

Internet Appendix A240: Finance – Political Connections
Illustrative Reverse Engineered Pitch Template Example

Pitcher's names	Shixin Yin (UQ Summer Scholar)	For Category	Corporate Finance and Governance	Date Completed	01/02/2018
(A) Full Reference	Hou, Q., Hu, M. and Yuan, Y. (2017). Corporate innovation and political connections in Chinese listed firms. <i>Pacific-Basin Finance Journal</i> , 46, pp.158-176.				
(B) Basic Research Question	What is the relationship between political connections and corporate innovation in China?				
(C) Key paper(s)	<ul style="list-style-type: none"> • Pagano, M., Volpin, P.F., 2005. The political economy of corporate governance. <i>Am. Econ. Rev.</i> 1005–1030. • Chen, S., Sun, Z., Tang, S., Wu, D., 2011. Government intervention and investment efficiency: evidence from China. <i>J. Corp. Finan.</i> 17 (2), 259–271. • Reza, S.W., Ovtchinnikov, A.V., Wu, Y., 2016. Political activism and firm innovation. In: SSRN Working Paper Series. 				
(D) Motivation/Puzzle	Recently, China has invested a significant amount of resources in corporate innovation, and introduced a number of policies to encourage firms' independent innovation abilities. However, the efficiency and effectiveness of corporate innovation are still low compared to more developed countries. As an important part of corporate political resources, whether political connections discourage corporate innovation as a resource curse effect, is still a question. The existing research on the determinants of corporate innovation has mostly focused on legal protection, industry competition, institutional ownership and corporate governance. The impact of political connections on corporate innovation remains unexplored for Chinese listed firms.				
THREE	Three core aspects of any empirical research project i.e. the “ IDioTs ” guide				
(E) Idea?	<p>Hypothesis 1: Firms with political connections have lower levels of innovation and innovation performance than firms without political connections. There is a political resource curse effect on innovation as political connections impede corporate technological innovation.</p> <p>Hypothesis 2: Firms with political connections have higher levels of innovation and innovation efficiency than firms without political connections. There is no political resource curse effect on innovation as political connections promote corporate technological innovation.</p> <p>Key independent variable: political connections; Key dependent variable: corporate innovation.</p> <p>The research runs Probit regressions to examine endogeneity problem caused by reverse causality. The results show that this problem does not exist.</p>				
(F) Data?	<ul style="list-style-type: none"> • All publicly listed non-state-owned companies in the Chinese market between 2003 and 2014; • For political connections, the authors manually collect the information on whether a company has a politically connected executive from firms' financial reports, whether companies' independent directors have political connections. • For corporate innovation, the authors manually collect patents and patent application data as innovation output for all non-state-owned companies from 2003 to 2014, which is extracted from the patent retrieval website of the State Intellectual Property Office of the P.R.C. With respect to innovation input, this paper uses R&D as the measurement and the data is collected from the CSMAR database. 				
(G) Tools?	<ul style="list-style-type: none"> • Propensity score matching (PSM) method • Probit regressions 				
TWO	Two key questions				
(H) What's New?	<ul style="list-style-type: none"> • For corporate innovation, different from existing literature in which innovation is measured simply by R&D expenditure particularly for Chinese firms, this paper measures firm's technological innovation from the perspectives of both inputs and outputs. • This study has paid attention to the direct costs brought by political connections to firms, while previous studies focus more on the benefits brought by political resources. • This study analysed how political connections affect corporate innovation, which has been analysed by few previous studies. 				
(I) So What?	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.				

ONE	One bottom line
(J) Contribution?	<ul style="list-style-type: none"> • This study uses both R&D expenditure and patent application data as the proxy for corporate innovation. • This study enriches the research on the cost of gaining political connections and resources. • This paper fills a gap in the research of how the relationship between government and companies affects corporate innovation.
(K) 3 Key Findings	<ul style="list-style-type: none"> • Political connections hinder corporate innovation activities and reduce innovation efficiency, suggesting the existence of political resource curse effect on corporate innovation in Chinese firms. • 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. • The political connections weaken the impact of corporate innovation on firm future performance.

What's New Mickey Mouse?

