
A Chimera or a Catalyst? Minority Shareholder Representation and Corporate Innovation

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Abstract:

This study investigates the relationship between minority shareholder representation on corporate boards and firms' investment in innovation. In contexts characterized by concentrated ownership and historically weak investor protection, such as Italy, regulatory provisions enabling minority shareholders to appoint board members offer a unique opportunity to assess whether governance mechanisms designed to protect non-controlling investors can also foster innovation. Drawing on a sample of 218 firm-year observations from Italian non-financial listed firms between 2013 and 2017, we employ a forward-looking measure of R&D investment that isolates the component of R&D expenditures associated with future revenue generation. Our empirical findings reveal a positive and statistically significant association between the percentage of minority directors in the board and innovation-related investment. These results are robust to alternative estimation techniques. Overall, the findings suggest that minority-appointed directors can act as effective internal governance mechanisms, supporting firms in pursuing long-term, high-risk innovation strategies.

Keywords:

Ownership structure, Corporate Governance, Minority Directors, Innovation, R&D Investment.