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An Economic Geography of Global Finance: Ownership Concentration and Stock-Price Volatility in German Firms and Regions

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Abstract

For some, global finance is ubiquitous. The growth of advanced electronic communications combined with computer-driven, top-down investment strategies has provided institutional investors access to the most sheltered capital markets, including those of continental Europe. By contrast, many economic geographers find this view of the world both simplistic with respect to the persistence of different nation-state regulatory traditions and highly misleading as to the most effective way of generating long-term value for investors and communities. In this article, we provide evidence to support these claims, concentrating upon the relationship between systems of corporate governance and stock-price volatility. The geography of market information is our point of departure, illustrated by reference to the informational content of stock market prices for two German companies, Mannesmann (now Vodafone) and

Bayerische Motorenwerke (BMW), representatives of rather different regional models of capital accumulation. More systematically, we report the results of statistical analyses of the volatility of daily stock-market prices for German DAX30 and DAX100 firms, arguing that their apparent characteristics have important lessons for the value and significance of bottom-up portfolio investment strategies. These results, combined with case studies of the two German firms, are used to suggest that the geography of finance remains a vital component of global investment strategies, an argument that has important implications for academic analysis inside and outside of geography.

Key Words:

corporate governance | Europe | flows of information | global finance

Notes

Source: Authors' calculations based on data from Centaurus Capital, London.

Note: Minimum, maximum, mean, and standard deviation expressed in basis points.

Source: Authors' calculations based on data from BaWe (Frankfurt), Centaurus Capital (London), and Höpner (2001).

Note: Significance of coefficients at 5% (∗∗) or 10% (∗)

Source: Authors' calculations based on data from BaWe (Frankfurt), Centaurus Capital (London), and Höpner 2001

Source: Authors' calculations based on data from BaWe (Frankfurt) and MSDW (London).

[a]For a description of Amtlicher Handel, see endnote 6.

1. See, for example, O'Brien (1992) and the related literature in economics and geography critically surveyed by Laulajainen (2000) and Tickell (2000).

2. See, for example, papers by Laulajainen (2001) on the implications of global electronic trading platforms for nation-state stock markets and Clark and Wójcik (2001)

on the role of local knowledge in driving the London stock market's adjustment to global financial crisis.

3. See, for example, recent work on the implications of the harmonization of international accounting standards for the continuity of nation-state institutions and their matching social and economic relationships (e.g., Clark, Mansfield, and Tickell 2002).

4. “Abnormal return” is defined as the difference between the actual return on a security and the return implied by the level of market return (in this case, the return on the whole Swiss stock market) and the security's sensitivity to market return. For details see, for example, Bodie, Kane, and Marcus (2002).

5. Open-end mutual funds continually issue new shares as people invest their money. They also buy back these shares when investors wish to sell. This is in contrast to closed-end funds, which raise their initial capital by selling a fixed number of shares in a process similar to selling a new stock issue. After this initial offering, the fund is closed—hence its name.

6. The Amtlicher Handel is one of the four segments of the German stock market, along with the Geregelter Markt (regulated market), the Freiverkehr (over-the-counter market) and the Neuer Markt (new market, opened in 1997 and meant for young growth firms). Companies listed on the Amtlicher Handel have to comply with stricter disclosure requirements compared to the Geregelter Markt and the Freiverkehr. The shares are traded not only on the Frankfurt Stock Exchange, but also on the seven regional exchanges (in Berlin, Bremen, Düsseldorf, Hamburg, Hannover, München, and Stuttgart). In 2000, however, Frankfurt accounted for over 80 percent of the trading volume.

7. Rodríguez-Pose and Zademach (Forthcoming) show that when we compare mergers and acquisitions by companies headquartered in Munich (Bavaria) with those by companies headquartered in Düsseldorf and Cologne (North Rhine-Westphalia), the incidence of intraregional transactions is considerably lower for the cities in North Rhine-Westphalia. This supports our empirical findings concerning a more closed regime of corporate governance in Bavaria.

8. For the description of the changes in the German model of corporate governance, see Berndt (1998), Clark, Mansfield, and Tickell (2002), and Wójcik (2003).

9. An illustration: if two companies own 50 percent of each other's equity, their total capitalization is double the amount of capital they really represent.

10. Interestingly, in his study of forty top German firms, Höpner (2001) found a positive relationship between a company's exposure to international product market competition and shareholder value orientation.
