**Horizontal Partial Cross Ownership and Innovation**

(joint with Sandro Shelegia)

Abstract:

We study the effects of partial cross ownership (PCO) among rival firms on their incentives to innovate. PCO in our model gives rise to a price effect due to its effect on price competition and hence on the marginal benefit from investment, as well as a cannibalization effect which arises because each firm internalizes part of the negative externality of its investment on the rival's profit. We show that overall, PCO may benefit or harm consumers depending on the size of the PCO stakes, their degree of symmetry, the size of the innovation, its marginal cost, and whether it is drastic or not.