

Accepted Manuscript

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PII: S0304-405X(16)30235-5
DOI: [10.1016/j.jfineco.2016.12.005](https://doi.org/10.1016/j.jfineco.2016.12.005)
Reference: FINEC 2722

To appear in: *Journal of Financial Economics*

Received date: 16 October 2015
Revised date: 12 April 2016
Accepted date: 18 April 2016

Please cite this article as: Benjamin Balsmeier, Lee Fleming, Gustavo Manso, Independent Boards and Innovation, *Journal of Financial Economics* (2016), doi: [10.1016/j.jfineco.2016.12.005](https://doi.org/10.1016/j.jfineco.2016.12.005)

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Independent Boards and Innovation*

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December 21, 2016

Abstract

Much research has suggested that independent boards of directors are more effective in reducing agency costs and improving firm governance. How they influence innovation is less clear. Relying on regulatory changes, we show that firms that transition to independent boards focus on more crowded and familiar areas of technology. They patent and claim more and receive more total future citations to their patents. However, the citation increase comes mainly from incremental patents in the middle of the citation distribution; the numbers of uncited and highly cited patents—arguably associated with riskier innovation strategies—do not change significantly.

Keywords: Corporate Governance, Board Composition, Innovation, Exploration and exploitation

JEL Classification: G34, L14, L25, M21

*The authors thank David Hsu, Adair Morse, David Sraer for helpful comments, as well as Gabe Fierro and Guan-Cheng Li for invaluable research assistance. Balsmeier acknowledges financial support from the Flemish Science Foundation. This work is supported by NSF grant 1360228 and the Coleman Fung Institute for Engineering Leadership; errors and omissions remain the authors'.

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