

It takes two to tango: Interlockings and Partial Equity Ownership

by *maria rosa battaggion* | *Università di Bergamo*

Abstract ID: 127

Inviato: 14/03/2023

Evento: XXI Workshop Annuale SIEPI

Argomento: 5. Governance, organizzazione, capitale umano e produttività

Parole chiave: Interlocking Directorates; Partial Equity Ownership; Information; Oligopoly

We study the relationship between partial equity ownership and interlocking directorates among rival companies. Partial equity ownership between rivals in the product market raises the profits of both companies by internalizing competition. The gain from the acquisition, however, depends on the value of the target company. When this value is private information, the bidder has to elicit the true value of the equity stake through a proper design of the offer to the target in the context of asymmetric information. The bidder might ask the target to host one of his executives on the board, so as to be able to observe the private value. To succeed, however, the bidder has to convince the target to accept this interlocking directorate. We build a novel framework to analyze the choice to interlock together with the acquisition of a minority equity share. In the case the value of the target is private information, we find the conditions for an interlock to occur at the equilibrium. In this setup, interlocking directorates may be ancillary to a minority acquisition.