

CITY UNIVERSITY OF HONG KONG

香港城市大學

Funds Investment and Corporate Innovation - Evidence
from Chinese Listed Firms

基金投資與企業創新：來自中國上市公司的經驗證據

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ABSTRACT

Over the past 20 years, venture capital (VC) and private equity (PE) have become important sources of financing for innovative companies. Equity finance, for a substitute for debt finance and internal finance, has become a major financing way for young firms in recent years.

This thesis investigates the relationship of fund holdings and corporate innovation among Chinese listed companies. My analysis shows that higher fund holdings lead to more innovation outcomes, which are measured by patents. Especially, more fund holdings lead to more high-valued invention patents, rather than design patents. Also, I find one mechanism through which that funds holding to foster innovation: that is, higher funds holding make firms with more finance to fund their innovation activities, which is evidenced by higher research and development expenditures. I also examine some heterogeneities between fund holdings and innovation: I find that the relationship is mostly concentrated for firms financed by purely equity fund or mixed funds, rather than purely bond funds. This piece of evidence shows that equity is an important source to finance innovation. This argument also ran against with the traditional wisdom that debt is mostly used to finance risky projects. Finally, the positive relationship is mainly driven by index funds rather than other investment style funds, and by SOE firms. These findings have policy implications for authorities to develop the equity market to better cater to the needs of innovative entities.