

Digitalization, Uncertainty Perception, and Firm Innovation

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Abstract: This paper investigates how digitalization affects corporate innovation through firms' perceptions of economic policy uncertainty (FEPU). The findings indicate that digitalization reduces perceived uncertainty and promotes innovation. The effect is more pronounced among firms with higher agency costs, suggesting that digital tools help mitigate both information-processing constraints and managerial opportunism. Our study extends the literature on firm-level responses to uncertainty and provides insights for promoting innovation through digital capacity building.

Keywords: Digitalization, Economic Policy Uncertainty, Uncertainty Perception, Firm Innovation

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