

Abstract:

High levels of common ownership may reduce firms' incentives to compete. The empirical relevance of this concern is controversial, in part because there are no obvious mechanisms for common owners to coordinate their actions. I study a channel, proxy advisors, which may induce such coordination simply by satisfying their fiduciary duty. A single proxy advisor – Institutional Shareholder Services (ISS) – provides advice to 70% of all institutional investors on how to vote at shareholder meetings. I clarify in a theoretical framework how a proxy advisor maximizing client value will promote softer competition for commonly held firms. Combining data on ownership and shareholder meetings for all publicly listed U.S. firms (2003-2017), I find that for a firm with higher common ownership, ISS is more likely to promote corporate governance decisions that reduce competition.