

Internet Appendix A115: Innovation/Ownership

A115.1 Illustrative Reverse Engineered Pitch Template Example

Pitcher's Name	Jie Teng (UQ Visiting UG Scholar from Fudan)	FoR Category	Finance	Date Completed	02/06/2016
(A) Title	Aghion, P., Van Reenen, J., & Zingales, L. (2013). Innovation and Institutional Ownership. <i>American Economic Review</i> , 103(1), 277-304.				
(B) Basic Research Question	Does institutional ownership affect innovation?				
(C) Key Paper(s)	Holmström, B. (1999). Managerial incentive problems: a dynamic perspective. <i>Review of Economic Studies</i> , 66(1), 169-82. Hart, O. D. (1983). The market mechanism as an incentive scheme. <i>Bell Journal of Economics</i> , 14(2), 366-382. Cremers, K. J. M., & Nair, V. B. (2005). Governance Mechanism and Equity Prices. <i>The Journal of Finance</i> , 60(6), 2859-2894.				
(D) Motivation/Puzzle	Given the importance of innovation for growth and the wealth of nations, it is paramount to understand the incentives to innovate at the firm level. While there is a large literature on the effect of financing constraints on innovation, the impact of corporate governance on innovation has received less attention. Exploring the relationship between institutional ownership and innovation would be beneficial both in theory and in practice.				
THREE	Three core aspects of any empirical research project i.e. the “ IDioTs ” guide				
(E) Idea?	The core idea is to study the role of institutional investors in the governance of innovation by comparing lazy manager model with career concern model. The central hypothesis is institutional ownership has a positive effect on innovation. There are two widely used models which explain the relationship between institutional ownership and innovation. The lazy manager model suggests that managers prefer a quiet life and institutional investors force them to innovate. The alternative story is based on career concern model where institutional owners increase innovation incentives through reducing career risks. The paper builds a model that nests these two hypotheses and finds the evidence consistent with the career concern hypothesis.				
(F) Data?	The firm-level data on innovation and institutional ownership are from a variety of sources. Fixed capital, R&D capital and market value are obtained from Compustat since the mid-1950s. Patents data are obtained from the NBER match with the US Patent and Trademark Office data, which contains patents granted between 1963 and 1999 and all citations made to these patents between 1975 and 2002. Institutional ownership data are hand-collected from compact disclosure, where includes the number of institutional owners, the number of share issued, and the percent of outstanding shares held by each institution between 1991 and 2004. CEO firings and other managerial characteristics are from data constructed by Fisman et al (2005) based on reading the financial press and the S&P ExecuComp database. Since the datasets do not overlap perfectly, the baseline regressions are run between 1991 and 1999, which contains 6208 observations on 803 firms.				
(G) Tools?	The research uses multivariate analysis to study the relationship between institutional ownership and innovation. Policy changes and membership of the S&P 500 are used as instruments to examine if these relationships simply arise from endogenous selection.				
TWO	Two key questions				
(H) What's New?	Unlike other papers, this research focuses on the actual productivity of the innovation process, rather than only on the quantity of innovative inputs. In addition, the use of instruments, namely policy changes and membership of the S&P 500, makes it possible to examine if the relationship between institutional ownership and innovation is due to institutions' ability to select the most innovative firms.				
(I) So What?	The research shows that institutional owners have a robust positive effect on innovation, which makes greater board representation of institutional investors a good policy to stimulate innovation. These results also suggest that risk considerations at the managerial level play an important role in preventing innovation, which can help the board focus on reducing the risk for managers when considering innovation.				
ONE	One bottom line				
(J) Contribution?	The paper makes a further exploration between institutional ownership and innovation. It contributes to the literature on the impact of corporate government on innovation. It adds a new theoretical model that nest two plausible mechanisms linking institutional ownership and innovation and discriminate between them empirically.				
(K) Three Key Findings	<ol style="list-style-type: none"> 1. Institutional ownership can boost innovation. 2. Institutional ownership is more important for innovation when product market competition is higher. 3. The probability of CEO firing after poor performance is reduced with more institutional ownership. 				