

Shareholder Cross-holdings and Their Effect on Acquisition Decisions*

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Abstract: We document the magnitude and determinants of institutional shareholder cross-holdings. Cross-holdings are created when a shareholder of one firm holds shares in other firms as well. We find that institutional cross-holdings have risen rapidly over the last twenty years. Cross-holdings are higher the more alike two firms are on a number of dimensions, such as size and performance, suggesting that institutional investing screens result in common holdings in similar firms. Further, we examine the influence of these cross-holdings on bidder managers' selection of acquisition targets. Some institutional investors of the bidder have large cross-holdings in the target in an average acquisition, and there is a significant number of deals in which a majority of bidder institutions does. There is strong evidence that bidder managers consider their shareholders' cross-holdings when choosing targets. We conclude that shareholder cross-holdings are sizeable and, at least in the case of acquisitions, affect managerial decisions.

Keywords: cross-holdings, institutional investors, target selection, mergers and acquisitions, toeholds

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