One Man’s Meat, Another’s Poison: Spillover Effect of Bank-Firm Common Ownership

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Abstract

This paper studies a new and increasingly important phenomenon: institutional investors simultaneously hold equity of banks and industrial firms (“bank-firm common ownership”). Through the common investors that hold equity claims in its client, bank collects additional valuable information of the firm, which reduces the costs of loan and facilitates firm’s borrowing.

Apart from the bright side, we show that the bank-firm common ownership raises the risk of proprietary information leakage. When a firm’s banks and its rivals establish common shareholder relationship, the firm is less likely to borrow from the rival-connected banks.

We sharpen the causality with a difference-in-differences setting based on a quasi-natural experiment of financial institution mergers.

Motivations

- Existing research mainly concentrates on common ownership of industrial firms from same-industry and the impact on anti-competition. (He and Huang (2017); Azar, Schmalz and Tecu (2018); López and Vives (2019)).
- During the past 20 years, it also witnessed a notable rising trend of bank-firm common ownership.

Hypothesis

![Diagram showing relationships between institutional investors, banks, firms, and rivals, and effects on firm’s borrowing](image)

Method

Step 1. Construct the firm-bank-year panel: mapping US public firms $i$ to inside banks $j$. The inside banks are lenders who have lending relationship with firm during the past 12 months (Compustat & DealScan).

Step 2. Measure the common ownership between inside bank $j$ and firm’s rivals at $t-1$ (Thomson Reuters S13f).

Step 3. Measure the firm $i$’s borrowing from bank $j$ during $t$ to $t+1$ (DealScan).

Baseline Model: $\text{Borrow}_i(t,t+1) = \alpha + \beta \text{RivalOwnership}_{ij,t-1} + \gamma X_{ij,t-1} + \delta_i \eta_j + \pi_x + \epsilon_{ij,t}$

Results

Table 1. Bank-Rival Common Ownership and Impact on Firm’s Borrowing

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Panel A. Within firm-bank variation</th>
<th>Panel B. Within firm-year variation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of loans from bank $j$</td>
<td>Borrowing(d)</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Num (Rivals) (0-3)</td>
<td>-0.08*** (-2.59)</td>
<td>-0.53* (-1.67)</td>
</tr>
<tr>
<td>Other Controls</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm*Bank FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Cluster</td>
<td>Bank: 12,776; Bank: 8,978; Firm</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>8,978</td>
<td>8,978</td>
</tr>
</tbody>
</table>

Panel B. Average Share Held by Rival-Bank Common Investors

![Graph showing average share held by rival-bank common investors over time](image)

Conclusion

- Although bank-firm common ownership facilitates firm’s external financing in loan market, it raises the risk of proprietary information leakage of its competitors.
- This adverse effect of “rival-bank common ownership” is more pronounced in a diversified industry and when a firm and its rivals share more similar product line.
- Further study will focus on the real impact on firm’s welfare, e.g.: costs of external debt financing & product market performance.

Main References


