

Berlin Applied Micro Seminar

Innovation: The Bright Side of Common Ownership?

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Abstract:

A firm's incentives to innovate deteriorate when other firms benefit from its R&D activities without incurring a cost. We show under which conditions common ownership of firms can mitigate this impediment to corporate innovation, and test the model's empirical predictions. Common ownership increases R&D when technological spillovers, as measured by firms' distance in technology space, are large relative to product market spillovers, as measured the firms' distance in the product market. Otherwise, costly innovation leads to more business stealing which is detrimental for common owners. Our results help inform the debate about the drivers of declining corporate R&D and the welfare effects of increased levels of common ownership concentration of U.S. firms.