Institutional Cross-ownership and Corporate Strategy: 
The Case of Mergers and Acquisitions*

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Abstract

This article provides new evidence on the important role of institutional investors in affecting corporate strategy. Institutional cross-ownership between two firms not only increases the probability of them merging, but also affects the outcomes of mergers and acquisitions (M&As). Institutional cross-ownership reduces deal premiums, increases stock payment in M&A transactions, and lowers the completion probabilities of deals with negative acquirer announcement returns. Furthermore, deals with high institutional cross-ownership have lower transaction costs and disclose more transparent financial statement information. The effect of cross-ownership on the total deal synergies and post-deal long-term performance is positive, which can be attributed to independent and non-transient cross-owners. Our findings are robust after mitigating the cross-ownership asymmetry concern. Overall, our results suggest that the growth of institutional cross-holdings in U.S. stock markets may greatly change corporate strategies and decision-making processes.

Keywords: Institutional Investors; Cross-ownership; Mergers and Acquisitions (M&As) 
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