

When do Analysts Impede Innovation?

Abstract: We re-examine the impact of analyst coverage on firm innovation and find that the negative relation between analyst coverage and innovation is driven by firms that are poor-quality innovators. In contrast, analysts do not hinder innovation in firms that are efficient innovators. These findings are robust when considering two different identification strategies that control for endogeneity. Our results hold for both innovation output (patents) and innovation input (R&D). Overall, our main findings indicate that analysts curtail wasteful innovation and play a beneficial role in resource allocation in the economy.