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## Style Investing and Firm Innovation

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### Abstract

We document that transient, dedicated and quasi-indexed institutional investors exhibit a high degree of within-group heterogeneity with respect to their investment styles (i.e., growth, value, and balanced). We find that growth institutional investors enhance firm innovation in terms of R&D expenditures, R&D intensity, quantity and quality of patents and patent radicalness while value institutional investors impede innovation. Balanced investors have no significant association with innovation. Findings are consistent with style investing literature that growth and value styles are substitutes. Using investment styles, we present evidence that reconcile literature's mixed findings on how transient and dedicated investors affect R&D and innovation, and why quasi-indexed investors, the largest group among all investors, have an insignificant effect. We also show that the effect of institutional investors depends on the firm's relative level of innovativeness.

Keywords: Innovation, institutional ownership, style investing, R&D, patents.

JEL Classifications: O31, O32, G23, G32

### 1. Introduction

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