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THE RELATIVE ROLES OF COMMON- AND CROSS-OWNERSHIP

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The unprecedented growth and concentration of the asset management industry over recent decades (McIntyre et al., 2022) has led major asset managers to hold significant stakes in almost all the major firms of a multitude of industries.

As a result of these common-ownership links, shareholders may not unanimously agree on own-profit maximization. To see why, note, for example, that if firm A imposes a negative externality on firm B, a shareholder of firm A who also holds shares in firm B typically wants the manager of firm A to pursue a less aggressive strategy than the strategy desired by a shareholder with no holdings in firm B. This implies that the managers of firms with common shareholders may not maximize own profit, but, instead, weigh the (potential) conflicting preferences of their shareholders and (partially) internalize the externalities their strategies impose on the profits of other firms (Rotemberg, 1984; Hansen and Lott, 1996). This internalization can decrease the incentives to compete and, naturally, lessen product market competition, a concern that spurred increasing research to quantify the prevalence of common-ownership.

Backus, Conlon, and Sinkinson (2021) and Amel-Zadeh, Kasperk, and Schmalz (2022) examine this question for the set of S&P 500 firms. The former consider the holdings of S&P 500 firms by large institutional shareholders and show that the average weight assigned by the managers of S&P 500 firms to the profit of the remaining S&P 500 firms has increased from 0.2 in 1980 to almost 0.7 in 2017. The latter consider the holdings not only of institutional shareholders, but also of corporate insiders and blockholders. They show that once we account

for these holdings, the weight assigned by the managers of S&P 500 firms to the profit of the remaining S&P 500 firms is, in fact, lower, with most profit weights decreasing by between 5–25%.

Boot, Seldeslachts, and Banal-Estañol (2022) examine the same question for the set of S&P Europe 350 firms. They show that the average weight assigned by the managers of S&P Europe 350 firms to the profit of the remaining S&P Europe 350 firms has increased from 0.08 in 2004 to 0.21 in 2015. This implies that while the average weight is lower than for the set of S&P 500 firms, the increase has been steeper in Europe than in the United States.

In some industries, however, in addition to common-ownership links, by shareholders external to the industry, there are also (for a variety of reasons) cross-ownership links, by shareholders that are internal to the industry, i.e., firms within an industry are themselves shareholders of other firms in the industry. Examples include various industries, such as automobiles (Neto et al., 2020), banking (Termushoev and Stakhovych, 2019), media (Ferguson, 1983), electric power (Amundsen and Bergman, 2002) and insurance (La Porta et al., 1999). Cross-ownership in itself can also decrease the incentives to compete and, naturally, lessen product market competition. Moreover, it also has the potential to reinforce common-ownership.

To see why, consider, for example, an industry with three firms: firms A, B and C. To begin with, consider a shareholder structure with solely common-ownership links. In particular, consider that firm A has two shareholders: shareholder 1 and 2, with shareholder 1 being an external non-common shareholder with holdings solely in firm A and shareholder 2 being an external common shareholder with holdings in firms A and B. This shareholder structure implies, as discussed above, that the manager of firm A may not maximize own profit. Instead, she may weigh also the profit of firm B (as shareholder 2 has a direct interest in the profit of firm B), although not the profit of firm C (as no shareholder has a direct interest in the profit of firm C).

Consider now a shareholder structure with (additionally) cross-ownership links among the firms in the industry. In particular, consider that firm A has holdings in firm B and that firm B has holdings in firm C. These cross-ownership links have several qualitative implications. First, the ultimate interest of shareholder 2 in firm B is greater than her direct holdings in the firm, because she now also has an indirect interest in the profit of firm B (via the profit of firm A). Second, although shareholder 1 has holdings solely in firm A, the cross-ownership link between firms A and B turns her ultimately into a common shareholder of firm B, because she now has an indirect interest in the profit of this firm (via the profit of firm A). Third, although none of the shareholders of firm A have direct holdings in firm C, the cross-ownership links between the three firms turn these shareholders ultimately into common shareholders of firm C, because they now have an indirect interest in the profit of this firm (via the profit of firms A and B).

This example suggests that cross-ownership links have the potential to reinforce common-ownership in two dimensions: (a) increase the positive weight that, due to common ownership, is assigned by managers to the profit of rivals; and (b) increase the number of firms considered in the weighted average of the manager. This potential reinforcing role of cross-ownership links has not, however, been examined empirically in the literature.

Common- and Cross-Ownership in the Global Automobile Industry

Huse, Ribeiro, and Verboven (2024) propose to fill this gap by examining the relative roles of common- and cross-ownership in the global automobile industry for the period 2007-2021. This industry is ideally suited for such a study for two reasons. First, automobile manufacturers command a substantial share of the global GDP. Thus, it is not surprising that major asset managers have holdings in the major manufacturers. Second, automobile manufacturers engage in different types of partnerships (which include, among others, cross-ownership links) to share high development costs, reduce sourcing costs, gain access to new markets, establish economies of scale or gain access to complementary resources (Robertson and Karl, 1998).

In particular, Huse, Ribeiro, and Verboven (2024) document that, during their sample period, common-ownership links in the industry amount to 31–39%, while cross-ownership links amount to 6–9% of automobile manufacturers' stock. They subsequently show that accounting for these relatively modest cross-ownership links has important implications for the profit weights assigned to other firms. They find that accounting for cross-ownership links can increase the average weight assigned by managers to the profit of competitors by between 33–68%.

Policy Implications

These findings have important policy implications for merger analysis in industries characterized by common-ownership links. In general, one may distinguish between two effects (see also, for example, Azar and Tzanaki, 2022). On the one hand, existing common-ownership between merging firms reduces the incremental anti-competitive effect of a merger. On the other hand, common-ownership with non-merging competitors may raise these firms' responses. Hence, the overall effect is ambiguous. As such, concerns may arise depending on the specific merger and would be different if one also incorporates the role of cross-ownership as an amplifier of common-ownership.

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