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Common Ownership Positively Impacts Corporate Governance

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1. Abstract

Common ownership is the situation where the same entities hold shares in multiple companies competing in the same market.

Common ownership is often viewed as a cause of decreasing market competition, but its positive aspect regarding enhancing corporate governance is overlooked.

2. Introduction

Global trend of index investment encouraged shareholding by the same financial institutions in multiple competing companies within a market.

Pursuit of these shareholders' interests makes the competing companies inclined to **take coordinated actions**, thereby maximizing the interests of the common shareholders, rather than competing aggressively.

Top five shareholders of the six largest US commercial banks in 2017 2Q

JP Morgan Chase	Bank of America	Wells Fargo	Citigroup	US Bancorp	Capital One
Vanguard	BlackRock	Berkshire Hathaway	BlackRock	BlackRock	Dodge & Cox
BlackRock	Vanguard	Vanguard	Vanguard	Vanguard	Capital World Investors
State Street	State Street	BlackRock	State Street	Berkshire Hathaway	Vanguard
Fidelity	Fidelity	State Street	Fidelity	State Street	BlackRock
T. Rowe Price	Wellington	Capital World Investors	Wellington	Fidelity	Fidelity

Based on Table 1 of Azar, J., Raina, S., & Schmalz, M. C. (2019). Ultimate Ownership and Bank Competition. Available at SSRN 2710252.

3. Finding on corporate governance

However, from the corporate governance viewpoint, institutional investors, some of which adopt an index investment strategy, **are expected to play a role in ensuring effective corporate governance**.

It is because, if a shareholder holds comparatively fewer shares, they are lack in incentives to expend their own resources on supervision of corporate management, and they tend to **free ride on monitoring efforts by other major shareholders**.

https://www.blackstone.com/

https://www.statestreet.com/home.html

https://investor.vanguard.com/corporate-portal/

4. Conclusions

Due to the positive impact on shareholders' monitoring incentives, no definitive consensus have been reached as to whether common ownership negatively affects our society in entirety or not.

Therefore, it might not be reasonable to restrict common ownership only because of its possible negative impact on market competition.

5. References

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