Governing Multiple Firms*

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Abstract

We study the effect of an investor owning multiple firms on governance through both voice and exit, and by both equityholders and debtholders. Under common ownership, an informed investor has greater flexibility over which assets to retain and which to sell, and sells the worst assets first. This increases adverse selection and thus price informativeness. In an exit model, the manager’s incentives to work are stronger since the price impact of investor selling is greater. In a voice model, the investor’s incentives to monitor are stronger since “cutting-and-running” is less profitable. Our results contrast conventional wisdom that common ownership necessarily weakens governance by spreading an investor too thinly.

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