

R&D subsidies, external financing, and firm-level R&D investment in an emerging market: A legitimacy signal perspective

Junqiang Li

Tongji University, China

Abstract

We investigate the signaling effect of R&D subsidies in the context of legitimacy by adding mediating effects of external financing and moderating effects of specialized industrial agglomeration. Based on panel data of listed manufacturing firms in China in 2015-2019, we confirm the inverted U-shaped relationship between R&D subsidies and firm R&D investment with a turning point of around 80 million yuan. We demonstrate that recipients in a highly specialized industrial agglomeration can steepen the inverted U-shaped relationship, especially for firms with high-level R&D investments. We also reveal the processual mechanism of external financing between R&D subsidies and firms' R&D investment and test the inverted U-shaped relationship between R&D subsidies and external financing. This study contributes to the literature on R&D subsidies and legitimacy signals and extends our knowledge of the firms' R&D investments strategy affected by the regional industry development.

Keywords: Legitimacy signal, R&D subsidies, R&D investment, External financing, Industrial agglomeration