Government Ownership and Corporate Governance: Evidence from the EU*

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Abstract
The ongoing global financial crisis has led to the largest increase in state intervention since the Great Depression. Direct government ownership in publicly-traded corporations has increased dramatically since 2008. How will this increase in public ownership affect the governance of these erstwhile private companies? We examine the impact of government ownership on corporate governance using a sample of firms from the European Union, a region that is relatively familiar with active government participation. Our main finding is that government ownership is associated with lower governance quality. This finding is especially pronounced in the case of national ownership as opposed to local ownership. We further show that while government intervention is negatively related to governance quality in civil law countries, it is positively related to governance quality in common law countries. Finally, we find that the preferential voting rights of golden shares are especially damaging to governance quality.

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