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Firm network structure and innovation

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**Firm Network Structure and Innovation****Tuugi Chuluun\***

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**November 2016****Abstract**

This study examines how various dimensions of a firm's network affect innovation and pricing of innovation by market participants. We use board interlocks to build interfirm network and construct different network measures to capture firm centrality in the interfirm network, cohesion within firm network, and diversity, innovativeness, and propinquity of firm network. Our results show that these different characteristics of network connectedness affect firm innovation input and output, particularly for firms in relatively intangible industries. These results are robust to the use of an instrumental variables approach as well as a natural experiment of state-level changes in R&D tax credits. We also find that innovation has a positive (negative) marginal effect on corporate bond yield spreads when firms have lower (higher) connectedness, suggesting that the market perceives innovative activities by more connected firms as less uncertain. Yield spread changes around patent filings further support this finding.

Keywords: network; connectedness; innovation; R&D; board interlock; bond yield

JEL classification: G30; G31; D80; L14

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