

Do R&D subsidies drive innovations? From the resource additionality and signaling perspectives

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Abstract

Although research and development (R&D) subsidies are key inputs for innovation, do they affect all innovation types equally and how? To answer this question, the authors first separate radical innovation from incremental innovation, and theorize that R&D subsidies not only provide a firm with additional financial resources for different innovation types but also serve as a market signal to attract equity financing. They further rely on top management team (TMT) literature to study how TMT capability interacts with R&D subsidies to affect equity financing and innovation. Integrating signaling and resource additionality perspectives with the TMT literature, the authors test their premise on over 2000 firms using the propensity matching score and difference-in-difference methods. Results largely confirm their premise, suggesting that practitioners should understand R&D subsidies' impacts on different innovations in conjunction with TMT capability and equity financing.

Subject Areas: *New Product Development and Launch, Public Policy*

Track: Innovation Management & New Product Development