Title:

Financial Cross Ownership and Information Dissemination in a Supply-Chain

Abstract:

We examine the effect of financial cross-ownership on two imperative operational decisions in a supply-chain with competing retailers sourcing from a mutual supplier: Information acquisition and production level. In our setting, financial cross-ownership describes a situation in which an incumbent retailer holds non-voting stocks in an entrant retailer. We demonstrate the significant effect of this investment tool on these operational decisions. At the production stage, financial cross-ownership results in lower production level since the incumbent retailer benefits from the operational success of his competitor through his investment portfolio. However, financial cross-ownership can also result in pro-competitive effects; it facilitates information acquisition, even when this information is later leaked to the entrant. Previous research has raised the concern that valuable forecast information will not be acquired when it can be leaked to the competitor. The current research suggests that even when information is leaked, an incumbent retailer finds it beneficial to acquire demand information when he has financial investment in the competitor. Our work also contributes to the policy debate regarding the effects of financial cross-ownership on the consumers. We demonstrate that this investment tool has an indecisive effect on the consumers: It can hurt the consumers when the effect of the quantity reduction dominates or alternatively it can benefit the consumers when it facilitates information acquisition.

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