

## Contents

|                     |       |
|---------------------|-------|
| Figures .....       | XII   |
| Tables .....        | XV    |
| Abbreviations ..... | XXV   |
| Symbols .....       | XXVII |

## **1 Introduction.....1**

## **2 The Agency Theory and its Empirical Implementation .....7**

|                                                                                                        |    |
|--------------------------------------------------------------------------------------------------------|----|
| 2.1 Overview over the Neoinstitutionalistic Theories .....                                             | 7  |
| 2.1.1 Transaction Cost Theory .....                                                                    | 9  |
| 2.1.2 Property Rights Approach .....                                                                   | 11 |
| 2.1.3 Asymmetric Information .....                                                                     | 12 |
| 2.2 Agency Theory .....                                                                                | 14 |
| 2.2.1 Typology of the Agency Theory .....                                                              | 14 |
| 2.2.1.1 Owner-Manager Conflicts .....                                                                  | 14 |
| 2.2.1.2 Creditor-Owner and Other Agency Conflicts .....                                                | 15 |
| 2.2.2 Agency Problems and Agency Costs .....                                                           | 17 |
| 2.2.2.1 The Concept of Agency Costs .....                                                              | 17 |
| 2.2.2.2 The Categorization of Agency Costs by Jensen/Meckling .....                                    | 19 |
| 2.2.2.2.1 Monitoring Costs .....                                                                       | 19 |
| 2.2.2.2.2 Bonding Costs .....                                                                          | 20 |
| 2.2.2.2.3 Residual Loss .....                                                                          | 20 |
| 2.2.2.3 Risk Allocation and Utility Maximization as Agency Problems under Asymmetric Information ..... | 21 |
| 2.2.2.3.1 Risk Allocation .....                                                                        | 21 |
| 2.2.2.3.2 Utility Maximization .....                                                                   | 24 |
| 2.2.2.4 The Measurability of Agency Costs .....                                                        | 25 |
| 2.2.3 Mechanisms to Reduce Agency Problems .....                                                       | 26 |
| 2.2.3.1 Monitoring and Control Mechanisms .....                                                        | 27 |
| 2.2.3.1.1 Internal Control Measures .....                                                              | 27 |
| 2.2.3.1.1.1 Shareholder Voting and Block Ownership .....                                               | 27 |
| 2.2.3.1.1.2 The Supervisory Board .....                                                                | 29 |
| 2.2.3.1.1.3 Internal Monitoring and Control by Non-Bank Creditors .....                                | 30 |
| 2.2.3.1.1.4 Bottom-Up Monitoring .....                                                                 | 32 |
| 2.2.3.1.2 Markets as External Control Mechanisms .....                                                 | 32 |
| 2.2.3.1.2.1 The Market for Corporate Control .....                                                     | 33 |
| 2.2.3.1.2.2 The Bond Market .....                                                                      | 35 |
| 2.2.3.1.2.3 The Market for Managers .....                                                              | 36 |

|                                                                                        |    |
|----------------------------------------------------------------------------------------|----|
| 2.2.3.1.3 Banks as Controlling Instances in German Industrial Stock Companies .....    | 36 |
| 2.2.3.1.3.1 Banks as Creditors .....                                                   | 37 |
| 2.2.3.1.3.2 Banks as Shareholders .....                                                | 37 |
| 2.2.3.1.3.3 Proxy Voting and Conflicts in the Principal Roles of Banks .....           | 38 |
| 2.2.3.2 Incentive and Bonding Mechanisms .....                                         | 39 |
| 2.2.3.2.1.1 Compensation Agreements and Managerial Ownership .....                     | 40 |
| 2.2.3.2.1.2 Contractual Clauses in Debt Finance .....                                  | 41 |
| 2.2.3.2.1.3 Signaling as a Bonding Mechanism .....                                     | 42 |
| 2.2.3.3 Comparative Summary of the German and US Systems of Corporate Governance ..... | 43 |
| 2.3 The Dataset .....                                                                  | 44 |
| 2.3.1 Raw Data .....                                                                   | 44 |
| 2.3.1.1 Databases .....                                                                | 44 |
| 2.3.1.2 Return calculation .....                                                       | 45 |
| 2.3.1.3 Sector Classification .....                                                    | 45 |
| 2.3.2 Agency Indicator Variables for the Empirical Research .....                      | 47 |
| 2.3.2.1 Classification of the Agency Indicator Variables .....                         | 47 |
| 2.3.2.2 Information Asymmetry Variables .....                                          | 50 |
| 2.3.2.3 Ownership Control Variables .....                                              | 51 |
| 2.3.2.4 Creditor Control Variables .....                                               | 52 |
| 2.3.2.5 Internal Control Variables .....                                               | 53 |
| 2.3.2.6 External Control Variables .....                                               | 53 |
| 2.3.2.7 Conglomerate Agency Variables .....                                            | 59 |
| 2.3.2.7.1 Aggregation of the Indicator Variables .....                                 | 59 |
| 2.3.2.7.2 Genetic Algorithms .....                                                     | 61 |
| 2.3.2.7.2.1 A Brief Description of Genetic Algorithms .....                            | 61 |
| 2.3.2.7.2.2 The Genetic Algorithm Design Used .....                                    | 63 |
| 2.3.2.7.2.3 Results of the Runs .....                                                  | 64 |
| 2.4 The Statistical Methods Used in the Analysis .....                                 | 68 |
| 2.4.1 T-Tests for Differences in Group Means .....                                     | 68 |
| 2.4.2 Logistic Regressions .....                                                       | 70 |

### **3 Financial Behavior in the Industrial Firm..... 72**

|                                                                                     |    |
|-------------------------------------------------------------------------------------|----|
| 3.1 Capital Structure Theory on Perfect Markets .....                               | 72 |
| 3.2 Capital Structure Theory on Imperfect Markets .....                             | 73 |
| 3.2.1 Internal vs. External Funds .....                                             | 74 |
| 3.2.2 Agency Costs of Debt and Equity .....                                         | 76 |
| 3.2.3 Investment and Firm Value .....                                               | 78 |
| 3.2.4 Debt versus Equity Finance .....                                              | 81 |
| 3.3 Empirical Analysis of the Financial Behavior of German Stock Corporations ..... | 86 |

|                                                                                                               |     |
|---------------------------------------------------------------------------------------------------------------|-----|
| 3.3.1 Hypotheses .....                                                                                        | 86  |
| 3.3.2 Previous Empirical Research .....                                                                       | 92  |
| 3.3.2.1 Research on Non-Agency Determinants of Capital Structure .....                                        | 92  |
| 3.3.2.2 Research on the Effects of Agency Problems between Owners and<br>Managers on Financial Behavior ..... | 94  |
| 3.3.3 Empirical Results .....                                                                                 | 96  |
| 3.3.3.1 Financial Behavior Variables in the Context of this Study .....                                       | 96  |
| 3.3.3.2 Comprehensive Analysis .....                                                                          | 97  |
| 3.3.3.2.1 T-Tests for Differences in Mean Financial Behavior .....                                            | 97  |
| 3.3.3.2.2 Logistic Regressions .....                                                                          | 103 |
| 3.3.3.3 Sectoral Analysis .....                                                                               | 107 |
| 3.3.3.3.1 Results for the Machinery Sector .....                                                              | 107 |
| 3.3.3.3.2 Results for the Utilities Sector .....                                                              | 115 |
| 3.3.3.3.3 Results for the Other Sectors and Overview of all Sectoral Re-<br>sults .....                       | 119 |
| 3.4 Summary of the Chapter .....                                                                              | 124 |

## **4 A Test of the Managerial Theory of Performance .....128**

|                                                                                   |     |
|-----------------------------------------------------------------------------------|-----|
| 4.1 Agency Theory and Performance .....                                           | 128 |
| 4.1.1 The Overinvestment Problem and Free Cash Flows .....                        | 128 |
| 4.1.2 The Underinvestment Problem, Agency Costs of Debt and Bank<br>Control ..... | 129 |
| 4.1.3 Managerialism and Performance .....                                         | 131 |
| 4.1.3.1 Growth Model .....                                                        | 131 |
| 4.1.3.2 Utility Model .....                                                       | 132 |
| 4.1.4 Market Forces and Competition .....                                         | 133 |
| 4.2 Classification of Performance Measures .....                                  | 135 |
| 4.2.1 Absolute vs. Relative Measures .....                                        | 135 |
| 4.2.2 Market vs. Book Performance .....                                           | 136 |
| 4.2.3 Aggregate vs. Disaggregate Measures .....                                   | 139 |
| 4.3 Empirical Analysis of the Performance of German Stock Corporations ....       | 142 |
| 4.3.1 Performance Measures in the Context of this Study .....                     | 142 |
| 4.3.1.1 Return on Capital .....                                                   | 142 |
| 4.3.1.2 Return on Equity .....                                                    | 142 |
| 4.3.1.3 Sharpe Ratio .....                                                        | 145 |
| 4.3.1.4 Tobin's q .....                                                           | 147 |
| 4.3.2 Hypotheses .....                                                            | 149 |
| 4.3.3 Previous Empirical Research .....                                           | 153 |
| 4.3.4 Empirical Results .....                                                     | 157 |
| 4.3.4.1 Comprehensive Analysis .....                                              | 157 |
| 4.3.4.1.1 Descriptives of the Variables .....                                     | 157 |
| 4.3.4.1.2 T-Tests for Differences in Mean Performance .....                       | 158 |

|                                                                                  |            |
|----------------------------------------------------------------------------------|------------|
| 4.3.4.1.3 Logistic Regressions .....                                             | 161        |
| 4.3.4.2 Yearly Analysis .....                                                    | 164        |
| 4.3.4.2.1 T-Tests for Differences in Mean Performance .....                      | 166        |
| 4.3.4.2.2 Logistic Regressions .....                                             | 172        |
| 4.3.4.2.3 Temporal Developments .....                                            | 177        |
| 4.3.4.3 Sectoral Analysis .....                                                  | 182        |
| 4.3.4.3.1 T-Tests for Differences in Mean Performance .....                      | 182        |
| 4.3.4.3.2 Logistic Regressions .....                                             | 190        |
| 4.4 Summary of the Chapter .....                                                 | 192        |
| <b>5 Agency Problems and Efficiency in the Firm .....</b>                        | <b>196</b> |
| 5.1 Efficiency and Production Theory .....                                       | 196        |
| 5.1.1 Efficiency .....                                                           | 196        |
| 5.1.2 Types of Efficiency .....                                                  | 196        |
| 5.1.2.1 X-Efficiency .....                                                       | 196        |
| 5.1.2.2 Cost and Profit Efficiency .....                                         | 199        |
| 5.1.2.3 Economies of Scale and Scope .....                                       | 199        |
| 5.1.2.4 Information and Risk Efficiency .....                                    | 199        |
| 5.1.3 The Production Process .....                                               | 200        |
| 5.1.3.1 The Underlying Production Technology .....                               | 200        |
| 5.1.3.2 Costs and Profits .....                                                  | 201        |
| 5.1.3.3 Duality between Production and Cost Functions .....                      | 203        |
| 5.1.4 Production and Efficiency in the Context of this Study .....               | 207        |
| 5.1.5 Classification of the Methods of Efficiency Measurement .....              | 210        |
| 5.1.5.1 Non-Parametric Methods .....                                             | 211        |
| 5.1.5.2 Parametric Methods .....                                                 | 213        |
| 5.1.5.2.1 Non-Stochastic Methods .....                                           | 213        |
| 5.1.5.2.2 Stochastic Methods .....                                               | 215        |
| 5.2 Empirical Analysis of the Efficiency of German Stock Corporations .....      | 216        |
| 5.2.1 Hypotheses .....                                                           | 216        |
| 5.2.2 Previous Empirical Research .....                                          | 218        |
| 5.2.2.1 Research on Industrial and Agricultural Firms .....                      | 218        |
| 5.2.2.2 Research in Banking Firms .....                                          | 223        |
| 5.2.3 The Dataset .....                                                          | 228        |
| 5.2.4 Theoretical and Econometric Considerations .....                           | 229        |
| 5.2.4.1 Using Translog Functional Form to Estimate the Efficiency Measures ..... | 229        |
| 5.2.4.2 Operationalization of Efficiency Measures .....                          | 233        |
| 5.2.4.3 The Stochastic Frontier Approach .....                                   | 234        |
| 5.2.4.3.1 Inefficiency in the Regression Residual .....                          | 234        |
| 5.2.4.3.2 Econometric Description of the Panel Frontier Cost Function .....      | 236        |

|                                                                                      |            |
|--------------------------------------------------------------------------------------|------------|
| 5.2.4.3.3 Econometric Description of the Cross-Sectional Frontier Cost Function..... | 240        |
| 5.2.4.3.4 Determination of the Variables in the Cost Function .....                  | 242        |
| 5.2.4.4 Tests and Properties of the Cost Function .....                              | 247        |
| 5.2.5 Empirical Results .....                                                        | 253        |
| 5.2.5.1 Cross-Sectional Cost Functions.....                                          | 253        |
| 5.2.5.1.1 Model Description.....                                                     | 253        |
| 5.2.5.1.2 Estimation Results.....                                                    | 254        |
| 5.2.5.1.3 Tests of the Properties of the Functions.....                              | 256        |
| 5.2.5.1.4 T-Tests for Differences in Mean Inefficiency .....                         | 260        |
| 5.2.5.1.5 Temporal Developments in Inefficiency .....                                | 266        |
| 5.2.5.1.6 Logistic Regressions .....                                                 | 270        |
| 5.2.5.2 Panel Model Overall Cost Function .....                                      | 274        |
| 5.2.5.2.1 Model Description.....                                                     | 274        |
| 5.2.5.2.2 Estimation Results.....                                                    | 275        |
| 5.2.5.2.3 Tests of the Properties of the Function .....                              | 278        |
| 5.2.5.2.4 T-Tests for Differences in Mean Inefficiency .....                         | 279        |
| 5.2.5.2.5 Logistic Regressions .....                                                 | 282        |
| 5.2.5.3 Panel Model Sectoral Cost Functions.....                                     | 284        |
| 5.2.5.3.1 Model Description.....                                                     | 284        |
| 5.2.5.3.2 Estimation Results.....                                                    | 288        |
| 5.2.5.3.3 Tests of the Properties of the Functions.....                              | 291        |
| 5.2.5.3.4 T-Tests for Differences in Mean Inefficiency .....                         | 292        |
| 5.2.5.3.4.1 T-Tests for the Separate Sectoral Estimates .....                        | 294        |
| 5.2.5.3.4.2 T-Tests for the Comprehensive Estimate by Sector .....                   | 301        |
| 5.2.5.3.5 Logistic Regressions .....                                                 | 310        |
| 5.3 Summary of the Chapter.....                                                      | 316        |
| <b>6 Summary.....</b>                                                                | <b>320</b> |
| <b>A Appendix.....</b>                                                               | <b>330</b> |
| A.1 The Agency Theory and its Empirical Implementation .....                         | 330        |
| A.2 Financial Behavior in the Industrial Firm .....                                  | 335        |
| A.3 A Test of the Managerial Theory of Performance .....                             | 341        |
| A.4 Agency Problems and Efficiency in the Firm .....                                 | 356        |
| <b>B References.....</b>                                                             | <b>373</b> |

## Figures

|                                                                                                                                                          |     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Figure 2-1: Systemization of the neoinstitutionalistic theories .....                                                                                    | 8   |
| Figure 2-2: Financial principal-agent relationships in a company .....                                                                                   | 17  |
| Figure 2-3: Development of the firm value by degree of managerial ownership .....                                                                        | 18  |
| Figure 2-4: Graphical representation of the optimal level of monitoring .....                                                                            | 19  |
| Figure 2-5: Exemplary sketch of the utility function of a risk averse person .....                                                                       | 23  |
| Figure 2-6: Riskiness of investment policy of the management depending on the portion of performance-based compensation .....                            | 41  |
| Figure 2-7: Causality and measurability of agency problems .....                                                                                         | 47  |
| Figure 2-8: Susceptibility of the agency problem context to short-term managerial actions .....                                                          | 48  |
| Figure 2-9: Company and employee numbers, 1992' .....                                                                                                    | 56  |
| Figure 2-10: Descriptive statistics for the sectors studied, values for 1992' .....                                                                      | 57  |
| Figure 2-11: Crossover breeding .....                                                                                                                    | 62  |
| Figure 2-12: Sketch of a logistic function (before rounding) .....                                                                                       | 70  |
| <br>Figure 3-1: Graphical representation of the optimal leverage theory .....                                                                            | 73  |
| Figure 3-2: External financing under asymmetric information .....                                                                                        | 75  |
| Figure 3-3: Graphical representation of the optimal leverage according to the managerial theory .....                                                    | 78  |
| Figure 3-4: Graphical representation of the financial preferences by agency group according to hypotheses one to three .....                             | 92  |
| Figure 3-5: Average values for the financial activities by control group, using block ownership to distinguish .....                                     | 100 |
| Figure 3-6: Average new long and short-term debt-to-asset ratios over all years, by sector .....                                                         | 108 |
| Figure 3-7: Debt ratios over all years, by sector .....                                                                                                  | 109 |
| Figure 3-8: Average new equity and free cash flow-to-asset ratios over all years, by sector .....                                                        | 109 |
| Figure 3-9: Graphical representation of the financial preferences by agency group as confirmed or rejected in the tests of hypotheses one to three ..... | 127 |
| <br>Figure 4-1: Growth model .....                                                                                                                       | 132 |
| Figure 4-2: Utility model .....                                                                                                                          | 133 |
| Figure 4-3: Profits lost to perks or competition .....                                                                                                   | 134 |
| Figure 4-4: Development of costs due to agency problems by agency group .....                                                                            | 135 |
| Figure 4-5: Return on Investment Diagram .....                                                                                                           | 141 |
| Figure 4-6: Development of average returns on equity and capital over time .....                                                                         | 165 |
| Figure 4-7: Development of average Sharpe ratios and values for Tobin's q over time .....                                                                | 166 |

|                                                                                                                                                         |     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Figure 4-8: Ranking of the advantageousness of the three control groups regarding return on equity and Tobin's q for the years 1992, 1990 and 1988..... | 171 |
| Figure 4-9: Development of return on equity over time, by agency group (using block ownership to distinguish).....                                      | 178 |
| Figure 4-10: Development of return on equity over time, by agency group (using <i>agency1</i> to distinguish).....                                      | 178 |
| Figure 4-11: Development of return on equity over time, by agency group (using <i>agency5</i> to distinguish).....                                      | 179 |
| Figure 4-12: Development of return on capital over time, by agency group (using the ratio of monitored to unmonitored debt to distinguish) .....        | 180 |
| Figure 4-13: Development of Sharpe ratio over time, by agency group (using block ownership to distinguish).....                                         | 180 |
| Figure 4-14: Development of Tobin's q over time, by agency group (using block ownership to distinguish).....                                            | 181 |
| Figure 4-15: Average returns on equity and capital over all years, by sector ..                                                                         | 183 |
| Figure 4-16: Average Sharpe ratios and values for Tobin's q over all years, by sector .....                                                             | 183 |
| Figure 5-1: Determinants of technical efficiency.....                                                                                                   | 197 |
| Figure 5-2: Determinants of allocative efficiency.....                                                                                                  | 198 |
| Figure 5-3: Determinants of distributive efficiency .....                                                                                               | 198 |
| Figure 5-4: Technically efficient production set border for the one input, one output production function .....                                         | 201 |
| Figure 5-5: Cost-efficient production set border.....                                                                                                   | 202 |
| Figure 5-6: Systemization of cost efficiency measures.....                                                                                              | 203 |
| Figure 5-7: Isoquants of homogeneous and homothetic functions .....                                                                                     | 204 |
| Figure 5-8: Inner (VI) and outer (VO) input requirement sets.....                                                                                       | 205 |
| Figure 5-9: Classification of estimation methods .....                                                                                                  | 210 |
| Figure 5-10: Technical and allocative efficiency .....                                                                                                  | 211 |
| Figure 5-11: Development of the mean values of the fixed and financial assets over time .....                                                           | 246 |
| Figure 5-12: Concavity of the cost function.....                                                                                                        | 249 |
| Figure 5-13: Graphical demonstration of the determinant of a matrix .....                                                                               | 252 |
| Figure 5-14: Development of <i>xineff</i> over time .....                                                                                               | 266 |
| Figure 5-15: Comparison of the development of <i>xineff</i> , $\sigma$ and $\lambda$ over time.....                                                     | 267 |
| Figure 5-16: Comparison of the development of <i>xineff</i> over time, by managerial and ownership control (using block ownership to distinguish) ..... | 268 |
| Figure 5-17: Comparison of the development of <i>xineff</i> over time, by managerial and ownership control (using <i>agency1</i> to distinguish).....   | 269 |
| Figure 5-18: Comparison of the development of <i>xineff</i> over time, by managerial and ownership control (using <i>agency5</i> to distinguish).....   | 270 |
| Figure 5-19: Comparison of the development of the yearly values for $\lambda$ and the comprehensive value .....                                         | 277 |

|                                                                                                                                                                                                                  |     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Figure 5-20: Comparison of yearly and comprehensive inefficiency estimates .....                                                                                                                                 | 280 |
| Figure 5-21: Average total assets and employees over all years, per sector .....                                                                                                                                 | 286 |
| Figure 5-22: Average total assets and costs over all years, per sector (in millions of DM) .....                                                                                                                 | 287 |
| Figure 5-23: Comparison of estimates for $\sigma$ , sectoral and comprehensive regressions .....                                                                                                                 | 290 |
| Figure 5-24: Comparison of the average <i>xineff</i> , by sector, separate regressions to the overall average <i>xineff</i> .....                                                                                | 293 |
| Figure 5-25: Comparison of <i>xineff</i> , by sector, for the separate and comprehensive regressions .....                                                                                                       | 302 |
| Figure 5-26: Sketch of efficient border in relation to machinery companies (+) with and without companies from other sectors (•) included in regression .....                                                    | 304 |
| Figure 5-27: Sketch of efficient border in relation to management-controlled (+) and ownership-controlled (x) machinery companies with and without companies from other sectors (•) included in regression ..... | 305 |
|                                                                                                                                                                                                                  |     |
| Figure A-1: Development of return on capital over time, by agency group (using <i>agency1</i> to distinguish) .....                                                                                              | 348 |
| Figure A-2: Development of return on capital over time, by agency group (using <i>agency5</i> to distinguish) .....                                                                                              | 348 |
| Figure A-3: Development of Sharpe ratio over time, by agency group (using <i>agency1</i> to distinguish) .....                                                                                                   | 348 |
| Figure A-4: Development of Sharpe ratio over time, by agency group (using <i>agency5</i> to distinguish) .....                                                                                                   | 349 |
| Figure A-5: Development of Tobin's q over time, by agency group (using <i>agency1</i> to distinguish) .....                                                                                                      | 349 |
| Figure A-6: Development of Tobin's q over time, by agency group (using <i>agency5</i> to distinguish) .....                                                                                                      | 349 |



## Tables

|                                                                                                                                               |    |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----|
| Table 2-1: Distribution of share ownership in the US and Germany, in percent by owner category .....                                          | 28 |
| Table 2-2: Comparison of the effectivity of the main German and US governance systems .....                                                   | 44 |
| Table 2-3: Number of companies in the sample, by sector and year .....                                                                        | 46 |
| Table 2-4: Ranking of the sectors by degree of competitiveness in the sales market.....                                                       | 57 |
| Table 2-5: Correlations of the agency measures, 1986-1992 .....                                                                               | 58 |
| Table 2-6: Percentages of agency variables in conglomerate agency variables, using predetermined percentages.....                             | 60 |
| Table 2-7: Percentages of all agency variables in conglomerate agency variables, GeneHunter combinations .....                                | 64 |
| Table 2-8: Percentages of agency variables excluding the monitored debt ratio in conglomerate agency variables, GeneHunter combinations ..... | 65 |
| Table 2-9: Correlations of the conglomerate agency measures, 1986-1992 .....                                                                  | 65 |
| Table 2-10: Agency variables in the analysis .....                                                                                            | 67 |
| Table 3-1: Substitutional effects of risky investments on corporate value .....                                                               | 80 |
| Table 3-2: Preferences for financial instruments, by management and ownership control .....                                                   | 87 |
| Table 3-3: Hypothesis 1: Preferences for financial instruments, by management and ownership control.....                                      | 88 |
| Table 3-4: Preferences for financial instruments, by management and creditor control .....                                                    | 88 |
| Table 3-5: Hypothesis 2: Preferences for financial instruments, by management and creditor control .....                                      | 89 |
| Table 3-6: Preferences for financial instruments, by ownership and creditor control .....                                                     | 89 |
| Table 3-7: Hypothesis 3: Preferences for financial instruments, by management and creditor control .....                                      | 90 |
| Table 3-8: Previous empirical studies of non-agency determinants of capital structure .....                                                   | 94 |
| Table 3-9: Previous empirical studies of agency determinants of the capital structure .....                                                   | 95 |
| Table 3-10: Calculation of the financial instrument variables .....                                                                           | 97 |
| Table 3-11: Descriptives of the agency variables, 1986-1992 .....                                                                             | 97 |
| Table 3-12: Descriptives of the finance measures, 1986-1992 .....                                                                             | 98 |
| Table 3-13: Correlations of the agency variables.....                                                                                         | 99 |
| Table 3-14: Correlations between the agency and finance variables .....                                                                       | 99 |

|                                                                                                                                                                               |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table 3-15: T-tests for differences of means of finance measures for groups with and without agency problems, by agency variable, 1986-1992 .....                             | 101 |
| Table 3-16: T-tests for differences of means of the finance measures between owner-controlled and creditor-controlled companies, 1986-1992 .....                              | 102 |
| Table 3-17: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the first hypothesis, 1986-1992.....          | 105 |
| Table 3-18: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the second hypothesis, 1986-1992 .....        | 106 |
| Table 3-19: Overview over the validity of hypotheses one to three; 1986-1992.....                                                                                             | 107 |
| Table 3-20: T-tests for differences of means of finance measures for groups with and without agency problems, by agency variable, machinery sector .....                      | 110 |
| Table 3-21: T-tests for differences of means of the finance measures between owner-controlled and creditor-controlled companies, machinery sector ...                         | 111 |
| Table 3-22: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the first hypothesis, machinery sector .....  | 112 |
| Table 3-23: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the second hypothesis, machinery sector ..... | 113 |
| Table 3-24: Overview over the validity of hypotheses one to three; machinery sector .....                                                                                     | 114 |
| Table 3-25: T-tests for differences of means of finance measures for groups with and without agency problems, by agency variable, utilities sector .....                      | 116 |
| Table 3-26: T-tests for differences of means of the finance measures between owner-controlled and creditor-controlled companies, utilities sector .....                       | 116 |
| Table 3-27: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the first hypothesis, utilities sector .....  | 117 |
| Table 3-28: Coefficients and results of the logistic seemingly unrelated regressions on the finance dummy variables for the second hypothesis, utilities sector .....         | 118 |
| Table 3-29: Overview over the validity of hypotheses one to three; utilities sector .....                                                                                     | 119 |
| Table 3-30: Overview over the validity of hypotheses one to three; chemicals sector .....                                                                                     | 119 |
| Table 3-31: Overview over the validity of hypotheses one to three; electronics sector .....                                                                                   | 120 |
| Table 3-32: Overview over the validity of hypotheses one to three; food & beverages sector .....                                                                              | 121 |
| Table 3-33: Overview over the validity of hypotheses one to three, all sectors.....                                                                                           | 122 |

|                                                                                                                                                      |     |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table 3-34: Alternative overview over the validity of hypotheses one to four; all sectors' .....                                                     | 124 |
| Table 3-35: Overview over the validity of hypotheses one to four; all methods .....                                                                  | 125 |
| Table 4-1: Calculation of the net operating result .....                                                                                             | 137 |
| Table 4-2: Calculation of the net financial result .....                                                                                             | 138 |
| Table 4-3: Calculation of the balance sheet income .....                                                                                             | 138 |
| Table 4-4: Correlations of the performance measures, 1986-1992 .....                                                                                 | 148 |
| Table 4-5: Previous empirical studies of agency determinants of performance .....                                                                    | 156 |
| Table 4-6: Descriptives of the performance measures, 1986-1992 .....                                                                                 | 157 |
| Table 4-7: Descriptives of the agency variables, 1986-1992 .....                                                                                     | 158 |
| Table 4-8: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1986-1992 ..... | 159 |
| Table 4-9: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1986-1992 ..     | 161 |
| Table 4-10: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1986-1992 .....                         | 163 |
| Table 4-11: Overview over the validity of hypotheses one to three; comprehensive tests 1986-1992 .....                                               | 164 |
| Table 4-12: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1992 .....     | 167 |
| Table 4-13: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1990 .....     | 168 |
| Table 4-14: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1988 .....     | 169 |
| Table 4-15: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1992 .....      | 170 |
| Table 4-16: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1990 .....      | 170 |
| Table 4-17: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1988 .....      | 171 |
| Table 4-18: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1992 .....                              | 173 |
| Table 4-19: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1990 .....                              | 174 |
| Table 4-20: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1988 .....                              | 176 |
| Table 4-21: Overview over the validity of hypotheses one to four; yearly tests 1986-1992 .....                                                       | 182 |

|                                                                                                                                                                       |     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table 4-22: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, machinery sector 1986-1992..... | 184 |
| Table 4-23: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, utilities sector 1986-1992..... | 185 |
| Table 4-24: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, machinery sector 1986-1992.....  | 187 |
| Table 4-25: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, utilities sector 1986-1992.....  | 187 |
| Table 4-26: Average values for return on equity for five sectors, over all years.....                                                                                 | 188 |
| Table 4-27: Average values for return on capital for five sectors, over all years.....                                                                                | 189 |
| Table 4-28: Average values for Sharpe ratio for five sectors, over all years.....                                                                                     | 189 |
| Table 4-29: Average values for Tobin's q for five sectors, over all years.....                                                                                        | 189 |
| Table 4-30: Coefficients and overall results of the logistic regressions on the performance dummy variables, machinery sector.....                                    | 191 |
| Table 4-31: Overview over the validity of hypotheses one to three, five and six; sectoral analyses.....                                                               | 192 |
| Table 4-32: Overview over the validity of the hypotheses; all methods.....                                                                                            | 194 |
| Table 5-1: Descriptives of costs and profits.....                                                                                                                     | 209 |
| Table 5-2: Correlations between costs and profits.....                                                                                                                | 209 |
| Table 5-3: Previous empirical studies of the efficiency of industrial and agricultural firms.....                                                                     | 221 |
| Table 5-4: Previous empirical studies of the efficiency of bank firms.....                                                                                            | 226 |
| Table 5-5: Sectors in Dataset for the Efficiency Analysis, by Year.....                                                                                               | 228 |
| Table 5-6: Central variables in the cost function model.....                                                                                                          | 245 |
| Table 5-7: Netputs and 1992 summary statistics of the cross sectional cost function data.....                                                                         | 254 |
| Table 5-8: Results of the cross-sectional maximum likelihood regressions for 1992, 1990, and 1988.....                                                                | 256 |
| Table 5-9: Results of the likelihood ratio tests for the seven yearly regressions.....                                                                                | 257 |
| Table 5-10: Results of the tests of the properties of the yearly estimates of the cost functions.....                                                                 | 258 |
| Table 5-11: T-tests for differences of means of <i>xineff</i> by agency variable, 1992.....                                                                           | 261 |
| Table 5-12: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1992.....                                   | 262 |

|                                                                                                                                                                              |     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table 5-13: T-tests for differences of means of <i>xineff</i> by agency variable, 1990.....                                                                                  | 263 |
| Table 5-14: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1990 .....                                         | 264 |
| Table 5-15: T-tests for differences of means of <i>xineff</i> by agency variable, 1988.....                                                                                  | 265 |
| Table 5-16: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1988 .....                                         | 265 |
| Table 5-17: Coefficients and overall results of the logistic regressions on the <i>xineff</i> dummy variable, by year .....                                                  | 271 |
| Table 5-18: Overview over the validity of hypotheses one through four, yearly regressions .....                                                                              | 273 |
| Table 5-19: Netputs and summary statistics of the panel cost function data ....                                                                                              | 274 |
| Table 5-20: Results of the overall maximum likelihood panel regression .....                                                                                                 | 276 |
| Table 5-21: Results of the likelihood ratio tests for the comprehensive panel regression .....                                                                               | 278 |
| Table 5-22: Results of the tests of the properties of the comprehensive panel estimate of the cost function .....                                                            | 278 |
| Table 5-23: T-tests for differences of means of <i>xineff</i> by agency variable for the comprehensive panel regression .....                                                | 281 |
| Table 5-24: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, overall panel regression .....                     | 282 |
| Table 5-25: Coefficients and overall results of the logistic regressions on the <i>xineff</i> dummy variable, comprehensive regression .....                                 | 283 |
| Table 5-26: Overview over the validity of hypotheses one, two and three; comprehensive panel regression .....                                                                | 284 |
| Table 5-27: Netputs and summary statistics of the panel cost function data for the machinery sector .....                                                                    | 285 |
| Table 5-28: Cost/asset ratios for five sectors .....                                                                                                                         | 287 |
| Table 5-29: Results of the separate maximum likelihood panel regressions for five sectors .....                                                                              | 289 |
| Table 5-30: Results of the likelihood ratio tests for the sectoral regressions ...                                                                                           | 291 |
| Table 5-31: Results of the tests of the properties of the sectoral estimates of the cost functions .....                                                                     | 292 |
| Table 5-32: Average values for <i>xineff</i> for five sectors .....                                                                                                          | 293 |
| Table 5-33: T-tests for differences of means of <i>xineff</i> by agency variable over the machinery industry (separate regression) .....                                     | 295 |
| Table 5-34: T-tests for differences of means of <i>xineff</i> by agency variable over the chemicals industry (separate regression) .....                                     | 296 |
| Table 5-35: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, separate regression for the machinery sector ..... | 298 |

|                                                                                                                                                                                   |     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table 5-36: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, separate regression for the chemicals sector .....      | 298 |
| Table 5-37: T-Test for differences in sector means of <i>xineff</i> , separate regressions.....                                                                                   | 299 |
| Table 5-38: T-tests for <i>xineff</i> mean differences, by sector pairs for the separate regressions.....                                                                         | 300 |
| Table 5-39: T-Test for differences in sector means of <i>xineff</i> , comprehensive regression .....                                                                              | 302 |
| Table 5-40: T-tests for differences of means of <i>xineff</i> by agency variable over the machinery industry (comprehensive regression) .....                                     | 305 |
| Table 5-41: T-tests for differences of means of <i>xineff</i> by agency variable over the chemicals industry (comprehensive regression) .....                                     | 307 |
| Table 5-42: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, comprehensive regression for the machinery sector ..... | 308 |
| Table 5-43: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, comprehensive regression for the chemicals sector ..... | 308 |
| Table 5-44: Average values for <i>xineff</i> for five sectors, comprehensive regression .....                                                                                     | 309 |
| Table 5-45: T-tests for <i>xineff</i> mean differences, by sector pairs for the comprehensive regression .....                                                                    | 309 |
| Table 5-46: Coefficients and overall results of the logistic regressions on the <i>xineff</i> dummy variable, by sector (separate regressions) .....                              | 311 |
| Table 5-47: Coefficients and overall results of the logistic regressions on the <i>xineff</i> dummy variable, comprehensive regressions by sector .....                           | 312 |
| Table 5-48: Overview over the validity of hypotheses one, two, three, five and six for five sectors; separate sectoral regressions .....                                          | 314 |
| Table 5-49: Overview over the validity of hypotheses one, two, three, five and six for five sectors; comprehensive panel regression .....                                         | 315 |
| Table 5-50: Overview over the validity of the six hypotheses for all models .....                                                                                                 | 317 |
| Table 6-1: Overview over the validity of the financial behavior hypotheses .....                                                                                                  | 322 |
| Table 6-2: Overview over the validity of the performance hypotheses .....                                                                                                         | 325 |
| Table 6-3: Overview over the validity of the efficiency hypotheses .....                                                                                                          | 327 |
| Table A-1: Companies included in the analyses .....                                                                                                                               | 335 |
| Table A-2: T-tests for differences of means of finance measures for groups with and without agency problems, by agency variable, chemicals sector .....                           | 335 |
| Table A-3: T-tests for differences of means of finance measures for groups with and without agency problems, by agency variable, electronics sector .....                         | 336 |

|                                                                                                                                                                                     |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table A-4: T-tests for differences of means of finance measures for groups with and without agency problems, by agency variable, food & beverages sector.....                       | 336 |
| Table A-5: T-tests for differences of means of the finance measures between owner-controlled and creditor-controlled companies, chemicals sector ....                               | 337 |
| Table A-6: T-tests for differences of means of the finance measures between owner-controlled and creditor-controlled companies, electronics sector ..                               | 337 |
| Table A-7: T-tests for differences of means of the finance measures between owner-controlled and creditor-controlled companies, food & beverages sector.....                        | 337 |
| Table A-8: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the first hypothesis, chemicals sector.....          | 338 |
| Table A-9: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the first hypothesis, electronics sector.....        | 339 |
| Table A-10: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the first hypothesis, food & beverages sector.....  | 339 |
| Table A-11: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the second hypothesis, chemicals sector.....        | 340 |
| Table A-12: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the second hypothesis, electronics sector .....     | 340 |
| Table A-13: Coefficients and overall results of the logistic seemingly unrelated regressions on the finance dummy variables for the second hypothesis, food & beverages sector..... | 340 |
| Table A-14: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1986 .....                                    | 341 |
| Table A-15: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1987 .....                                    | 341 |
| Table A-16: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1989 .....                                    | 342 |
| Table A-17: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, 1991 .....                                    | 342 |
| Table A-18: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1986 .....                                     | 343 |
| Table A-19: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1987 .....                                     | 343 |
| Table A-20: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1989 .....                                     | 343 |

|                                                                                                                                                                               |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table A-21: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, 1991 .....                               | 343 |
| Table A-22: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1986 .....                                                       | 344 |
| Table A-23: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1987 .....                                                       | 345 |
| Table A-24: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1989 .....                                                       | 346 |
| Table A-25: Coefficients and overall results of the logistic regressions on the performance dummy variables, 1991 .....                                                       | 347 |
| Table A-26: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, chemicals sector 1986-1992 .....        | 350 |
| Table A-27: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, electronics sector 1986-1992 .....      | 350 |
| Table A-28: T-tests for differences of means of performance measures for groups with and without agency problems, by agency variable, food & beverages sector 1986-1992 ..... | 351 |
| Table A-29: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, chemicals sector 1986-1992 .....         | 351 |
| Table A-30: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, electronics sector 1986-1992 .....       | 351 |
| Table A-31: T-tests for differences of means of the performance measures between owner-controlled and creditor-controlled companies, food & beverages sector 1986-1992 .....  | 352 |
| Table A-32: Coefficients and overall results of the logistic regressions on the performance dummy variables, chemicals sector 1986-1992 .....                                 | 353 |
| Table A-33: Coefficients and overall results of the logistic regressions on the performance dummy variables, electronics sector 1986-1992 .....                               | 354 |
| Table A-34: Coefficients and overall results of the logistic regressions on the performance dummy variables, food & beverages sector 1986-1992 .....                          | 355 |
| Table A-35: Coefficients and overall results of the logistic regressions on the performance dummy variables, utilities sector 1986-1992 .....                                 | 356 |
| Table A-36: Netputs and 1986 summary statistics of the cross sectional cost functions .....                                                                                   | 356 |
| Table A-37: Netputs and 1987 summary statistics of the cross sectional cost functions .....                                                                                   | 357 |
| Table A-38: Netputs and 1988 summary statistics of the cross sectional cost functions .....                                                                                   | 357 |
| Table A-39: Netputs and 1989 summary statistics of the cross sectional cost functions .....                                                                                   | 357 |



|                                                                                                                                                                                     |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table A-40: Netputs and 1990 summary statistics of the cross sectional cost functions.....                                                                                          | 358 |
| Table A-41: Netputs and 1991 summary statistics of the cross sectional cost functions.....                                                                                          | 358 |
| Table A-42: Results of the cross-sectional maximum likelihood regressions for 1986 and 1987.....                                                                                    | 359 |
| Table A-43: Results of the cross-sectional maximum likelihood regressions for 1989 and 1991.....                                                                                    | 360 |
| Table A-44: T-tests for differences of means of <i>xineff</i> by agency variable, 1986.....                                                                                         | 361 |
| Table A-45: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1986 .....                                                | 361 |
| Table A-46: T-tests for differences of means of <i>xineff</i> by agency variable, 1987.....                                                                                         | 362 |
| Table A-47: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1987 .....                                                | 362 |
| Table A-48: T-tests for differences of means of <i>xineff</i> by agency variable, 1989.....                                                                                         | 363 |
| Table A-49: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1989 .....                                                | 363 |
| Table A-50: T-tests for differences of means of <i>xineff</i> by agency variable, 1991.....                                                                                         | 364 |
| Table A-51: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, 1991 .....                                                | 364 |
| Table A-52: Netputs and summary statistics of the panel cost function data for the chemicals sector .....                                                                           | 364 |
| Table A-53: Netputs and summary statistics of the panel cost function data for the electronics sector.....                                                                          | 365 |
| Table A-54: Netputs and summary statistics of the panel cost function data for the food sector.....                                                                                 | 365 |
| Table A-55: Netputs and summary statistics of the panel cost function data for the utilities sector.....                                                                            | 365 |
| Table A-56: T-tests for differences of means of <i>xineff</i> by agency variable over the electronics industry (separate regression) .....                                          | 366 |
| Table A-57: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, separate regression for the electronics sector .....      | 367 |
| Table A-58: T-tests for differences of means of <i>xineff</i> by agency variable over the electronics industry (comprehensive regression) .....                                     | 367 |
| Table A-59: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, comprehensive regression for the electronics sector ..... | 368 |

|                                                                                                                                                                                          |     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table A-60: T-tests for differences of means of <i>xineff</i> by agency variable over the food & beverage industry (separate regression) .....                                           | 368 |
| Table A-61: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, separate regression for the food & beverages sector .....      | 369 |
| Table A-62: T-tests for differences of means of <i>xineff</i> by agency variable over the food & beverage industry (comprehensive regression) .....                                      | 369 |
| Table A-63: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, comprehensive regression for the food & beverages sector ..... | 370 |
| Table A-64: T-tests for differences of means of <i>xineff</i> by agency variable over the utilities industry (separate regression) .....                                                 | 370 |
| Table A-65: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, separate regression for the utilities sector .....             | 371 |
| Table A-66: T-tests for differences of means of <i>xineff</i> by agency variable over the utilities industry (comprehensive regression) .....                                            | 371 |
| Table A-67: T-tests for differences of means of <i>xineff</i> between owner-controlled and creditor-controlled companies, comprehensive regression for the utilities sector .....        | 372 |