Corporate ownership structure and innovation: Evidence from Taiwan's electronics industry

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Abstract

The agency problem of listed companies in East Asia is closely related to their typically concentrated ownership structures. Tight control creates an entrenchment problem that allows the controlling owners' self-interested behaviors to go unchallenged internally by the boards of directors or externally by takeover markets. The primary objective of this paper is to explore the association between the ownership and control structure and innovation. The ownership and control structure is measured first as the divergence between the ultimate owner's voting rights and the ultimate owner's cash flow rights, and second by the presence of ultimately controlling shareholder's family member as CEO or Chairman of the board, or both. Innovation is measured by patent quantity and patent quality. This paper uses patents granted by the U.S. Patent and Trademark Office (USPTO) to measure innovation activities. We find that innovation is significantly and negatively related to the level of agency problems. We further find that innovation is lower for firms whose controlling owner is also either the chief executive officer or the chair of the board of directors. Our findings appear to be robust with respect to examining patent count and patent quality variables.

Key words: Cash flow rights; Innovation; Intellectual capital; Ownership structure; Patent; Voting rights