Journal of Financial Intermediation **9**, 117–148 (2000)
doi:10.1006/jfin.2000.0281, available online at http://www.idealibrary.com on IDEAL

Business Groups, Bank Control, and Large Shareholders: An Analysis of German Takeovers*

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Received November 16, 1998

To analyze the consequences of concentrated ownership and bank control for the performance of acquiring firms, I employ a unique data set of 715 German takeovers. First, I find that takeovers increase bidder value, but majority owners provide no clear benefit. Second, bank control is beneficial only if it is counterbalanced by another large shareholder. Third, the worst takeovers are completed by firms that are majority-controlled by financial institutions. I conclude that majority control, whether exercised by a bank or another shareholder, increases the likelihood of decisions that do not maximize shareholder value. *Journal of Economic Literature* Classification Numbers: G34, G32, G21.

Key Words: business groups; universal banking; corporate governance; takeovers; Germany.

The efficiency of different corporate governance systems has attracted great academic and political interest during the past decade.[1] Of particular interest has been the question of whether capital markets in the United States and the United Kingdom or strong blockholders and universal banks (as, for example, in Germany

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† I thank the German Science Foundation (DFG) for financial support, the Bundeskartellamt and in particular Mr. Lehmann-Stanislowski for access to their data, and Sabine Becker, Nina Bohn, Bodo Kuester, and Yvonne Loeffler for helping with data collection. An anonymous referee, Theodor Baums, Julian Franks, Ron Gilson, Jose Guedes, Beatrice Boehmer, Alexander Ljungqvist, Yvonne Loeffler, Juergen Maier, Ernst Maug, Colin Mayer, Eric Nowak, Maureen O'Hara (the editor), Stephen Prowse, Stefan Sperlich, John Wagster, Christian Wulff, and participants at the DFG-Colloquium in Berlin, the 1996 annual meeting of the German Finance Association, the 1996 conference on Money, Finance, Banking, and Insurance in Karlsruhe, the CEPR corporate finance workshop in Lisbon, the 1997 EFA, EFMA, and FMA meetings, the 1998 meeting of the European Corporate Governance Network and the SFA, the 1999 Olin Law and Economics Symposium, and the finance workshops at Frankfurt University, HEC Lausanne, Humboldt University, Rutgers University, Tilburg University, and Vienna University provided helpful comments.

[1] See Kojima (1995), Shleifer and Vishny (1997), and Zingales (1998) for surveys.

1042-9573/00 $35.00

and Japan) are better suited to monitor corporate management. Especially the German system is characterized by highly concentrated ownership, and several authors have performed cross-sectional studies of how ownership structure and strong banks affect firm performance. Unfortunately, these results are inconsistent with one another and depend strongly on the data set employed, the period, and the methodology.[2]

In this study, I employ a unique data set of 715 German takeovers obtained from the *Bundeskartellamt* (BKartA), the German federal antitrust agency.[3] While there are no general publication requirements at the time a takeover is initiated, all but the smallest bidders must register with the BKartA and provide details on their group structure when their stake in the target company crosses 25, 50, or 75% of the voting rights. My sample is based on these filings, official and unofficial correspondence surrounding them, and related material such as press releases. Because blockholdings are more widespread and substantially larger in Germany than in the Anglo–Saxon countries, the former provides an ideal setting for testing the role of ownership structure. The basic idea is that if effective monitoring by shareholder representatives can discipline management, firms with "better" monitors should make "better" acquisitions. Specifically, I ask the following question: Based on their influence on acquiring firms, do large shareholders and banks affect the quality (net present value) of takeover decisions? Takeovers are typically important investment decisions where a substantial fraction of a firm's resources is committed to a specific project. Nevertheless, on average, they result in small abnormal returns to the shareholders of bidding firms.[4] Therefore, the average takeover does not substantially change the bidder's market value. Many empirical studies, however, show that several cross-sectional factors systematically affect the value of the transaction. These studies typically justify value-decreasing deals by arguing that managers' interests diverge from those of shareholders, or by eluding to managerial incompetence in valuing target firms and potential synergies. In this paper, I build on these ideas and ask to what extent the bidders' ownership structures determine the value of takeovers to its shareholders. In contrast to previous studies of the relation between ownership and performance (see footnote 2), I employ an event-based method in place of a cross-sectional analysis. This is designed to measure the effect of ownership structure and bank control on the net present value of major corporate investment decisions: the acquisition of companies. This approach overcomes three problems associated with the

[2] While Cable (1985) and Gorton and Schmid (1998) find a positive relation between bank influence and firm performance, Chirinko and Elston (1996) find no effect, and Nibler (1995) and Perlitz and Seger (1994) find a negative effect. Schmid (1996a) documents a U-shaped relation where typical parameter values also yield a negative relationship. See also Edwards and Fischer (1995) and Boehmer (1999a) for a survey and additional references.

[3] In the context of this paper, I define a takeover as the acquisition of voting rights associated with common stock where the acquirer purchases at least 50% of outstanding votes.

[4] For German takeovers, see Gerke *et al.* (1995) and Boehmer and Loeffler (1999); Jensen and Ruback (1983) and Jarrell *et al.* (1988) provide surveys of literature on U.S. takeovers.