that year one of Zeeland's HXVII members, Johan van Reygersberge van Cauwerve, died. There were two candidates to replace him: Ockers van Schonewalle and Pieter van Hoorn. In the Hurgronje genealogy it becomes clear that the candidates spent generously to assure themselves of the popular vote (Snouck Hurgronje, 1924). The Hurgronjes supported the first candidate. Motivating this choice, one family member wrote: *'I don't want that the 'smausen' [a negative sobriquet for the Sephardim] have a go at placing and forming their director'* (Hurgronje, 1924, p. 50).

The word 'forming' in this sense clearly suggests the presence of a Jewish agenda in Zeeland.

The word 'smausen' carries an anti-Semitic element. Even though the Dutch merchants were practical, latent racism may have fueled a collective effort to keep the Sephardim 'at bay'. If this is so, it is unlikely that the Sephardim were in the position to successfully pursue any political agenda. However, official communications surrounding the same election offer an additional perspective on the development among Zeeland's shareholders. In the below excerpt, the head participants appear to have requested the candidates to take the oath that corresponded to their position – something that had been skipped somehow the previous forty years.[10] The head participants, by this time representing a much more concentrated collective of shareholders, insisted on protocol and wanted to formalize procedures that had become informal during times when ownership was still diffuse. Furthermore, the head participants insist on the general importance of following the majority of shareholder votes and of putting shareholder interest first instead of elite interest.

Now that the matter has been brought so much *out of its whole,* and only to let the minority prevail over the majority and one head participant over another, this does not resemble justice and will be *in its whole* with discussion (…) in order to examine the reasons why the mentioned oath has never been done before and whether it serves the interest of Zeeland's shareholders (…) to introduce such a change. (…) (T)he head participants decided that it resembles neither the interest of Zeeland's shareholders nor justice to treat this matter so arbitrarily and according to the currently seeming interests and requested to proceed with this act according to old tradition, retaining the usual direction.[11]

In all, the head participants attempted to promote good quality corporate governance aimed at minimizing agency costs. The pamphlet was signed by as many as 31 people and with the help of Elias' (1963) *Vroedschap van Amsterdam (1578-1795),* which lists all the important family names residing in early modern Amsterdam, it appears that no less than 16 of the undersigned had an Amsterdam background. Amsterdam investors were therefore at least for a large part responsible for the shareholders' attempt to straighten up the chamber's corporate governance. This fact also sheds new light on the Hurgronjes' correspondence about the Sephardim, because the family's spite should be considered in a context where there was a rare opportunity for Zeeland's shareholders to break with the local elite's hold on the Zeeland chamber. In effect, it adds credibility to the suggestion that the Sephardim took part in

10 NA 11092, pamphlet dated 21/01/1717, p. 2.
11 NA 11092, pamphlet dated 21/01/1717, p. 3.

reforming the Zeeland chamber. After all, the Sephardim had close affinity with Amsterdam's economic culture, so it is far from unthinkable that the Sephardim and other Amsterdam investors had similar purposes in the wake of Reygersberge's demise.

That the 1717 election of a new HXVII director was not a stand-alone event when it comes to corporate governance reform in Zeeland can be proven with a statement prepared by the Zeeland chamber and recited at one of HXVII's conferences in Amsterdam in October 1779. In the below excerpt, the head participants take issue with a proposed tax and emphatically mention the importance of financial prudence and transparence.

(…) [O]ne should not be surprised that the regular shareholders of the Company make founded complaints, especially in times when frugality concerning the annual dividends has had to be practiced for many of the past years; and that they cannot be indifferent whether good use is made of the capital entrusted with the Company. They cannot behold with indifference that matters of importance to the conference of HXVII are dealt with without consulting the head participants of the respective chambers and consider it their duty to guard against this as much as possible (…).[12]

The communications from the head participants to HXVII confirm an image of large shareholders trying to obtain more influence by appealing to their stipulated rights and insisting on formal procedures that foster transparency. The head participants clearly state that they are left out of daily procedures, which suggests that HXVII, at least in Zeeland, was focused inward rather than outward – an image confirmed by the way an elite family such as the Hurgronjes speak about the Sephardim.

In all, there is no direct evidence that the Amsterdam faction took active control in Zeeland to effectuate its agenda – if anything, the data indicate that the incumbent elite of Zeeland did everything to retain its position. In fact, never did a merchant from Amsterdam

12 NA 11092; statement d.d. 14/10/1779, p. 2-3.

sit on one of Zeeland's seats in HXVII. However, it is well documented that the long-term business interests of the Sephardim and other Amsterdam investors who became active in Zeeland had galvanized an interest in the stabilization of the financial signals sent out by the VOC. The records show that after they acquired control of equity, around the turn of the 18-th century, the Sephardim and other investors from Amsterdam were active in reforming the Zeeland chamber, which had always pushed for high and immediate dividends. It is rather unusual for dominant shareholders to make attempts at diminishing the cost of agency, but understandable when considering that in the 18-th century the directors and investors in Zeeland were two different networks. The quantitative analysis shows that the concentration of ownership removed the differences in dividend payouts between Amsterdam and Zeeland, so even if the dominant shareholders did not exert direct control on the VOC's corporate governance, at least the efforts of the Company's upper echelons to keep them at bay must have culminated into a policy that was sufficiently in line with their agenda.

## DISCUSSION AND CONCLUSION

In the 17-th century the VOC's dividends were largely the result of intercity negotiations. While Zeeland, flanked by other chambers, pushed for payouts, Amsterdam favored cash retention. The antagonism had deep economic and historical roots: while Amsterdam underwent commercial development, Zeeland's considerations remained supportive of local elites. The schism is noticeable in the location effect that shaped the VOC's 17-th century dividend payouts: whenever Amsterdam presided HXVII dividend percentages were lower than when Zeeland hosted the conventions. This suggests an effect of entourage: those presiding the HXVII convention enjoyed the advantage of being in close connection to a supportive social network (cf. Gaastra, 1989). The result was ongoing payout fluctuation.

The economic divergence between Amsterdam and Zeeland continued into the 18-th century, but the VOC's dividends smoothed. The empirical analysis suggests that the key to explaining this development lies with the Company's ownership. Changes in the body of shareholders of the Zeeland chamber – characterized by historians as stubborn and independent – support a theory of increased ownership concentration as a driver of dividend stabilization. Especially the advent of investors from Amsterdam – most notably the Sephardim –, who were interested in stock market stability, appears to have contributed to the loss of dividend payout volatility. The quantitative models (tables 3 and 4) indicate clearly that the changes in ownership structure and the stabilization of dividends were not mere coincidental events, because while economic and financial variables do seem to be important for the actual dividend percentage, they had little to do with stability. Private correspondences and official documents offer supporting evidence concerning the attitude of the Amsterdam investors in Zeeland. While the elites in Zeeland were anxious about losing their hold on their chamber, the Sephardim and other Amsterdam investors appear to have ventilated concerns about continuity and transparency rather than short-term rent-seeking as commonly expected for dominant shareholders.

The fact that the Amsterdam shareholders of the Zeeland chamber promoted a stable dividend policy counters a large body of literature that characterizes dominant shareholders as relentless rent-seekers. Especially the Sephardim, who were dependent on the value of their equity possessions for their wealth, seem to have cared much about a stable investment climate at the VOC. However, a mere long-term interest is does not sufficiently explain why the Amsterdam investors fostered stability and transparency and refrained from rent-seeking, which is an alternative strategy for yielding longstanding benefits. To illustrate, when it comes to family firms, where many dominant owners can be found, agency theory generally ascribes positive effects, including continuity, to strong family ownership (cf. Randøy & Goel, 2003). However, the literature also associates family dominance with whimsical dividend payouts, which is not in concordance with this study's findings.

The key to explaining why the VOC's 18-th century dividend pattern does not follow the predictions of agency theory is that family firms are generally considered low agency cost environments (Siebels & Zu Knyphausen Aufseß, 2012; Pindado et al, 2012). The same goes for narrowly held corporations: dominant shareholders are typically predicted to engage in rent-seeking and entrenchment because the smoothness of coordination between management and dominant shareholders is generally taken for granted. For instance, Morck et al (2005) have described nepotism at corporate boards as a result of intervention by dominant shareholders. When agency costs are low, management and dominant shareholders do not have to take into account the effect of their coordination on outsider perceptions, which leaves them with the freedom to pay out dividends at will.

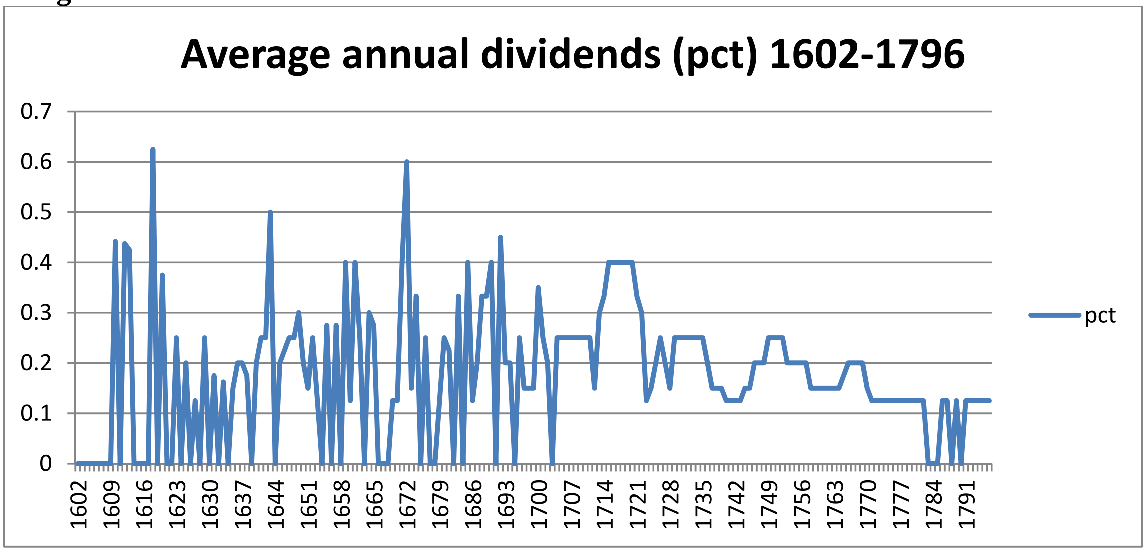
However, in economies with nascent or weak economic institutions, where legal frameworks are relatively undeveloped and informal economic ties paramount, the agency cost associated with the coordination between management and dominant shareholders are not necessarily low. For instance, shareholders may be confronted with a stubborn managerial elite that is more interested in catering to its traditional constituency than in maximizing shareholder wealth, not to mention all the informal customs, traditions and practices that have little to do with rational decision-making but still shape corporate governance. This would leave a majority shareholder with little *de facto* influence. Especially at the upper echelons of large prestigious corporations, where 'traditional' societal elites are likely to be active, social networks may disturb rational economic thinking. When they do, they drive up agency cost considerably, especially when the control of equity is newly acquired and the dominant shareholder is weakly socially embedded. In that case, dominant shareholders may prefer fostering stability of corporate governance to the exploitation of corporate financial resources in order to lower their agency cost.

As economies develop and the opportunities on financial markets grow, investors typically develop more long-term strategies because risks can be better hedged against. However, when the economy is not yet back by fully developed supportive systems, such as a comprehensive and effective legal framework, the transaction costs flowing from market trade may be considerable. In their effort to mitigate these costs, many long-term oriented investors, especially the Sephardim, maintained property in the form of VOC stock over many years (Willemsen, 2004), which gave them an interest in the continuation of the Company. This choice is not strange because the VOC was very large and government-chartered and so carried a low risk of failure. However, capitalism in the Dutch Republic was still developing and socially rooted economic mechanisms were still present. The source material presented in this paper suggests that the VOC's dominant owners, represented by Zeeland's head participants, were not on a good footing with the chamber's directors. Management did not inform shareholders timely and sufficiently and together with its traditional constituency it attempted to block the influence of the new dominant shareholders. In this context it made perfect sense for the Amsterdam investors to insist on stability to make sure that, as Zeeland's head participants have put it, the invested capital is employed well.

As this paper has shown, the remarkable stabilization of the VOC's dividends in the 18-th century is a manifestation of the role that dominant shareholders can play when the institutions guiding the economic process are not fully crystallized. As such, the Company's financial history serves as a mirror to a corporate world that is currently fraught with a renewed distrust of capitalism's institutions. 'Immoral' rent-seeking by corporate elites currently receives a lot of media coverage, which suggests that the coordination between principals and agents remains an ever-present economic problem. In addition, in a globalizing world where emerging economies are taking up new economic significance, this study's findings hint at the importance of dominant shareholders in the development of capitalism. As such, this study forms a starting point for further enquiry into the role of dominant, resource-rich parties in the institutionalization of economic processes. This might in turn lead to a reassessment of what the corporate balance of power should look like.

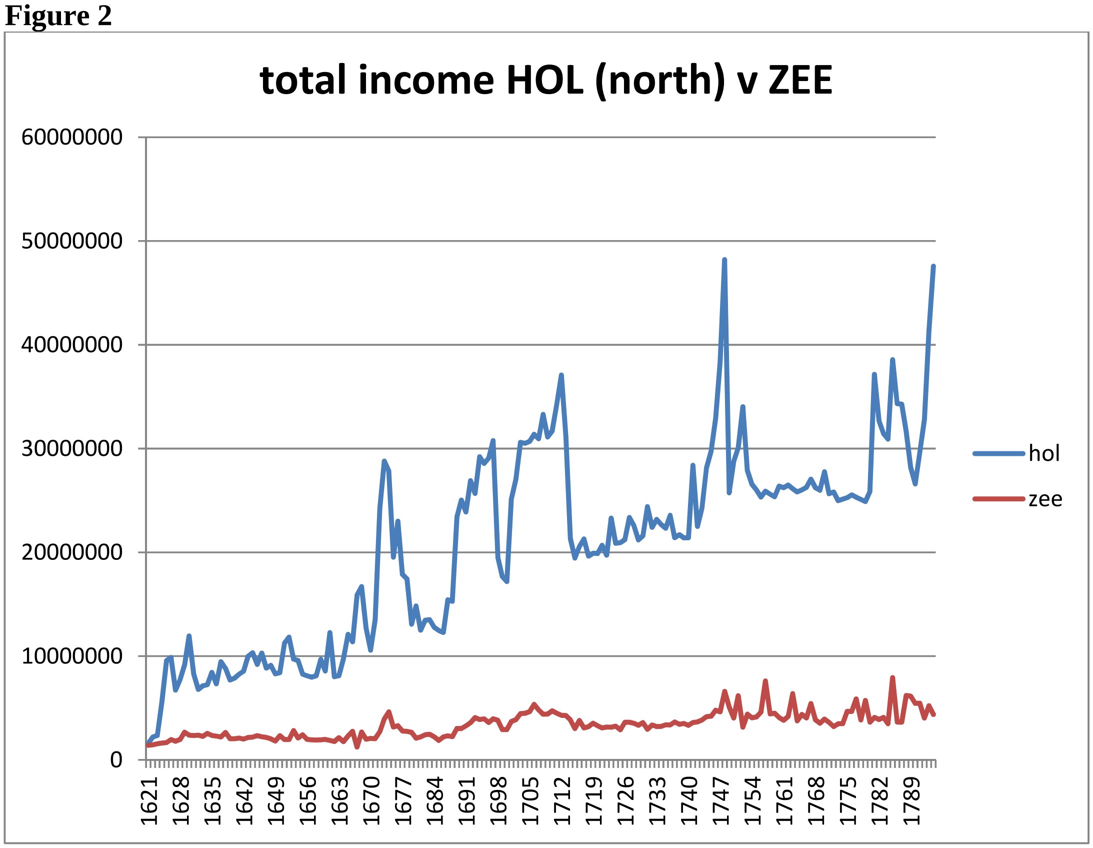
## APPENDIX

**Figure 1**



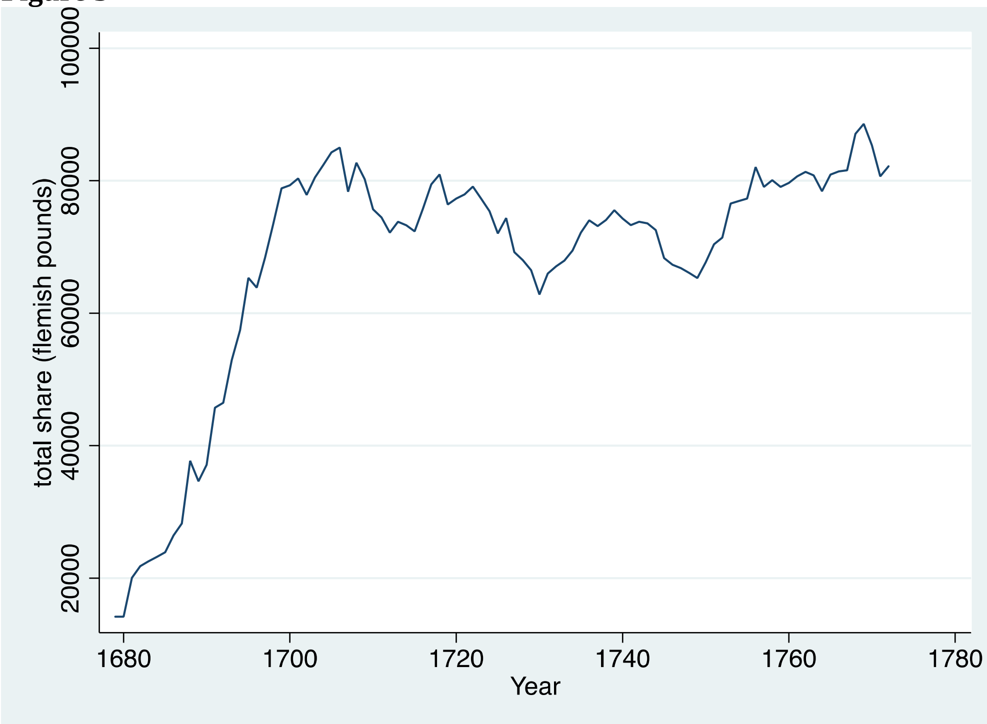

*Sources: BESCHRYVINGHE, part 1.1, p. 433-6; De Korte (1984), appendix 13.*

**Figure 2**



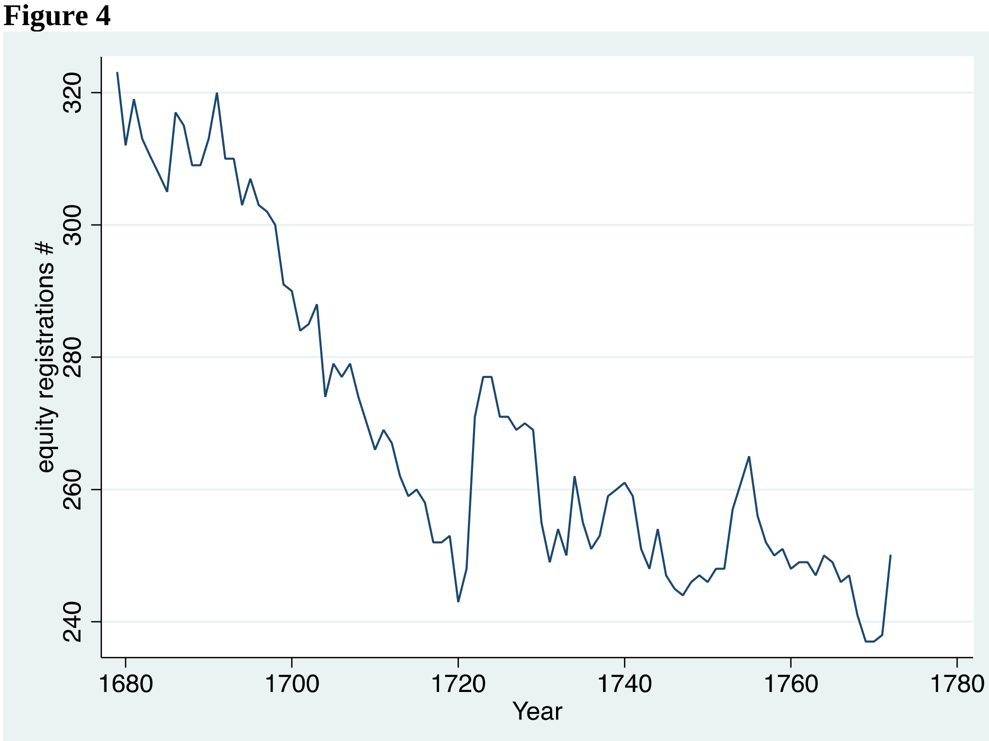

*Source: historici.nl, Fritschy and colleagues,* Gewestelijke Financiën *dataset.*

**Figure 3**



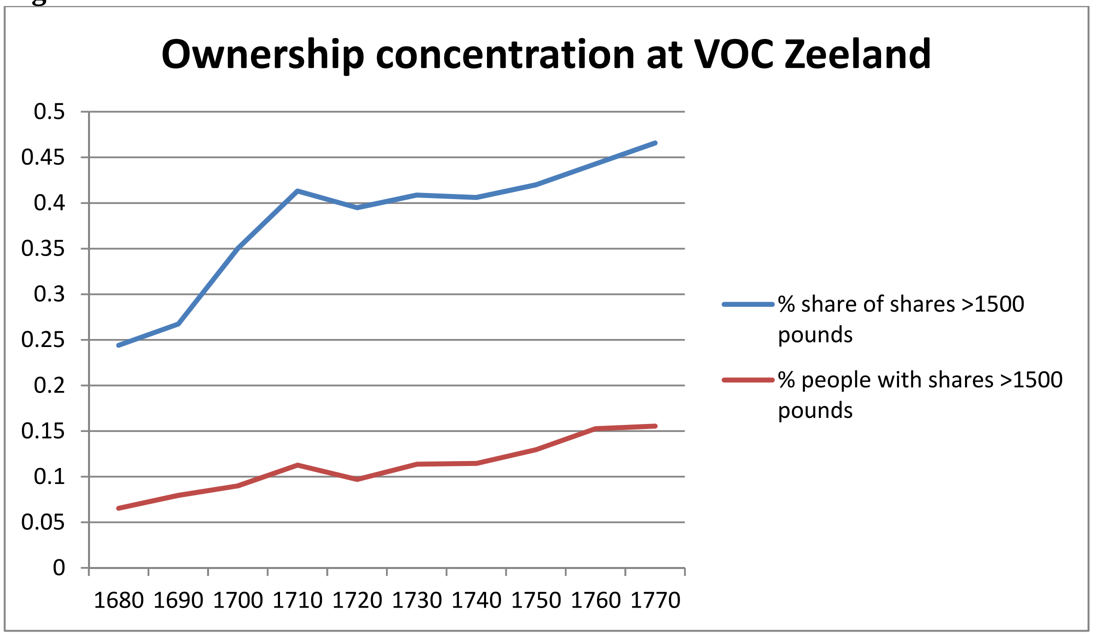

*Source: NA 13798. £ 1 equaled f 6 – the Flemish pound was a calculation unit. Zeeland's total nominal equity remained constant at £ 212,609.*

**Figure 4**



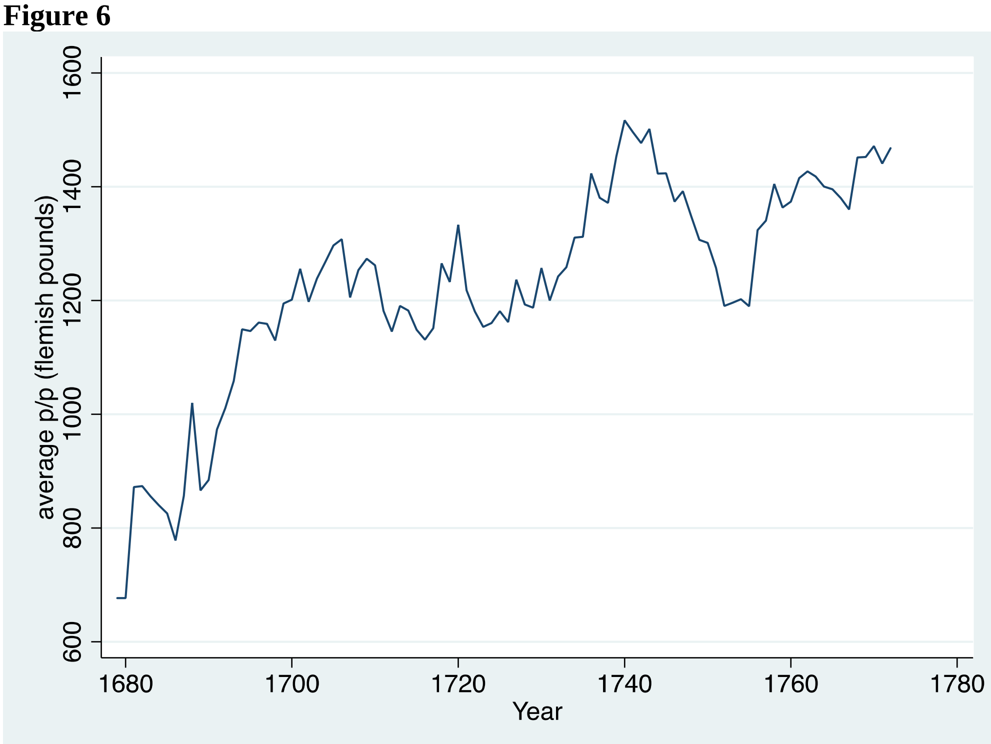

*Number of shareholders of the VOC's Zeeland Chamber. Source: NA 13798.*

**Figure 5**



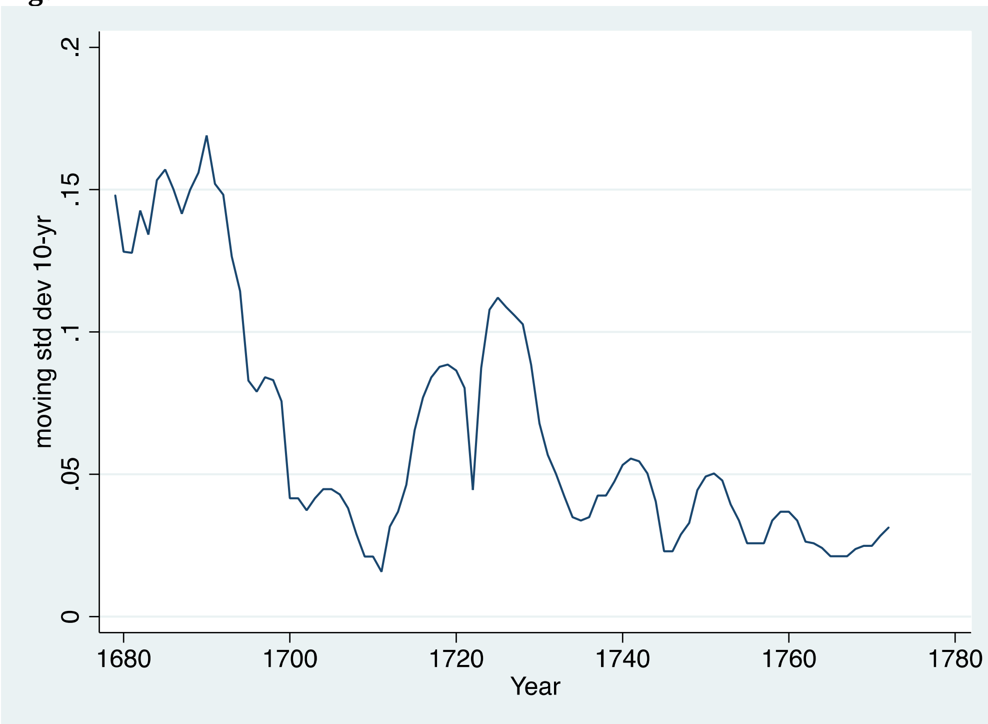

*Source: Van der Bijl (1981), Appendix XXVIII.*

**Figure 6**




*Average share per Sephardic investor. Source: NA 13798.*

**Figure 7**




*10-year moving standard deviation of the dividend percentages.*

**Table 1**

| | 17-th century | | 18-th century | |
|---|---|---|---|---|
| | Amsterdam | Zeeland | Amsterdam | Zeeland |
| N | 47 | 19 | 66 | 20 |
| Mean | .2459 | .2986 | .2047 | .2067 |
| Std. Dev. | .1143 | .1586 | .0780 | .0745 |
| Min | .075 | .125 | .125 | .125 |
| Max | .6 | .625 | .4 | .4 |
| P-value | .06 | | .92 | |

*ANOVA – Amsterdam v Zeeland w.r.t. dividend percentages.*

**Table 2**

| | Dividend percentage | | Time to decision | | Time to effectuation | |
|---|---|---|---|---|---|---|
| | 17-th | 18-th | 17-th | 18-th | 17-th | 18-th |
| N | 50 | 86 | 50 | 86 | 50 | 86 |
| Mean | .31 | .22 | 18.22 | 10.81 | 79.30 | 49.14 |
| Std. Dev. | .212 | .113 | 33.343 | 8.319 | 55.692 | 15.430 |
| Min | 0 | 0 | 0 | 0 | 1 | 18 |
| Max | 1 | 1 | 162 | 53 | 289 | 97 |
| P-value | .001 | | .052 | | .000 | |

*ANOVA – century differences w.r.t. percentages, time to decision and time to effectuation.*

**Table 3**

| | Dividend Percentage | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Lag=0 | | | Lag=1 | | | Lag=2 | | |
| | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 |
| # Equity registrations | | | -.2567 | | | -.1525 | | | -.3970* |
| Total Jewish equity ZEE (refl) | | .0000 | .0001 | | .0001 | .0001 | | .0000 | .0002 |
| Public revenue HOL | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | .0000 | .0000 | -.0000 |
| Public revenue ZEE | .0001 | .0001 | .0000 | .0000 | .0001 | .0001 | .0001 | .0001 | .0001 |
| VOC domestic trade balance | .0000* | .0000* | .0000* | .0000 | .0000 | .0000 | .0000** | .0000** | .0000** |
| Average VOC stock course | .0004*** | .0004*** | .0004*** | .0003* | .0003* | .0003* | .0003** | .0003** | .0003* |
| Bills of exchange | -.0001* | -.0001* | -.0001* | .0000 | .0000 | .0000 | -.0001 | -.0001 | -.0000 |
| Opium dividends | .0000 | .0000 | .0000 | -.0000 | -.0000 | -.0000 | .0000 | .0000 | .0000 |
| Tonnage outbound | -.0000 | -.0000 | -.0000 | .0000 | .0000 | .0000 | -.0000 | -.0000 | -.0000 |
| Tonnage inbound | .0000 | .0000 | .0000 | -.0000 | -.0000 | -.0000 | .0000 | .0000 | .0000 |
| # Voyages outbound | .0040 | .0039 | .0054 | -.0057 | -.0057 | -.0048 | .0035 | .0035 | .0059 |
| # Voyages inbound | -.0082 | -.0082 | -.0090 | .0076 | .0076 | .0072 | -.0060 | -.0060 | -.0073 |
| CPI index | .0141 | .0159 | .0171 | -.0568 | -.0513 | -.0520 | -.0130 | -.0129 | -.0122 |
| Constant | -.1193 | -.1351 | 1.3610 | .3241 | .2713 | 1.1659 | .0163 | .0157 | 2.3331* |

*Newey-West regressions. Autocorrelation lag=2. 'Total Jewish Equity ZEE' has been reflected in the regression.*
* p<.05; ** p<.01; *** p<.001

**Table 4**

| | Dividend Stability | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Lag=0 | | | Lag=1 | | | Lag=2 | | |
| | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 |
| # Equity registrations | | | .2189** | | | .2123** | | | .1857** |
| Total Jewish equity ZEE (refl) | | .0004*** | .0003*** | | .0004*** | .0003*** | | .0004*** | .0003*** |
| Public revenue HOL | -.0000*** | -.0000 | -.0000 | -.0000** | -.0000* | -.0000 | -.0000* | -.0000 | -.0000 |
| Public revenue ZEE | -.0000* | -.0000 | -.0000* | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 |
| VOC domestic trade balance | -.0000 | -.0000 | .0000 | -.0000 | .0000 | .0000 | .0000 | .0000 | .0000 |
| Average VOC stock course | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 |
| Bills of exchange | .0000 | .0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 |
| Opium dividends | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 |
| Tonnage outbound | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 | -.0000 |
| Tonnage inbound | .0000 | .0000 | .0000 | .0000 | .0000 | .0000 | .0000 | .0000 | .0000 |
| # Voyages outbound | .0022 | .0020 | .0007 | .0018 | .0017 | .0004 | .0022 | .0021 | .0011 |
| # Voyages inbound | -.0023 | -.0019 | -.0012 | -.0023 | -.0020 | -.0014 | -.0027 | -.0024 | -.0018 |
| CPI index | -.0537 | -.0080 | -.0089 | -.0578 | -.0150 | -.0140 | -.0542 | -.0103 | -.0106 |
| Constant | .6059** | .1849 | -1.091* | .6168** | .2083 | -1.0387* | .5970* | .1840 | -.8997* |

*Newey-West regressions. Autocorrelation lag=2.*
* p<.05; ** p<.01; *** p<.001

## REFERENCES


Adams, R., Hermalin, B. E., & Weisbach, M. S. (2008). *The role of boards of directors in corporate governance: A conceptual framework and survey*. National Bureau of Economic Research.

Aivazian, V. A., Booth, L., & Cleary, S. (2006). Dividend smoothing and debt ratings. *Journal of Financial and Quantitative Analysis*, *41*(02), 439–453.

Allen, F., & Michaely, R. (2003). Payout policy. *Handbook of the Economics of Finance*, *1*, 337–429.

Barclay, M. J., Holderness, C. G., & Sheehan, D. P. (2009). Dividends and corporate shareholders. *Review of Financial Studies*, *22*(6), 2423–2455.

Ben Israel, M. (1655). Humble Addresses to the Lord Protector.

Ben-David, I. (2010). Dividend policy decisions. In Baker, H. K. & Nofsinger, J. R. (Red.), *Behavioral Finance: Investors, Corporations and Markets* (Wiley.). Hoboken.

Berk, J. B., & DeMarzo, P. M. (2007). *Corporate finance*. Upper Saddle River: Pearson Education.

Berle, A. A., & Means, G. C. (1932). The modern corporation and property. *New York, Mad· lilIan Co*.

Bhattacharya, S. (1979). Imperfect information, dividend policy, and“ the bird in the hand” fallacy. *The Bell Journal of Economics*, 259–270.

Bloom, H. I. (1931). *The economic activities of the Jews of Amsterdam in the seventeenth and eighteenth centuries*. Kennikat Press.

Braggion, F., & Moore, L. (2011). Dividend Policies in an Unregulated Market: The London Stock Exchange, 1895–1905. *Review of Financial Studies*, *24*(9), 2935–2973.

Brav, A., Graham, J. R., Harvey, C. R., & Michaely, R. (2005). Payout policy in the 21st century. *Journal of Financial Economics*, *77*(3), 483–527.

Chemmanur, T. J., He, J., Hu, G., & Liu, H. (2010). Is dividend smoothing universal?: New insights from a comparative study of dividend policies in Hong Kong and the US. *Journal of Corporate Finance*, *16*(4), 413–430.

De Korte, J. P. (1984). *De Jaarlijkse Financiele Verantwoording in de VOC*. Leiden: Martinus Nijhoff.

De Vries, J., & van der Woude, A. M. (1997). *The first modern economy: success, failure, and perseverance of the Dutch economy, 1500-1815*. Cambridge Univ Pr.

DeAngelo, H., DeAngelo, L., & Skinner, D. (2009). Corporate payout policy. *Foundations and trends in finance*, *3*(2-3).

Dewenter, K. L., & Warther, V. A. (1998). Dividends, asymmetric information, and agency conflicts: Evidence from a comparison of the dividend policies of Japanese and US firms. *The Journal of Finance*, *53*(3), 879–904.

Easterbrook, F. H. (1984). Two agency-cost explanations of dividends. *The American Economic Review*, *74*(4), 650–659.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of management review*, *14*(4), 532–550.

Elias, J. E. (1963). *De vroedschap van Amsterdam 1578-1795* (Vol. 1). Amsterdam: N. Israel.

Enthoven, V. (1996). *Zeeland en de opkomst van de Republiek: handel en strijd in de Scheldedelta, c. 1550-1621*.

Fama, E. F., & Babiak, H. (1968). Dividend policy: an empirical analysis. *Journal of the American statistical Association*, *63*(324), 1132–1161.

Farinha, J. (2003). Dividend policy, corporate governance and the managerial entrenchment hypothesis: an empirical analysis. *Journal of Business Finance & Accounting*, *30*(9-10), 1173–1209.

Gaastra, F. S. (1989). Bewind en beleid bij de VOC. *De financiële en commerciële politiek van de bewindhebbers, 1672-1702. Walburg Pers: Zutphen*.

Gelderblom, O., De Jong, A., & Jonker, J. (2012). The Formative Years of the Modern Corporation: The Dutch East India Company VOC, 1602-1623. *ERIM Report.*

Gompers, P., Kovner, A., & Lerner, J. (2009). Specialization and success: evidence from venture capital. *Journal of Economics & Management Strategy*, *18*(3), 817–844.

Grullon, G., Michaely, R., & Swaminathan, B. (2002). Are Dividend Changes a Sign of Firm Maturity? *The Journal of Business*, *75*(3), 387–424.

Gugler, K. (2003). Corporate governance, dividend payout policy, and the interrelation between dividends, R&D, and capital investment. *Journal of Banking & Finance*, *27*(7), 1297–1321.

Gugler, K., & Yurtoglu, B. B. (2003). Corporate governance and dividend pay-out policy in Germany. *European Economic Review*, *47*(4), 731–758.

Guttman, I., Kadan, O., & Kandel, E. (2008). A Theory of Dividend Smoothing. Working Paper.

Hardy, C., & Maguire, S. (2008). Institutional entrepreneurship. In *Handbook of organizational institutionalism* (pp. 198–217). London, UK: Sage.

Holderness, C. G. (2009). The myth of diffuse ownership in the United States. *Review of Financial Studies*, *22*(4), 1377–1408.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, *76*(2), 323–329.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and capital structure. *Journal of financial economics*, *3*(4), 305–360.

Jeong, J. (2011). An investigation of dynamic dividend behavior in Korea. *International Business & Economics Research Journal (IBER)*, *10*(6), 21–32.

John, K., & Knyazeva, A. (2007). Corporate governance and payout commitments. In *EFA 2008 Athens Meetings Paper*.

Knyazeva, A. (2008). Which companies deliver on the dividend promise? New evidence on dividend smoothing and dynamic dividend behavior. Working Paper.

Kumar, P. (1988). Shareholder-manager conflict and the information content of dividends. *Review of Financial Studies*, *1*(2), 111–136.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of financial economics*, *58*(1-2), 3–27.

Lau, J., & Wu, H. (z.d.). Founding Family Ownership and Dividend Smoothing. Working Paper.

Leary, M., & Michaely, R. (2008). Why firms smooth dividends: empirical evidence. *Johnson School Research Paper Series*, (11-08).

Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *The American Economic Review*, *46*(2), 97–113.

López de Silanes, F., La Porta, R., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of finance*, *54*(2), 471–517.

Meilink-Roelofsz, M. A. P., Raben, R., & Spijkerman, H. (1992). *De archieven van de Verenigde Oostindische Compagnie (1602-1795)*. The Hague: Sdu Uitgevers.

Michaely, R., & Roberts, M. (2006). Dividend smoothing, agency costs, and information asymmetry: Lessons from the dividend policies of private firms. Working Paper.

Michaely, Roni, & Roberts, M. R. (2012). Corporate dividend policies: Lessons from private firms. *Review of Financial Studies*, *25*(3), 711–746.

Michaely, Roni, Thaler, R. H., & Womack, K. L. (1995). Price reactions to dividend initiations and omissions: Overreaction or drift? *The Journal of Finance*, *50*(2), 573–608.

Miller, M.H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *the Journal of Business*, *34*(4), 411–433.

Miller, Merton H., & Rock, K. (1985). Dividend policy under asymmetric information. *The Journal of Finance*, *40*(4), 1031–1051.

Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. *Journal of financial Economics*, *20*, 293–315.

Morck, R., Wolfenzon, D., & Yeung, B. (2005). *Corporate governance, economic entrenchment and growth*. National Bureau of Economic Research.

Padgett, J. F. (2011). Country as Global Market: Netherlands, Calvinism and the Joint-stock company. In J. F. Padgett & W. W. Powell (Red.), *The Emergence of Organizations and Markets*. Princeton: Princeton University Press.

Pedersen, K. R. (1995). Rent-seeking, political influence and inequality: A simple analytical example. *Public Choice*, *82*(3), 281–305.

Petram, L. O. (2011). The world's first stock exchange: how the Amsterdam market for Dutch East India Company shares became a modern securities market, 1602-1700.

Pindado, J., Requejo, I., & Torre, C. (2012). Do family firms use dividend policy as a governance mechanism? Evidence from the Euro zone. *Corporate Governance: An International Review*, *20*(5), 413–431.

Randøy, T., & Goel, S. (2003). Ownership structure, founder leadership, and performance in Norwegian SMEs: implications for financing entrepreneurial opportunities. *Journal of Business Venturing*, *18*(5), 619–637.

Renneboog, L., & Trojanowski, G. (2007). Control structures and payout policy. *Managerial Finance*, *33*(1), 43–64.

Roos, D. (1987). *Zeeuwen en de VOC*. Stichting VOC Publicaties.

Rozeff, M. (1982). Growth, beta and agency costs as determinants of dividend payout ratios. *Journal of financial Research*, *5*(3), 249–259.

Schalk, R., Gelderblom, O., & Jonker, J. (2012). Schipperen op de Aziatische vaart. De financiering van de voc kamer Enkhuizen, 1602-1622. *BMGN-Low Countries Historical Review*, *127*(4), 3–27.

Shleifer, A., & Vishny, R. W. (1986). Large shareholders and corporate control. *The Journal of Political Economy*, 461–488.

Shleifer, A., & Wolfenzon, D. (2002). Investor protection and equity markets. *Journal of Financial Economics*, *66*(1), 3–27.

Short, H., Zhang, H., & Keasey, K. (2002). The link between dividend policy and institutional ownership. *Journal of Corporate Finance*, *8*(2), 105–122.

Siebels, J.-F., & zu Knyphausen-Aufseß, D. (2012). A review of theory in family business research: the implications for corporate governance. *International Journal of Management Reviews*, *14*(3), 280–304.

Smith, M. F. J. (1919). *Tijd-affaires in effecten aan de Amsterdamsche beurs*. M. Nijhoff.

Snouck Hurgronje, A. J. W. (1924). *Genealogie der familie Snouck Hurgronje, benevens eenige bijzonderheden omtrent de familiën Snouch en Zuydland, etc. etc.,*. Venlo.

Stulz, R. (1988). On takeover resistance, managerial discretion and shareholder wealth. *Journal of Financial Economics*, *20*(1/2), 25–54.

Van Dam, P. (1927). *Beschryvinge van de Oostindische Compangnie*. (F. W. Stapel & C. W. T. . van Dubbeldam, Red.). M. Nijhoff.

Van der Bijl, M. (1981). *Idee en interest*. Wolters-Noordhoff.

Van Doorn, J. A. A. (1956). *Sociologie van de organisatie: beschouwingen over organiseren in het bijzonder gebaseerd op een onderzoek van het militaire systeem*. Kroese.

Van Zanden, J. L. (1996). Over de rationaliteit van het ondernemersgedrag van de VOC: enkele empirische bevindingen. *Kapitaal, ondernemerschap en beleid*, 409–422.

Wätjen, H. (1914). *Das Judentum und die Aufänge der modernen Kolonisation: Kritische Bemerkungen zu W. Sombarts" die Juden und das Wirtschaftsleben*. Berlin: W. Kohlhammer.

Willemsen, R. T. H. (2004). *Kabaal aan de Amsterdamse beurs: koersverloop en waardering van het aandeel VOC in de 18e eeuw*. ibs Instituut voor Beleggingsstrategie.