Summary

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“Universal Banks, Corporate Control, and
Equity Carve-Outs in Germany”

This paper analyzes value effects of changes in the governance structure of German firms due to equity carve-outs. Our main conjecture is that the degree of pre-event corporate control affects market reactions to the announcement of carve-outs. We test two contradictory implications. If less control of management leads to less efficiently managed firms, in particular these firms will benefit the most from a change in the governance structure. On the other hand, if tight control of management ensures a more efficient use of the carve-out proceeds, firms more subject to corporate control will have higher abnormal returns. Our evidence clearly supports the first prediction. We find that a higher degree of pre-event ownership concentration leads to lower abnormal returns. We find evidence consistent with an active role of banks in disciplining management, but this does not go beyond what non-financial blockholders achieve, although we explicitly take into account direct equity stakes, proxy-voting rights, and supervisory board representation of banks. (JEL G21, G32)