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Discussion on the Real-World Logic of GPR, Political Connections and Corporate Innovation Performance

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ABSTRACT

Global political risks are increasing continuously, and the environment for enterprise innovation abroad has been changing significantly. Informal Channels for obtaining resources and thus influencing innovation decisions are known as political connections in Chinese enterprises. Given the current situation of continuously rising GPR, this paper investigates the internal connections among GPR, political connections and innovation performance. Research has found that GPR has both inhibiting and promoting effects on innovation; it tightens financing constraints and increases enterprise costs to reduce R&D investment, but at the same time, the increased pressure to deal with uncertainty may also motivate more innovation efforts. Political connections are moderators, and the direction of this effect is not fixed. It may reduce the negative effects of GPR by alleviating financing constraints and conveying policy information; otherwise, there will be innovation inertia and resource misallocation, thus weakening the enterprises' endogenous innovation capabilities. Differences in the institutional environment, degree of marketisation, and characteristics of the enterprises will all affect the actual direction of this moderating effect. Clarifying the above logical relationships will provide a reference for the company's innovation strategy optimisation and help policymakers improve the institutional environment.

KEYWORDS

GPR; Political Connections; Enterprise Innovation Performance; Uncertainty; Moderating Effect

1. INTRODUCTION

Innovation will help the company maintain a relative advantage and develop continuously. In the course of China's high-quality development, it is necessary to strengthen the innovation capabilities of enterprises to improve the competitiveness of small and medium-sized enterprises and promote the realization of the country's innovation-driven strategy. Enterprise innovation activities are in the macro environment, and changes in the external environment affect the decision to innovate. Recently, the world's geopolitical conflicts have been intensifying; trade frictions have persisted; the system of international governance has changed significantly; and geopolitical risks have been rising steadily. Domestic economic policies have also been continuously adjusted, and many unstable factors have been added. This is the general situation of the external environment in which enterprises are currently carrying out innovation activities.

Given the above reasons, this paper studies the effect of GPR on enterprise innovation performance. No one has been able to do so yet. Some studies have found that uncertainty leads to a reduction in the amount of investment in innovation by enterprises; others have determined that, due to risk, enterprises increase R&D expenditure. Therefore, the effect of GPR on corporate innovation is not the same for all enterprises and differs under different circumstances at the level of the enterprise.

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Political connections are also one of the reasons for the variations in this study. Under the current institutional system in China, enterprises generally have informal relationships with the government, and these connections affect how enterprises obtain resources and information, as well as what strategic choices they make to some extent. Existing studies have shown that political connections can help enterprises obtain resources for promoting innovation; at the same time, they may be too reliant on non-market resources and thus lose the incentive to innovate independently [1]. With the continuous development of GPR, we need to know whether political connections expand or reduce the impact of uncertainty on enterprise innovation to further expand the theoretical space for logic in enterprise innovation behaviour and provide a reference for enterprises to adjust their innovation strategies in a complex macro environment.

2. THE DUAL INFLUENCING PATHS OF GPR ON ENTERPRISE INNOVATION PERFORMANCE

Given the problems listed above, we need to find the basic way in which GPR directly affects enterprise innovation performance. The effect of GPR on the innovation performance of enterprises is not uniform; there are both inhibiting and promoting mechanisms simultaneously, and the final result depends on which of the two is stronger.

GPR first increases the level of uncertainty for enterprises by raising the level of inhibition. In light of the real options theory, when external uncertainty is high, enterprises will be reluctant to make irreversible investments because such investments cannot be recovered once implemented. Enterprises wish to observe the situation for a longer time before deciding and therefore do not invest in research and development. Second, a rise in GPR is generally associated with a tightening of financing conditions. Empirical studies have shown that geopolitical risk limits innovation by increasing financing constraints on enterprises, and a lack of funds directly weakens financial support for the company's research and development (R&D) efforts [2]. GPR may also reduce the scope for managers' risk-taking. Due to the unstable external environment, managers will probably avoid high-risk projects and thus create more obstacles for breakthrough innovations that require a long R&D cycle and have uncertain prospects.

At the same time, the circumstances of the incentives are not the same. With the increase in uncertainty, some enterprises will boost R&D investment to build a buffer zone against external fluctuations and improve their resilience to changes in the market. Research on the perspective of trade policy uncertainty indicates that an increase in policy uncertainty raises the probability of enterprises choosing a path of independent innovation. After the trade friction between China and the US, the rate of R&D investment by high-tech enterprises increased at a faster pace than that for non-high-tech enterprises; it can be seen that under pressure from the external environment, technology-intensive enterprises are more likely to pursue innovation as a way out. Other research has also found that trade policy uncertainty is positively correlated with R&D investment. In short, the company wishes to replace external technology or product sources that may be constrained by innovation efforts, and through the accumulation of internal strengths, reduce dependence on others [3].

In short, the final effect of GPR on enterprise innovation performance is a result of the inhibition and promotion of innovation that have occurred; at the same time, the extent and direction of this balance are also influenced by other factors, such as the resources available to the enterprise, the technical characteristics of the industry, and how much the external institutional environment has been improved.

3. POLITICAL CONNECTIONS AND ENTERPRISE INNOVATION PERFORMANCE: PROMOTION OR INHIBITION

Among the above moderating factors, political connections should be noted. Scholars have not yet found out whether political connections are related to the results of enterprise innovation. Empirical studies on Chinese listed companies have accumulated a large amount of results, but under different sample selections and model settings, the impact direction of political connections on innovation output is not uniform and even contradictory.

Most research on the promotion view has followed the logic of resource dependence. Based on the above studies, under the current institutional system, political connections are also a source of enterprise innovation. Based on the above relationship, the company will be able to obtain funds through bank loans, government subsidies and tax deductions, etc. In places without formal institutions or where the market mechanism has not fully taken over, political connections have partially filled the institutional gap to help enterprises reduce R&D investment under resource constraints [4]. Empirical studies using ChiNext enterprises as the sample have shown that political connections positively promote the technological innovation of high-tech enterprises, and related research on small and medium-sized high-tech enterprises has also confirmed this result.

Research supporting the inhibition hypothesis provides contrary evidence. When the company can obtain more resources and market access through political connections, the internal incentive for substantive innovation projects with a long R&D cycle and a high failure risk is reduced [5]. Based on the empirical results of private listed enterprises in the ChiNext (China's second board) from 2010 to 2011, although enterprises with political connections received more government subsidies than those without such connections, their levels of R&D investment were lower than those of the latter. Another study has found that there is a negative correlation between political connections and the innovation performance of enterprises, and a higher political level of the connection leads to a more significant negative effect. Political connections may also reduce the professionalisation and operating efficiency of the enterprise's R&D work. Based on the above empirical evidence, enterprises with political connections generally have a weaker incentive to innovate and lower R&D efficiency.

These seemingly contradictory conclusions are in fact the same thing: the net effect of political connections on innovation performance is not determined by a single direction, but shows a relatively obvious differentiation due to different attributes of the connection, the strength of the relationship, the competitive state of the industry, and the external institutional environment.

4. THE INTERACTIVE EFFECT BETWEEN GPR AND POLITICAL CONNECTIONS AND ITS UNDERLYING MECHANISM

The above sections have discussed the direct effect of GPR and the independent effect of political connections separately. However, in practice, the two do not work independently. When the macro-level effect of GPR reaches the micro-level of political connections, an interactive influence on the innovation performance of enterprises can be studied to explore the actual economic logic. Many studies have taken different paths to investigate the reasons for this phenomenon in depth.

First, add a buffer region. Given the current unstable political environment, politically connected enterprises will likely be notified first. They will be aware of the changes in policy sooner and thus avoid making decisions or taking actions based on outdated information. At the same time, when there are frequent changes in policy, the enterprise will have an information advantage; it can learn about the direction of industry support, tax incentives and regulatory requirements in advance, and thus plan research and development more effectively to avoid resource waste due to information lag. Empirical studies of agricultural-related listed companies show that economic policy uncertainty

reduces enterprise innovation, and political connections can offset this negative effect. In a normal credit environment, enterprises with political connections are more likely to obtain external funds and thus are more likely to raise funds than those without such connections. The financing advantage does not originate from variations in the creditworthiness of the enterprises; rather, it is an implicit guarantee effect provided by political connections, and therefore, financial institutions are more willing to extend credit to such enterprises [6]. Research on private enterprises listed in the ChiNext board has also found that those with political connections receive significantly more government subsidies than those without.

However, the results of political connections are not all positive. Given the increase in external uncertainty, enterprises closer to the government will be more likely to rely on the existing political risk-reduction system and fail to strengthen their own innovation capabilities or build long-term competitive advantages. Path dependence will reduce the independent innovation ability of the company in the future [7]. Related studies have shown that political connections are harmful to enterprise innovation. In other words, political connections are only a temporary shelter for the company and lack the long-term impetus for innovation.

The interactive effect of political connections and GPR is not fixed, but is also limited by other factors, such as the institutional environment and enterprise characteristics.

5. THE MODERATING EFFECT OF INSTITUTIONAL ENVIRONMENT AND ENTERPRISE HETEROGENEITY ON CORE RELATIONSHIPS

With the progress of marketisation and legalisation at the level of the institutional environment, the impact of political connections on innovation will change. Based on the data of listed companies from 2008 to 2017, political connections have had a relatively small impact on enterprise innovation [8]. Another study found that policy uncertainty due to a change in the party secretary reduced the patent output of enterprises [9]. Therefore, the stability and quality of the system will directly affect the pace of innovation. Areas with relatively complete institutions have a clear division between the government and the market; resources are allocated according to market rules, the scope for rent-seeking through political connections is reduced, and the effect of the institutional environment on enterprise innovation decisions is weaker. A good system of protection for property rights can ensure that the benefits of innovation go to the innovator and motivate further investment in R&D under uncertainty. Empirical analysis of agricultural-related listed companies as the sample shows that economic policy uncertainty inhibits enterprise innovation, but political connections can offset this negative effect [10]. However, this buffer effect will only be realised if the institutional environment is relatively stable at that time. At the same time, in areas where formal rules are weak, there is a lack of supply for these rules, and enterprises must rely more on political connections. The above reliance can address the deficiency of formal rules in the short run; however, it will likely lead to resource wastage and inefficiency.

The firm's characteristics are also a moderator. The general manager and private enterprises are the primary paths for political connections to influence changes in enterprise innovation. Financing constraints and market-access restrictions for private enterprises are relatively high compared with those for state-owned enterprises. Therefore, political connections will have a more direct impact on their behaviour of innovation. A study of agricultural enterprises as the sample also found that political connections can, to a certain extent, compensate for the deficiencies of formal institutions and help enterprises withstand the shock of policy uncertainty. Another study found that policy uncertainty caused by a change in the city party secretary reduced the innovation efficiency of enterprises; thus, in an environment of significant policy fluctuations, the influence of political connections is relatively stronger but not always beneficial. Large enterprises have rich resources and risk resilience, are less exposed to GPR shocks, and are thus at an advantage. Political connections have relatively weak influence on innovation decisions. Small and medium-sized enterprises are more

sensitive to changes in the financing environment and policies, and the effect of political connections is relatively stronger. Identifying the sources of these heterogeneity effects can help to understand the transmission paths of GPR shocks under different circumstances more precisely and provide a reference for drawing the effective boundaries of policy intervention.

6. REALISTIC INSIGHTS AND CORPORATE RESPONSE STRATEGIES

Based on the above analysis, the direction of the impact of GPR and political connections on the innovation performance of enterprises depends on the interaction results of multiple factors. Thus, corresponding suggestions can be derived from both the large-scale policies and the small-scale enterprises.

First of all, we need to build a good institutional system at the macro level. Political connections may influence the company's decision to innovate to a certain extent because formal institutions are lacking. A study of a sample of private listed companies on the ChiNext board from 2010 to 2011 shows that enterprises with political connections received more government subsidies but made lower R&D investments than unconnected enterprises [11]. This shows that there is a deviation in the allocation of subsidies; the funds did not reach the enterprises engaged in innovative activities. Therefore, we need to continue to promote market-oriented reforms, strengthen the intellectual property protection system, optimise the selection criteria and distribution procedures for subsidies, reduce the enterprises' dependence on informal connections gradually, and shift the allocation of innovation resources to enterprises with actual R&D capabilities.

Policy Uncertainty should also be included. A sudden change in policy will increase the company's costs and reduce the incentive for R&D. Considering the speed, strength and openness of policy changes, the enterprise will be in a precarious situation. The distribution of subsidies should not be based on the enterprise's identity or previous relationships, but also on the level of R&D investment and actual innovation results. It will help to make better use of public resources and focus on technological innovation for the company.

At the company level. Political Connections are a Two-edged Sword. Sometimes they can help the company raise funds or secure projects, but they should not be the company's long-term survival model. Research has shown that political connections are often associated with lower R&D investment and reduced R&D efficiency due to excessive expenditure; thus, they may crowd out internal innovation. Develop the core technology for the company to take part in the competition. Keep the required external connections, but allocate more resources to build an R&D team and strengthen the foundation of human resources.

In light of the rise in GPR, the company will need to change its thinking and act accordingly. Uncertainty is not always about reduction and waiting. Given the changes in the macro environment, continuous R&D investment can help the company build a technical barrier and lead the reform of the industry. The accumulation of innovation capabilities needs extended stability. After the interruption, the effect of the initial investment will be relatively small. Only as technology advances will innovations be able to reduce external risks by providing a "ballast stone" [12]. A stable policy environment and strong internal drivers of the company will help the company move forward more steadily in the face of uncertainty.

7. CONCLUSION

This paper first introduces the macro effects of GPR and then integrates the micro-level informal institutional factor of political connections to examine the logical path through which both influence enterprise innovation performance. Based on the above analysis, the relationship among GPR, political connections and enterprise innovation performance is not linear; rather, it is a complex

correlation under the constraint of the institutional environment and enterprise characteristics. GPR has both inhibiting and promoting effects, and the actual direction depends on factors such as financing constraints, risk preference and industry characteristics. The effect of political connections is also unknown; they may reduce the impact of GPR, or they could lower the endogenous innovation drive by causing a reliance on non-market channels. The reason for this contradiction is that the effect of political connections is conditional; in different institutional environments and enterprises, the direction and strength of this effect will vary. Modification by the Institutional Environment and the Degree of Marketisation also Affect the Moderating Effect.

The above are policy recommendations. Political connections only offer support for the enterprise and cannot substitute continuous accumulation of core technological innovation capabilities. Given the development of GPR, the company should be proactive in driving innovation in the future rather than reacting to changes. Strengthen the formal institution, improve the stability and predictability of policies, reduce reliance on informal connections to a certain extent, and provide institutional support for innovation activities.

The deficiencies of this paper are mainly three. First, it is only a theoretical study and mechanism analysis; no large-scale empirical tests have been conducted to verify the universality of the results. Second, most discussions of GPR are qualitative and at a high level, lacking specific dimensions. Third, the measurement dimension of political connection is relatively uniform and fails to distinguish between different types and degrees of connection.

Future research will be carried out in the following directions: Select more specific indicators and conduct large-scale empirical tests to verify the theoretical hypothesis; examine the differences in response to GPR shocks among enterprises of different ownership and scale; integrate policy events to identify the conditions under which political connections affect innovation. Cross-country studies can also help us determine whether the three institutions are related differently in different institutional settings.

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