Common Ownership, Competition, and Top Management Incentives*

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Abstract

This paper proposes a firm-level mechanism through which common ownership can affect product market outcomes consistent with empirical evidence. We embed a canonical managerial incentive design problem in a model of strategic product market competition under common ownership. Firm-level variation over time in common ownership causes variation in managerial incentives *across firms* as well as variation in product prices, market shares, concentration, and output *across markets*—all without communication between shareholders and firms, coordination between firms, or market-specific incentives for managers. We empirically confirm the theoretical prediction that top management incentives are less performance-sensitive in firms where large investors hold greater ownership stakes in competitors.

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