Horizontal Sharing and Market Competition

Tu, Chien-Heng*

Ma, Tay-Cheng

Abstract

Financial innovation has transformed institutional investors into the mainstream of the market. Since these institutions seek to diversify their portfolios to avoid the risk of a single stock's underperformance so as to protect the interests of investors, it is not unusual for a group of institutional investors to own significant shareholdings in corporations that are horizontal competitors in a product market. From the viewpoint of market competition, these kinds of horizontal shareholdings may induce them to place more emphasis on industry-wide profits rather than individual corporate benefits, since more aggressive competition by a firm is likely to come at a cost to its competitors. Other things being equal, one should expect there to be less competition in a market characterized by common ownership compared to the counterfactual of separate ownership or firms ignoring incentives from common ownership. Hence, this issue is basically related to the trade-off between the benefits of portfolio diversification and the costs of competition restrictions. Owing to the fact that a horizontal shareholding neither constitutes a merger nor a collusion, it is difficult to regulate it under the current Fair Trade Act. This article suggests that it is more efficient for regulatory agency to regulate horizontal shareholdings than a competition agency.

Keywords: Anti-trust, Horizontal Shareholding, Institutional Investors, Market Competition, Regulation.

Date submitted: April 19, 2018 Date accepted: January 4, 2019

* Tu, Chien-Heng, Associate Professor, Department of Finance and Information, National Kaohsiung University of Science and Technology; Ma, Tay-Cheng, Professor, Department of Economic, Chinese Culture University.