

Foreword

Research on corporate distress and bankruptcy and the accompanying efforts of firms to restructure their operations and balance sheets have become an increasingly important field in financial economics and business administration. Especially in Germany where the recent period of economic downturn and large-scale bankruptcy filings coincided with extensive reforms of the bankruptcy legislation the topic has enjoyed controversial debates among economists, legal scholars and public policy makers.

Yet so far insights from empirical research that can provide valuable guidance in these debates have remained sparse and inconclusive. One reason for the lack of evidence is that common financial theory on corporate restructuring is not fully compatible with the German institutional background and thus often allows only ambiguous predictions. Moreover, empirical investigations of German restructurings have so far been almost impossible due to the lack of exhaustive data. This holds in particular for private reorganizations, which present the predominant form of restructuring distressed firms in Germany. Many economically highly interesting aspects pertain to this final stage in the corporate life-cycle. For example, the question whether the firm's management, shareholders or creditors should trigger a formal bankruptcy proceeding or, alternatively, pursue a going-concern in an out-of-court workout has a myriad of economic implications.

In his dissertation Philipp Jostarndt tries to shed first light on this highly relevant topic. Applying advanced econometric methods to large-scale data sets, which were assembled specifically for the purpose of this thesis, he investigates corporate responses to financial distress. His analyses embrace the impact of distress on corporate governance, firms' choices between private workouts and formal insolvency procedures as well as the role of claimholder conflicts in distressed equity offerings. In his concluding chapter, Jostarndt conducts a survival analysis to decipher the determinants of survival, acquisition and failure as alternative paths of exit from financial distress. In his studies, the author considers both the measures taken on the firm level as well as market valuations thereof. The obtained results thus not only help explaining how beleaguered firms make capital structure decisions but also allow an inference on how these decisions relate to the extreme

return patterns that are typically observed in the trading of distressed securities. Finally, the author makes a valuable contribution by relating his results to existing evidence on distress and bankruptcy of U.S. firms. Above all, this concerns the seminal studies by Gilson (1990), Gilson, John and Lang (1990) and Asquith, Gertner and Scharfstein (1994) all of which deal with the aftermath of the collapse of the high-yield bond market and the savings and loans crisis in the U.S. at the end of the 1980s. Insights gained from this comparison are extremely helpful in assessing the relative efficacy of alternative institutional and legislative bodies in their role as screening mechanism for economically viable and non-viable firms.

This book is the product of more than three years of intensive research which earned the author not only a doctoral degree at the Ludwig-Maximilian-University of Munich but also several best paper awards, among others at the 2006 Zürich Meeting of European Finance Association and the 2006 Porto Meeting of the Portuguese Finance Network. Philipp Jostarndt's studies on financial distress and restructuring in Germany deal with an important and methodologically very demanding topic. They present a remarkable contribution to the field – I am sure his results will attract the attention of practitioners and researchers alike.

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