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# Business Group Affiliation and the Risk of PAE Litigation

Miryam Martin and Abel Lucena

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## Abstract

Using novel data on US public firms, this paper investigates the preferences of patent assertion entities (PAEs) to choose target companies. Drawing upon signaling theory, we argue that business group affiliation can be interpreted by PAEs as an informative attribute about the superior value creation capabilities of affiliated firms (compared to standalones). PAEs, as rent-seekers, could leverage this information to identify opportunities to extract rents. Consistent with our argument, we find that PAEs tend to sue more to companies having business affiliations than companies without such affiliations. However, business groups differ from one another in a range of observable attributes, generating differing opportunities from rent extractions. We also examine the role of three business group characteristics in conveying information to PAEs. The results show that the bigger the business group, the more attractive to PAEs. Likewise, the higher the technological overlap, the greater the probability of being sued. Our results also reveal that the organizational distance is not a key driver.

Academy of Management Proceedings

**Vol. 2021, No. 1**

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