Common Ownership and Investment Efficiency: Evidence from the European Context

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Abstract

This paper investigates the relationship between common ownership and investment efficiency, documenting a conditional negative (positive) association between common ownership and investment among firms that are more prone to over-investment (under-investment). Relatedly, firms with higher common ownership with their industry peers are also less likely to deviate from predicted investment levels. I demonstrate causal inference using financial institutions' mergers as an exogenous shock to common ownership.

These results suggest that one mechanism linking common ownership to investment efficiency is the information advantage of common owners, which enhances monitoring effectiveness improving firms' financial reporting quality. Results from additional analysis support the prediction that higher-quality financial reporting exacerbates the positive association between common ownership and investment efficiency. Finally, I show that common owners' information advantage is more valuable when the firm's analyst coverage is lower than the industry median and when the firm's largest owner is not a family owner.

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