SUERF Policy Brief

No 1343, January 2026

When Ownership Changes, Their Banks Change Too: How Acquisitions Reshape Corporate Bank Relationships in Europe



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Keywords: Bank relationships, corporate acquisitions, information asymmetry, soft information, bank specialization

JEL codes: G21, G34, F36, E51

Abstract

Corporate acquisitions trigger not only changes in firms' ownership and strategy but also a reorganization of their bank relationships. Using a novel dataset linking firm ownership and firm-bank relationships across 23 European countries over 2008–2014, this study finds that majority-control acquisitions lead firms to expand and restructure their set of banks. These changes reflect acquirers' efforts to overcome informational frictions, particularly when they lack familiarity with the target's local market or industry. Acquirers tend to add banks with deeper local or sectoral expertise and to drop foreign or less specialized lenders. The results highlight the role of banks as information intermediaries - not just capital providers - and show how firm-bank matching depends on informational needs.

Disclaimer: The views expressed in this policy brief are those of the authors only and do not necessarily represent those of DNB or the Eurosystem. This policy brief is based on a forthcoming paper in *Management Science*, titled Corporate Acquisitions and Bank Relationships.

Firms' bank relationships are inherently dynamic. They evolve as companies grow, merge, or change strategic direction. While prior research has focused on how credit supply shocks affect firms' banking choices, much less is known about whether and how firms restructure their banking networks in response to corporate events. This policy brief studies one such event: corporate acquisitions. Acquisitions represent a major shift in control and strategic priorities. New owners often reassess the target firm's financial partnerships, potentially reshaping its network of banks. We ask: *Do firms' bank relationships change after firms get acquired? And if so, why and how?*

We argue that post-acquisition changes are primarily driven by informational needs of the acquirer rather than the target's prior performance or unobserved creditworthiness, emphasized in existing studies. Acquirers seek banks with superior knowledge of the target's markets or industries, particularly when they face informational distance from the target firm. These changes reveal the informational function of bank relationships and how firms manage them strategically.

We remind the reader that banks are not mere providers of capital. They are also information intermediaries that accumulate "soft information" about their borrowers through repeated interactions — knowledge that cannot be easily codified or transferred. This informational capital underpins key functions of financial intermediation: screening, monitoring, and advising (Leland and Pyle, 1977; Diamond, 1984, 1991). When ownership changes, informational asymmetries may widen. When acquiring firms lack familiarity with the target's local customers, suppliers, or business environment, they may restructure the target's bank relationships, either by:

- Retaining banks with valuable local or sectoral expertise;
- Adding new banks that complement existing informational capital; or
- Dropping incumbents whose informational advantage has diminished or become strategically misaligned.

This mechanism contrasts with supply-driven shocks (such as bank liquidity crises) and emphasizes demand-side reconfigurations: changes initiated by firms and their owners to optimize their information environment.

Our analysis draws on a large firm-bank matched panel covering 23 European countries between 2008 and 2014, combining data from Bureau van Dijk's ORBIS, ORBIS Bank Focus, and ORBIS Ownership databases. Key features of our dataset include:

- Over 100,000 firm-year observations;
- Detailed information on ownership changes, firm size, performance, and bank relationships; and
- Identification of each bank's client base excluding individuals, nationality, and specialization.

We view majority-control acquisitions as outside shocks that suddenly change a target firm's demand for banking services. The key assumption is that acquirers do not choose targets mainly to alter their bank relationships. Still, we control for many observable and unobservable differences across firms that might jointly influence who gets acquired and how easily a firm can change banks. We then create closely matched pairs of firms that look the same before the acquisition, including their number of bank relationships, and compare how these two groups of firms alter their bank relationships afterward. To select these pairs we use the Coarsened Exact Matching (CEM) technique, which groups firms with very similar characteristics, such as firm size, leverage, performance, ownership, and banking structure, without relying on a statistical model yielding a cleaner contrast between acquired and non-acquired firms.

To capture banks' informational capital, we construct two proxies:

- Geographic breadth and local presence: capturing the spatial distribution of a bank's client network and the aggregate size of the bank's clients in the target's region, and
- Industry specialization: capturing the concentration of the bank's client base within the target's sector.

These indicators allow us to test whether acquirers favor banks with superior knowledge of the target's operating environment.

We find that acquisitions lead to active restructuring of bank ties. Following acquisition, acquiring firms change the composition of target firms bank relationships. This restructuring reflects both the addition and removal of banks, suggesting deliberate portfolio reorganization rather than passive accumulation of new relationships. We show that information distance shapes the restructuring. Geographic distance matters most. When acquirers are based in a different region, they are significantly more likely to engage local banks with established client bases in the target's area. Sectoral distance also plays a role, though less systematically. Acquirers entering unfamiliar industries often add banks with strong industry specialization.

Across the sample, domestic banks are more likely to be retained or added, while foreign banks are more likely to be dropped, particularly when informational frictions are high. This pattern suggests that acquirers value the local market knowledge and soft information embedded in domestic institutions. Effects are strongest for large target firms, where informational realignment yields greater benefits. Foreign acquisitions show weaker patterns, likely due to additional cross-border frictions in evaluating and selecting banks abroad.

Our findings enrich the understanding of relationship banking and the determinants of changes in bank relationships. Prior work has shown that firms maintain a limited number of bank ties, adjusting them to escape informational lock-in or diversify funding sources (Degryse and Ongena, 2001; Hale and Santos, 2009; Ioannidou and Ongena, 2010; Gopalan et al., 2011). We add that acquisitions represent an additional, distinct trigger for such restructuring. This perspective contrast with studies focused on exogenous credit supply shocks (Khwaja and Mian, 2008) or bank mergers (Martinez Peria and Mody, 2004; Giannetti and Ongena, 2012). Instead, it emphasizes corporate control changes as a driver of demand-side reconfiguration in financial intermediation. These findings highlight that firms' banking portfolios are actively managed in response to strategic shifts rather than being passively inherited from past conditions. Moreover, our results highlight bank heterogeneity. Banks differ not only in size or market share but also in informational advantages stemming from sectoral specialization and domestic market embeddedness (Gopal, 2021; Blickle et al., 2023; Paravisini et al., 2023). Acquirers systematically favor banks with strong local client networks and sectoral expertise, underscoring that informational proximity - geographic and sectoral - shapes post-acquisition financial structures.

These findings carry several implications for policymakers and practitioners. First, bank relationships constitute part of firms' informational capital. Preserving and reallocating these ties can enhance credit access and integration efficiency. Second, even within integrated financial markets, domestic banks retain informational advantages that support firms during structural transitions. Third, understanding how acquisitions reshape bank networks can inform assessments of market concentration, lending relationships, and systemic interconnectedness. Overall, our evidence underscores that bank relationships are strategic assets, not static legacies. Firms manage them proactively in response to corporate restructuring, revealing the continuing importance of information asymmetries in the European financial system.

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Designed by the Information Management and Services Division of the Oesterreichische Nationalbank (OeNB)

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