

Accepted Manuscript

Corporate innovation and political connections in Chinese listed firms

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PII: S0927-538X(16)30240-2
DOI: doi: [10.1016/j.pacfin.2017.09.004](https://doi.org/10.1016/j.pacfin.2017.09.004)
Reference: PACFIN 960

To appear in: *Pacific-Basin Finance Journal*

Received date: 9 November 2016
Revised date: 2 September 2017
Accepted date: 12 September 2017

Please cite this article as: Qingsong Hou, May Hu, Yuan Yuan , Corporate innovation and political connections in Chinese listed firms, *Pacific-Basin Finance Journal* (2017), doi: [10.1016/j.pacfin.2017.09.004](https://doi.org/10.1016/j.pacfin.2017.09.004)

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Corporate Innovation and Political Connections in Chinese

Listed Firms

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Abstract: This paper examines the relationship between political connections and corporate innovation in China. We find that political connections hinder corporate innovation activities and reduce innovation efficiency, suggesting the existence of political resource curse effect on corporate innovation in Chinese firms. In addition, we find that political connections reduce market competition and increase firms' overinvestments, leading to the crowding out effect with the limited resources insufficiently and inefficiently allocated to corporate innovation in firms. We also find that political connections weaken the impact of corporate innovation on firm future performance. Nonpolitically connected firms with patent applications have better and more effective future business performance than politically connected firms. This study provides policy implications for policy makers to reduce government-led resource allocation, improve market-oriented innovation mechanism, and standardize government subsidies to make the allocation process more transparent, so that corporate technological innovation can lead to the regional and national economic growth.

JEL Classification: G18, G38

Keywords: Corporate innovation, political connections, China

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