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EMPLOYEE STOCK OWNERSHIP AS A MODERATOR OF THE RELATIONSHIP BETWEEN R&D INTENSITY AND INNOVATION (SUMMARY)

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SUMMARY

EMPLOYEE STOCK OWNERSHIP AS A MODERATOR OF THE RELATIONSHIP BETWEEN R&D INTENSITY AND INNOVATION

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Principal Topic

Rapid change is part of the new competitive landscape, and firms are turning to innovation for new value creation (Bettis and Hitt, 1995). One way that firms attempt to innovate is through R&D activity. R&D intensity has been shown to be positively related to innovation (Kim and Marschke, 2004), but there is unexplained heterogeneity in number of innovations among similar firms with comparable R&D expenses. I explore employee stock ownership as a moderator on the relationship between R&D intensity and innovations produced.

As employees' ownership share in a firm increases, their commitment to the firm increases such that they are more likely to direct their innovative efforts within the organization, as opposed to pursuing external entrepreneurial opportunities. I hypothesize that employee stock ownership moderates the positive relationship between R&D intensity and innovations produced: when employee stock ownership is high, the relationship will be more positive than when it is low.

Method

The sample for this study is publicly-traded, high-technology firms that have employee stock ownership programs. Because available data does not distinguish between firms without stock ownership plans and firms that not reporting their stock ownership plans, it was necessary to study the effect of stock ownership plan characteristics among firms reporting stock ownership plan information (n=74).

Employee stock ownership data are available in 11-K filings with the SEC. These filings list amounts available in employee savings plans, ESOPS, pension plans, etc. By compiling information from these filings, I was able to discover how much company stock employees hold and the percentage of their total holdings that stock represents. R&D intensity was measured using R&D expenses as a percentage of sales. Innovations were measured using patent data (Hitt et al, 1991). The data was lagged to account for delays between time of R&D investment and patent award.

Results and Implications

Company stock per employee is a moderator ($p < .05$) on the relationship between R&D intensity and innovations produced. Company stock as a percentage of the total plan is not a significant moderator. The results indicate that employees may be more committed to their organization as a result of their individual total ownership, not the degree of diversification within the stock ownership plan.

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