Political Connections and Firm Innovation: An Investigation of Privately-controlled Publicly-listed Firms

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Published in:
Academy of Management Proceedings

Link to article, DOI:
[10.5465/AMBPP.2019.12754abstract](https://doi.org/10.5465/AMBPP.2019.12754abstract)

Publication date:
2019

Document Version
Peer reviewed version

[Link back to DTU Orbit](#)

Citation (APA):
Zhou, J., & Qian, C. (2019). Political Connections and Firm Innovation: An Investigation of Privately-controlled Publicly-listed Firms. *Academy of Management Proceedings*, 2019(1).
<https://doi.org/10.5465/AMBPP.2019.12754abstract>

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ABSTRACT

Building on corporate political strategy literature that political connected firms have access to resources controlled by the government as well as the obligation to reciprocate the government, this study investigates the influence of the ascribed and achieved political connections on innovation. We integrate the upper echelons perspective with corporate political strategy literature to develop predictions that ascribed political connections enhance incremental innovation while achieved political connections encourage radical innovation. Furthermore, we propose that such effects depend on the innovation orientation of a firm, which is influenced by functional backgrounds of a firm's managers and the industry and region in which it operates. These predictions are largely supported by the analysis of a panel dataset of privately-controlled publicly-listed Chinese firms from 2008 to 2012.

Key words: political connections, incremental innovation, radical innovation