Global Common Ownership Control and Market Power

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Stylised Facts

- FACT 1
  Intra-industry and inter-industry common ownership are prevalent across the globe.

- FACT 2
  Commonly owned market capitalisation is heterogeneous across major industry groups.
  - Automotive 11.38%
  - Metal Producers 10.61%
  - Financial 10.61%
  - Electronics 10.50%
  - Chemicals 9.96%
  - Diversified 9.68%
  - Utilities 9.63%
  - Healthcare 9.54%
  - Aerospace 8.52%
  - Publishing 6.24%
  - Miscellaneous 6.04%
  - Transportation 7.53%
  - Electrical 7.22%
  - Construction 6.63%
  - Metal Products 6.63%
  - Machinery 6.62%
  - Beverages 4.46%
  - Recreation 6.15%
  - Oil Services 6.13%
  - Retailers 5.84%
  - Paper 4.70%
  - Tobacco 4.59%
  - Food 1.84%
  - Textiles 1.79%
  - Apparel 0.99%

- FACT 3
  There is heterogeneity in common ownership stakes across different types of common owners. (Distribution of common owners by entity type: any ownership on the left, 10% or more ownership on the right).

- FACT 4
  Companies with common owners are less likely to have a controlling shareholder. Controllers of companies with common owners are mostly Industrial Companies, Families or the State.

Methodology

To investigate ownership structure’s effect on market power, I borrow the general equilibrium framework of Azar & Vives (2021) where the objective function of a firm is:

\[
\frac{\pi_j}{P} + \sum_{k \neq j} \frac{\lambda_{jk} \cdot \pi_k}{P} + \sum_{m \neq n \neq j} \frac{\lambda_{mn} \cdot \pi_m \cdot \pi_n}{P}
\]

where weights \(\lambda_{jk}\) and \(\lambda_{mn}\) measure intra-industry and inter-industry common ownership, respectively.

Testable prediction

In the symmetric case, the equilibrium markup of any given firm increases with \(\lambda_{jk}\) and decreases with \(\lambda_{mn}\). An equal increase in both reduces the equilibrium markup.

\[
\text{markup}_{jk} = \alpha + \beta_1 \cdot \lambda_{jk} + \beta_2 \cdot \lambda_{mn} + \theta \cdot \lambda_{jk} \cdot \lambda_{mn} + \gamma \cdot \lambda_{jk} + \delta \cdot \lambda_{mn}
\]

Results

<table>
<thead>
<tr>
<th>Data</th>
<th>Log(markup)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\lambda_{\text{intra}})</td>
<td>-0.289***</td>
</tr>
<tr>
<td>(\lambda_{\text{inter}})</td>
<td>0.0985</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.335***</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.259</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Pooled sample results suggest a statistically significant positive (negative) relation between intra-industry (inter-industry) common ownership and firm markups.

Takeaways

- Common ownership is prevalent across the globe.
- There is heterogeneity across common ownership in countries, industries, owner types.
- Managers behave anti-competitively when common ownership increases within the same industry, and pro-competitively when common ownership increases across industries and the total effect is pro-competitive. In general equilibrium, when an industry expands, it creates positive externalities for firms in other industries, and therefore inter-industry common ownership increases the incentive for firms to expand, reducing prices in their industry relative to the price level. Empirically, this effect is stronger than the anti-competitive intra-industry effect that common ownership of direct competitors generates.

Next Steps

- Revisit the market definition: account for global competition.
- Robustness: alternative industry definitions, alternative empirical specifications.