Disproportional Ownership Structure and Corporate Innovation

Chen Lin
Faculty of Business and Economics
University of Hong Kong
chenlin1@hku.hk

Sheng Xiao
Bill and Vieve Gore School of Business
Westminster College
sxiao@westminstercollege.edu

Shan Zhao
Grenoble Ecole de Management
shan.zhao@grenoble-em.com

This version: December 2018

Abstract

We examine the impact of disproportional ownership structure on corporate innovation. We measure firm innovation by the number of patents and the number of citations per patent of the firm. In firm fixed effect models, we find that among dual-class firms, the wider the divergence between the insiders' control rights and cash flow rights, the less the firms innovate. However, such negative effects are significantly mitigated by greater institutional ownership, more product market competition, and the presence of active founders. We also use the propensity score matching method to compare dual class firms and single class firms, and find that dual class firms innovate significantly less, compared with similar single class firms. Overall, our results support the agency view against the long-term value creation view of disproportional ownership structure.

Key words: corporate governance, disproportional ownership structure, dual-class ownership, corporate innovation
JEL Classification Codes: G32, G34

* We are grateful for helpful comments from Yang Cao, Philippe Dupuy, Armin Schwienbacher, Hualin Wan, and seminar participants at SKEMA business school.