Best Article Award: Valencia

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The *Atlantic Economic Journal* (*AEJ*) is proud to announce that the winner of the 2019 Best Article Award is Vicar S. Valencia, Associate Professor, Department of Economics, Indiana University South Bend. His paper entitled, “Corporate Governance and CEO Innovation,” appeared in the March 2018 issue of the *AEJ*. The *AEJ* Best Article Award committee reviewed all eligible papers (those with ratings of top 25% or better) published in 2018. The committee was chaired by International Atlantic Economic Society (IAES) Vice President, Andrew W. Lo, Massachusetts Institute of Technology. Members of the committee included the *AEJ* Board of Editors and IAES Endowment Fund sponsors. The Managing Editor gratefully acknowledges the participation and diligence of all committee members who participated in the review process. The award emphasizes the intellectual and scholarly approach to economic research which has always been a focal point of the *AEJ*. A brief summary of the award-winning paper follows.

The paper examined a fundamental agency problem in innovation, that the chief executive officer (CEO) is not necessarily inclined to innovate due to the inherent risk and potential effect on the CEO’s career and reputation in the case of failure. However, stockholders view innovation as a desirable method of enhancing a firm’s value. The paper studied the use of corporate governance as a tool to stimulate the CEO to innovate, as well as to monitor performance, grouping corporate governance mechanisms into three categories. The first category, ownership structure, focused on whether stockholders’ ability to supervise CEO behavior varied by whether their ownership of equity shares was concentrated versus diffuse as measured by the Herfindahl Equity Index. The second category assessed the impact of the board’s characteristics, such as diversity (industry expertise and academic background), size and independence, on the CEO’s propensity to innovate. The final category evaluated whether a CEO whose compensation is at least partially equity-based or who is not also serving as Board Chair is more likely to innovate.

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The study sample consisted of locally-owned Australian companies publicly listed on the Australian Stock Exchange from among those listed in the IBIS World database available from the Melbourne Institute of Applied Economic and Society Research, for the period 1994-2003. Company annual reports were also reviewed. Patent applications served as the author's measure of innovation. The data were analyzed using panel count data models and generalized method of moments techniques.

Dr. Valencia found that CEOs were more likely to innovate in the presence of a large shareholder, while a diverse board of directors decreased the propensity to innovate. Similarly, the CEO was also somewhat more likely to innovate when not concurrently serving as Board Chair, but maintaining equity ownership. Surprisingly, the size and independence of the board of directors had no significant effect on the CEO's propensity to innovate. Dr. Valencia's work highlights the importance of corporate governance in innovation, particularly in a country where firm shares, on average, are widely dispersed.

The paper focused solely on product innovations measured by patent applications. Thus, one area reserved for future research was that of process innovations, which do not require a patent. Another area for future research suggested by the author was expanding the study beyond Australia, such as comparing Organization for Economic Cooperation and Development (OECD) countries with non-OECD countries. Other issues reserved for future research included examination of how equity shares for directors might affect their perspective regarding innovation.

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