MICHIGAN ROSS

Working Paper

Common Ownership, Competition, and Top Management Incentives

Miguel Anton
IESE Business School
Universidad de Navarra

Florian Ederer
School of Management
Yale University

Mireia Gine
IESE Business School
Universidad de Navarra

Martin C. Schmalz
Stephen M. Ross School of Business
University of Michigan

Ross School of Business Working Paper Series
Working Paper No. 1328
August 2016

UNIVERSITY OF MICHIGAN

Common Ownership, Competition, and Top Management Incentives

Miguel Antón, Florian Ederer, Mireia Giné, and Martin Schmalz*

August 14, 2016

Abstract

We show theoretically and empirically that executives are paid less for their own firm's performance and more for their rivals' performance if an industry's firms are more commonly owned by the same set of investors. Higher common ownership also leads to higher unconditional total pay. We exploit quasi-exogenous variation in common ownership from a mutual fund trading scandal to support a causal interpretation. These findings challenge conventional assumptions in the corporate finance literature about the objective function of the firm.

JEL Codes: G30, G32, D21, J31, J41

*Antón: manton@iese.edu, Ederer: florian.ederer@yale.edu, Giné: mgine@iese.edu, Schmalz: schmalz@umich.edu. We thank José Azar, Patrick Bolton, Judith Chevalier, Vicente Cuñat, Peter DeMarzo, Alex Edmans, Daniel Ferreira, Barry Nalebuff, Martin Oehmke, Paul Oyer, Fiona Scott Morton, Jeremy Stein, Heather Tookes, and John van Reenen for generously sharing ideas and suggestions, to seminar participants at Humboldt Universität Berlin, and to seminar and conference participants at Berkeley, Duke, NBER IO Summer Institute, Princeton, UBC, Universität Zürich, Vanderbilt, and ZEW Mannheim, at which parts of the present paper were presented.