

**THE IMPACT OF FORMAL POLITICAL TIES ON
DOMESTIC FIRMS' EXIT FOLLOWING
COMPETITIVE FOREIGN ENTRY
IN TRANSITION ECONOMIES**

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NATIONAL UNIVERSITY OF SINGAPORE

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To my parents, who have offered me endless support for all these years

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SUMMARY

I examine the mechanism by which political ties influence domestic firms' exit decisions following competitive foreign entry in a transition economy. Competition through the entry of MNCs in factor and product markets tends to crowd out domestic firms, whereas the same competitive pressures and knowledge spillovers can enhance domestic firms' effectiveness and performance. Evaluating the strategic reactions and resources influencing domestic firms can provide better understanding of the impact of foreign entry on domestic firms.

I focus on domestic firms' choice to exit as a strategic reaction to foreign entry. Drawing from the resource-based view, I study how domestic firms' likelihood of exit through acquisition or dissolution is influenced by one important boundary-spanning resource, firms' political ties. Political ties are firms' linkages with a country's political system, which typically consists of the government, the parliament or its equivalent legislative and representative bodies, and political parties. Political ties provide firms with access to market information, external resources, and power, which can influence how and when firms react to competitive pressures from MNC entry. I distinguish between managerial ties, which are firm executives' current or prior positional linkages with the political system, and organizational ties, which refer to organizational level affiliation with political institutions. My theory development is formed through three clusters of hypotheses. I first examine the main effects of political ties on firm exit; I then evaluate the timing issue - when political ties impact firm exit; finally, I examine how the

impact of ties on exit is contingent on environmental factors such as development of legal effectiveness and market uncertainty. I test my hypotheses on a sample of 330 firms in the Chinese TV manufacturing industry over the 1993-2003 period. The Chinese TV industry experienced substantial foreign entry after it had developed substantially, allowing a conservative test of how political ties can moderate the impact of foreign entry.

My results show that: (1) political ties significantly influence domestic firms' likelihood and timing of exit in the face of foreign competition, increasing the likelihood of domestic firms being acquired and reducing their likelihood of dissolution; (2) the origin and destination of political ties influence their impact, with ties with more proximate origins and those with greater resources and power having significantly stronger impact on firms' likelihood of being acquired; political ties that originate with organizations having more resources also have earlier impact on firms' likelihood of being acquired; (3) political ties only influence exit through dissolution in the short run, suggesting that such ties have a limited life span and do not have a perpetual impact; and (4) political ties have a stronger effect in environment with lower macro-economic development and weaker legal effectiveness and market development, and in environment with higher level of uncertainty, such that connected firms are more likely to be acquired in less weaker institutional environment and highly uncertain environments.

By decomposing the concept of political ties and providing detailed analyses of political ties and firm exit, this dissertation expands and enriches resource-based view of strategy by further expanding our understanding of political ties as a resource that can impact firm strategy and outcome. This

study also improves understanding of the impact of domestic firms' reactions to the entry of foreign competitors, pushes the research frontier from MNC-focused paradigm to a new research stream on the other side of the competition dynamics, the local firms, and provides valuable implications for firm strategy and policy perspectives.

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CHAPTER 1 INTRODUCTION

1.1 Introduction

FDI is an important driver of globalization. In recent years, governments, particularly those of developing economies, have offered significant inducements to attract FDI, as it is generally believed that the primary and spillover effects of FDI boost economic development. However, it remains less clear how domestic firms are affected by the entry of MNCs. The entry of foreign firms, which are often equipped with advanced technological and managerial know-how, increases competitive intensity in the host country, increasing the likelihood of crowding out some local firms or negatively affecting their market position. On the other hand, MNCs may also improve domestic firms through knowledge spillovers, expanding market size, creating supporting and complementary infrastructure, and improving resource allocation and utilization (Caves, 1974). Studies of FDI have tended to treat domestic firms as passive or even unimportant players in the host country, and have produced inconclusive findings of the impact of FDI on these firms across different contexts (Chang & Xu, 2006; Li & Shenkar, 1996).

I argue that the impact of multinational corporations' (MNC) entry on domestic firms is contingent on domestic firms' resources and strategic reactions, and may vary over time as a function of the environment in which the competitive dynamics are taking place. At the extremes, the entry of MNCs can eliminate domestic firms, or have no impact on them. The impact

of FDI on the domestic economy must consider such possible outcomes. Failing to consider domestic firms as active incumbent competitors to foreign entrants prevents a holistic view of FDI's impact. In addition, the issue of how domestic firms respond to the entry of MNCs is an inherently important question, raising issues pertaining to competition and the impact of various classes of resources on firm strategy and performance.

Many questions thus need to be answered. Do firms react to the entry of MNCs, and if so, how can domestic firms respond to competitive foreign entry? Will firms' resources impact how firms react? What contingencies affect how firms' react? In this dissertation, I will focus on domestic firms' exit decisions as one important strategic reaction towards foreign entry (see Figure 1.1 for my research question). Calls have been made for examining value-creating resource beyond firm boundaries (Dyer & Singh, 1998; Gulati, Nohria & Zaheer, 2000), such as incorporating political components into the resource-based view (RBV) (Boddewyn & Brewer, 1994). Therefore, aiming to contributing to both the competition theory and RBV, I attempt to answer my previous questions by linking firms' exit with an important boundary-spanning resource, firms' connections with political institutions – political ties.

*** Figure 1.1 about here ***

In this dissertation, I examine how formal political ties affect domestic firms' exit decisions following competitive foreign entry in a transition economy. Firm entry and exit are issues underpinning the competitiveness of market economies, and central to the research of industrial organization and

firm strategy. Knowing how domestic firms strategically respond to foreign entry is an important step to understand the impacts of foreign direct investment (FDI) on the domestic firms and economy. This is a particularly important issue in transition economies as domestic firms might be crowded out and displaced by foreign players, thus impacting the transition process which typically includes privatization and restructuring (Hu & Jefferson, 2002; Kosova, 2004). Therefore, it is critical to understand how domestic firms respond to foreign entry in a transition economy, and what the determining factors are.

Meanwhile, as a boundary-spanning, value-creating resource, political ties, i.e. business-government linkages, have not been systematically studied in this setting. My dissertation focuses on an important type of political ties, formal political ties. Formal ties are a relative term to informal ties, which arise from social relationships such as friendship and family ties. By formal political ties, I refer to firms' affiliation with and firm executives' current or prior positional linkages with the political institutions. My study aims to explore the relationships between political ties and firm exit following competitive foreign entry to foster deeper understanding of these issues.

1.2 Motivation and Conceptual Overview

1.2.1 Background and Motivation

How FDI impacts the host country's economy has long been an important theme in economic research. A summary conclusion from this

research stream is that domestic firms benefit from the entry of MNCs, although with substantial variation for firms in different host countries. Caves (1974) suggested three ways through which FDI improves domestic firms' productivity, by (1) enabling more efficient resource allocation in the focal industry through competitive pressures; (2) inducing a higher level of technical efficiency (X-efficiency) in the focal and complementary industries; and (3) transferring technology to domestic firms.

Recent research (Gorg & Greenaway, 2004) on the impact of FDI inflow on host economies concludes that positive spillovers from MNCs boost domestic firms' productivity through four channels – imitation of production methods and managerial practices (Das, 1987; Wang & Blomstrom, 1992), skill and knowledge acquisition by workers (Haacker, 1999; Fosfuri, *et al.*, 2001), competition for X-efficiency (Wang & Blomstrom, 1992; Glass & Saggi, 2002), and exports as an indirect gain (Aitken, *et al.*, 1997; Barrios *et al.*, 2003).

A parallel line of reasoning rooted in Industrial Organization (IO) economics argues that the entry of MNCs may threaten domestic firms' position in the market. Increased competition from new entrants threatens an incumbent's position in the market as well as its access to resources, which may in turn affect its survival and profitability (Scherer, 1980). Caves (1996) agrees that MNCs' proprietary assets and their cost or revenue-productivity advantages over domestic firms can drive the latter out of the market, or marginalize them. Aitken and Harrison (1999) argue that though technology spillovers may exist, more efficient foreign firms may draw demand from less efficient domestic firms, forcing them to cut production or crowding them out

of the market. Therefore, MNC entry can improve domestic firms' allocative and technical efficiency, but increase the threat of market share and profitability declines.

Empirical work in this area was pioneered by Caves (1974), Globerman (1979), and Blomstrom (1986). Caves (1974) found a positive spillover effect at the industry level based on cross-sectional data in 1966. Following Caves, other studies (e.g. Globerman, 1979; Blomstrom & Persson, 1983; Blomstrom, 1986; Li, Liu & Parker, 2001) consistently found a positive link between FDI and host country productivity using industry-level data. Their results show that (short-term) positive FDI spillovers exist in developing (e.g. Mexico), developed (e.g. Australia and Canada), and transition economies (e.g. China). All these studies used cross-sectional data and tested the FDI-local productivity at the industry level, obviating the consideration of differences in influences across heterogeneous domestic firms.

Studies using firm- and plant-level data, however, reveal a more complex picture of the FDI-productivity relationship. Some found a positive effect (e.g. Blomstrom & Harrison, 1999; Djankov & Hoekman, 2000; Zukowska-Gagelmann, 2000), and others no effect (e.g. Kathuria, 2000; Harris & Robinson, 2004; Kinoshita, 2001). For instance, studying firms in Venezuela, Aitken and Harrison (1999) found that foreign investment negatively affects the productivity of domestically owned plants and the gains from foreign investment seem to be entirely captured by joint ventures. Using cross-section data for 1995, Buckley, Clegg and Wang (2002) found that non-Chinese MNCs generated technological and international market access spillover benefits for domestic firms, but that overseas Chinese investors did

not provide technological spillover benefits; state-owned enterprises received negative spillover from MNCs whereas collectively-owned firms gained from foreign entrants. These studies highlight the importance of firm – both MNC and domestic – heterogeneity.

A review of this literature suggests three possible reasons for the divergent arguments and findings. First, many studies suffer from a survivor bias, as they do not evaluate firms that exited after the entry of MNCs. Therefore, those studies that based their analyses only on survived firms tend to overestimate the positive effect of foreign entry on domestic firms and economy. Despite its importance as a distinct and tractable measure of firm performance (e.g. Barnard, 1947; Mitchell, 1991), firm survival has not been systematically analyzed in this research setting (Kosova, 2004). Gorg and Strobl (2000), De Backer and Sleuwaegen (2003), and Kosova (2004) are the only studies that have analyzed the impact of FDI on firm survival or exit.

Second, prior research has generally not considered the influence of context on the impact of foreign entry. The evidence for positive foreign impact such as technology spillover on domestic firms broadly prevails across developed countries (Keller & Yeaple, 2003; Haskel *et al.*, 2001), whereas studies in developing countries show rather negative impact from FDI (Aitken & Harrison, 1999; Kathuria, 2000).

Third, improved understanding of the impact of FDI requires an evaluation of domestic firms as active competitors to the foreign entrants, as the outcomes of foreign competition are contingent on the resources and strategies of domestic players. Theoretically, it is important to study the impact of MNC entry from the domestic firms' perspective, to complement the

MNC perspective. Child (1994) warns that researchers have failed to link the MNC's perspective with studies of domestic firms. Li and Shenkar (1996) also argues that treating local partners as passive providers of relief for MNCs from local customers, biases and regulations is one of the major problems in international business research. Luo (2000), studying Chinese domestic firms' IJV partner selection behavior, calls for more attention to domestic firms, especially their strategic behavior, economic rationale, and business policies. Despite the importance of domestic firms' strategic motives and reactions in the MNC-local competitive dynamics, empirical work adopting a domestic firm's perspective is scarce, warranting great research opportunity in this field.

1.2.2 An Overview

The central issue in this dissertation is the exit strategies of domestic firms following competitive foreign entry. The issue is an important one, as FDI, particularly into emerging economies, continues to be a source of major economic and business change in host economies. Extensive research on the benefits of FDI for host country economic growth (e.g. Aitken & Harrison, 1999; Caves, 1974, 1996; Gorg & Greenaway, 2004), has been followed by a recent stream addressing benefits of FDI on MNCs (e.g. Singh, 2003). Although many studies have examined the effect of foreign presence, “we know basically nothing about competition between domestic and foreign firms” (Kosova, 2004: 3), especially how domestic firms react to the entry of MNCs. Yet, this reaction is central to the issue of the FDI impacts to the host economy and the growth of domestic firms. How domestic firms react to

competitive foreign entry, and what factors influence their reaction and subsequent performance outcomes are of paramount importance for firm and industry development, as well as for policy makers. In order to achieve long-term growth of the national economy, policy makers need to look closer at how domestic players are affected by the inflows of FDI, and tailor their FDI policies to promote the growth of indigenous firms (Huang & Khanna, 2003).

This is a particularly important concern for developing and transition economies, due to the important role played by MNCs in the technological and economic development in these countries (e.g. Meyer, 2004). On the other hand, however, domestic firms in transition economies are often least able to react to or deal with the entry of MNCs. Accustomed to operations and competition based on the scale and efficiencies of the domestic standard, firms in transition economies will face the challenge of competing against large firms with greater access to resources, markets, and experience. Most of the empirical studies focused on domestic firms in developed economies, particularly the U.S., suggesting the need for research in transition economies, which are attractive FDI host countries and which have domestic firms most vulnerable to the entry of MNCs. In a transition economy, along with the liberalization and economic reform process, how domestic firms react to the MNC entry becomes a particularly interesting and important question for the industry and national economy development (White & Linden, 2002).

As a response to calls for deeper understanding of firms' boundary-spanning relationships (Dyer & Singh, 1998; Gulati, Nohria & Zaheer, 2000) and the recent surge of interest in business-government interface (Chung, Mahmood & Mitchell, 2008; Faccio, 2006; Faccio, Masulis and McConnel

2006; Siegel, 2007; Peng, Lee & Wang, 2004; Rettberg, 2001), this dissertation evaluates the role of an important firm resource, *formal* political ties, in domestic firms' choice of exit in response to competitive foreign entry in transition economies. Formal ties are a relative term to *informal* ties, which arise from social relationships such as friendship and family ties. By formal political ties, I refer to firms' affiliation with and firm executives' current or prior positional linkages with the political institutions. Despite substantial research effort on firms' linkages with the government (Peng & Luo, 2000; Li & Atuahene-Gima, 2001; Xin & Pearce, 1996), little attention was paid to firms' *actual* ties, but rather, managerial *perception* of ties or *efforts* used to cultivate ties, which is hard to capture a holistic view on business-government interface. It is therefore important to place greater attention on the more observable ties originating of firms (Faccio, 2006; Faccio, Masulis and McConnell, 2006; Johnson and Mitton, 2003; Siegel, 2007).

This study draws from several streams of research: the competition theory, the resource-based view, social capital theory, and political economics. My central arguments are that: (1) domestic firms' ties with political institutions influence their likelihood of exit in response to competitive foreign entry; I distinguish between two modes of exit, being acquired or dissolution, (2) ties at different organizational levels (i.e. origins) and linked to different political agencies (i.e. destinations) are likely to cast different influences on firm exit and the timing of their impact may vary, (3) political ties may have different impact on firm exit across different environments, and the effects of political ties are likely to vary with economic development, institutional development, and market uncertainty.

I explore my hypotheses on a sample of 330 firms in the Chinese TV manufacturing industry in the 1993 to 2003 period. This is a suitable context, as the TV manufacturing industry in China experienced the relatively late and sudden entry of MNCs, permitting my analyses without extensive “left-censoring”. The Chinese TV industry received substantial foreign investment during the period of my study, leading to sufficient domestic-foreign competitive dynamics. The entry of foreign firms in this industry also took place after the domestic industry had grown and developed to the point of approaching international standards of design, technological and operating efficiencies. This allows a focus on the competitive aspects of the foreign-domestic interaction rather than the technological ones.

The empirical results broadly support my hypotheses. First, both organizational and managerial ties have significant effects on firm exit, facilitating firms’ decision to be acquired and preventing them from dissolving. Second, the origin and destination of political ties influence their impact: ties with more proximate origins and greater resources and power have significantly stronger impact on firms’ likelihood of being acquired; political ties that originate with organizations having more resources also have earlier impact on firms’ likelihood of being acquired. Moreover, political ties only influence exit through dissolution in the short run, suggesting that such ties have a limited life span. Finally, political ties have a stronger effect on exit in less developed economic and weaker institutional environment, and in more uncertain environments.

1.3 Overview of Contributions

This study makes important theoretical contribution. First and most important would be my contribution to studies on political ties as a firm resource. By highlighting that political resources in the form of formal ties with the political system can be valuable, my dissertation expands and enriches resource-based view of strategy by “adding a political component that is largely missing in that literature, which ignores political resources and competitive methods” (Boddewyn & Brewer, 1994: 135). Next, I decompose the concept of political ties and conduct detailed analyses on ties at different levels, and ties with different origins and destinations, which are broadly missing in the extant literature (Chung, Mahmood and Mitchell, 2008). Further, from a strategic perspective, I address the foreign-domestic dynamics from the angle of domestic firms, pushing the research frontiers from multinational perspective to domestic firm perspective.

This study has important managerial implications by providing insights into competitive reaction and implications for both domestic and foreign firms. My study also has implications for FDI policies, competition policies and regulations to support domestic industries. A policy priority of many governments is to attract FDI, as it is generally believed that FDIs have the potential to contribute to the economic development of the host country through primary and various secondary channels. However, these policies focused on attracting FDI may not be justified, especially at the firm level and in developing countries, if the entry of MNCs cause substantial exit of domestic firms which might undermine the development of the domestic

industry. If policy interventions are able to influence the amount of FDI inflow, it is critical for policy makers to attract FDI while at the same time create an encouraging environment to promote the growth of domestic firms.

1.4 Organization of Dissertation

In this section, I describe my research background and motivation, and identify the research question and context for my study. The rest of this dissertation is organized as follows. In the next chapter, I review the core concepts and studies that provide the theoretical foundation of my study. In Chapter 2, I first discuss literatures on market entry and incumbent competitive reaction, and then go on to examine the mechanism through which an incumbent's strategic reactions relate to its resource. I next review the core concepts in resource-based view (RBV) and respond to prior scholars' call for a more systematical analysis on firms' boundary-spanning resources. Next, I introduce my key concepts, political ties, and discuss firms' political ties as a resource and how this resource will influence firm strategy.

I form my propositions and hypotheses in Chapter 3. This hypothesis section can be naturally divided into three sections. I discuss the main effects in the first section. I first propose that a domestic firm's political ties will affect the firm's strategic reaction, such as their choice of exit, distinguishing exit through dissolution and exit through acquisition. I then discuss in greater detail how different types of political ties influence domestic firms' choice of exit strategy following MNC entry, distinguishing the origin and destination of ties. The second and third sections discuss contingency factors that are likely

to influence the main effects. The first contingency factor I study is timing: since when the effects of political ties start to kick in and until when will these effects fade. Finally, I explore the varying effects of political ties across environment with different macro-economic conditions and institutional development, and environment characterized by different levels of uncertainty.

The remaining chapters form two sections and a summary. In Chapter 4, I discuss my empirical context, measurement of variables and sample of study. I first describe the background of foreign entry into the Chinese market, specifically the foreign-domestic dynamics in the Chinese TV manufacturing market. I go on to discuss the economic and institutional transition in China, and how this phenomenon would affect domestic firms' strategic reactions. I then introduce my sample for this study and measurement of variables. Finally I build the econometric equations to test my research questions. Chapter 5 reports the empirical results of my study and provides a discussion on related issues. Finally, in Chapter 6, I summarize the contribution and implications of this research for research, managers, and policy makers, and provide avenues for future study.

CHAPTER 2 CORE CONCEPTS AND THEORIES

This chapter reviews the core concepts and studies that provide the theoretical foundation for this dissertation. This dissertation draws from literatures relating to entry and competition, the resource-based view, and political economics and social capital theory. The theories on market entry and competition are examined first. Thereafter, I draw from resource-based view that propose that better understanding of firm reaction to market entry can be achieved by examining heterogeneous firm resource, such as their social ties to the political institutions. Finally, I review core concepts and theories related to political ties and make an attempt to relate it to domestic firms' strategic reaction following competitive foreign entry.

2.1 Market Entry and Incumbent Reaction

2.1.1 Market Entry

Market entry into one industry has traditionally been viewed as an error-correction process, occurring when excess profits are high and causing them to fall off subsequently (Geroski, 1995). This view implies strong performance dynamics in the market, in which high profits will be bid down by new entrants until it reaches a long-term equilibrium, depending on the height of entry barriers (e.g. Geroski & Jacquemin, 1988). This view however

receives limited empirical support as studies that tracked entry-induced changes in the market share of incumbents showed only modest effect on profits (Geroski, 1990; Jeong & Masson, 1991). Another stream of research views entry also as mechanisms to stimulate growth and development in markets. Researchers in this stream suggest that high rates of entry are often associated with high rates of innovation and increase in efficiency, as entry is frequently used as a way to introduce new innovations and often encourages incumbents to cut their slacks in operation. Formal statistical analyses generally showed a positive association between entry and market innovation and productivity growth (Acs & Audretsch, 1990; Baldwin & Geroski, 1991).

Despite different views on the nature and effect of market entry, there is consensus that new entry, particularly substantial new entry, can lead to changes in the competitive environment in an industry. In fact, the entry of new firms is considered as one of the most important determinants of industry evolution (Thomas, 1999). In summary, entry can lead to the erosion of high profits and market share of incumbent firms, while at the same time introduce new and better products to the market, which is likely to induce more efficient operation processes of the incumbents. As a result, incumbents have strong incentives to respond to the new entrants (Simon, 2005; Thomas, 1999).

2.1.2 Incumbent Reaction

(a) Incumbent Reaction: Prior Research

The economics literature has devoted much research attention to the topic of market entry and incumbent reaction. These studies have evolved from determining the barriers of entry during the 1970s following Bain (1956) to more recent trend of examining how incumbents react to entry. The questions of “how” and “when” incumbents react to new entry are therefore critical to the understanding of this topic.

A summary of the “how” question from past research is that incumbents use not only price but also advertising and new product introductions as ways to deter or limit the scale of entry (Thomas, 1999). First, incumbents tend to lower prices post entry as a way to drive out the entrants or as a result of increasing market supply. Empirically, several studies have examined incumbent pricing responses to entry, yielding inconsistent results. Some find that incumbents cut prices post entry (Joskow, Werden & Johnson, 1994; Marion, 1998) while others find no response (Thomas, 1999), or even a positive response (Frank & Salkever, 1997). The evidence however suggests that price is not frequently used by incumbents to deter entry, but that marketing activities are (Geroski, 1995). Cubbin and Domberger (1988), for instance, find an incumbent responds to new entrants using advertising-related strategies in 40% of their sample. Sutton (1991) also showed that incumbents making large investments in advertising can alter the market structure, as these

investments raise the fixed cost of operating in the industry and help to promote the firms' products and facilitate output expansion.

Finally, new product development as entry deterrence has also been examined. Davis and colleagues' (2004) model suggests that the presence of new entrants (in differentiated markets) creates strong incentives for incumbent firms to differentiate their products in ways that soften price competition, thus encouraging firms to innovate. In sum, these research efforts point out that incumbent firms can respond in various ways to market entry. Moreover, firms may also respond simultaneously with more than one competitive move (Gatignon & Hanssens, 1987; Thomas, 1999).

Another important question is *when* incumbents will react to new entry. While theory predicts an incumbent response to entry, evidence shows that incumbents respond selectively (Geroski, 1995). That is, different incumbent firms may react in different manners under different conditions. The heterogeneous responses to entry may reflect varying incentives and ability to respond, which boils down to important issue of firm heterogeneity. Simon (2005), for example, documented that several firm characteristics, such as the incumbent's time in the market and its product portfolio, influence the firm's incentives to respond to new entrants. At this point, a strategic perspective – which deals directly with the firm heterogeneity issue – is thus helpful and complementary to the economic lens on the understanding of heterogeneous incumbent reactions.

The study of interfirm competition (e.g. Bettis & Weeks, 1987; Chen & MacMillan, 1992; Chen, Smith & Grimm, 1992; Karnani & Wernerfelt, 1985; Smith, Grimm & Gannon, 1992) occupies a critical position in the fields

of strategy. The key argument is that firms are not independent actors in the market, but affect each other and react to other firms' competitive actions (Smith *et al.*, 1992). A large number of studies focus on competitive dynamics *between incumbents* as a response to Caves' appeal for more research on "rivalrous moves among incumbent producers" (1984: 127), whereas incumbents' strategic reactions to *new entry* have not received deserved attention despite the intrinsically strategic nature of the question. This lack of examination thus provides research opportunities and renders potential contribution in this field.

(b) Incumbent Reaction: A Focus on Foreign Entry

The entry of foreign firms typically represents competition from a new set of competitors that can radically alter the competitive environment by introducing diverse capabilities into an industry (Ghoshal, 1987; Kogut, 1983). As foreign firms possess advantages that allow them to operate across borders (Caves, 1971; Dunning 1981), their entry into an economy is likely to increase rivalry and pressures for efficiency more than the entry of domestic firms would. These competitive pressures have a disciplining effect on domestic firms, requiring them to raise operations and efficiency to "global" standards to remain competitive, rather than to domestic standards (Caves, 1974; Lavie & Fiegenbaum, 2000; Lucas, 1993). Therefore, competition from foreign firms can be both stronger and more disputative in effect than domestic competition (Bowen & Wiersema, 2005), and thus may induce stronger responses or different from domestic firms.

Several studies examined how domestic firms react to the competitive entry of MNCs. Hopkins (2003) examined a set of response strategies – such as organizational restructuring and new distribution methods - and the timing of responses of dominant US firms to the entry of Japanese challengers. His study shows that domestic US firms that had a slower but more concentrated and aggressive response lost less market share than firms that respond quickly. Adopting a resource-based view, Bowen and Wiersema (2005) examined how increased foreign competition impacts a domestic firm's diversification strategy in the US market. They concluded that domestic firms tend to make defensive reactions towards foreign competition by diversifying less from their core businesses. Lavie and Fiegenbaum (2000) showed that inroads made by MNCs triggered domestic Israeli firms to revise their strategies, and encouraged them to engage in joint ventures and investing more in R&D and marketing capabilities. However, they also noted that competition with MNCs relegated the Israeli firms to less attractive niches (low value and low price).

Few studies have examined this question in the context of developing countries. Although it is often assumed that firms in developing countries are less able to respond to foreign entry, and are subject to high risk of failure, anecdotal evidences show that they are able to deal with foreign competition (Dawar & Frost, 1999). Scholarly research is scant. Wu and Pangarkar (2005) employed Dawar and Frost's framework and empirically examined the strategies of listed Chinese firms in various industries. They conclude that the entry of MNCs is not all that detrimental to the domestic players – some domestic firms showed positive profitability and are even able to venture abroad.

Based on the theories and findings in this research stream, it is noted that new entry, especially the entry of MNCs, is likely to induce incumbents' strategic reaction. As a first step to understand the manner and timing that domestic firms respond to competitive foreign entry in a developing economy, I next focus on one important strategic reaction of domestic incumbents, exit.

2.1.3 Firm Exit

To exit the industrial segment that has experienced increased competition is one strategic response an incumbent can take – a firm is able to decide whether and when it exits a segment. Though exit is usually taken as an outcome of the firm, to exit an industrial segment does not necessarily mean “death” or failure of the firm. By exiting a segment that has experienced increased competition, a firm may be able to shift to other segments or industries in which it can compete more effectively. This increases the firm's flexibility and extensibility in the market.

Exit is defined as when a firm discontinues its operations in the industrial segment that experienced foreign entry, or ceases operations at the corporate level. Following this definition, a firm can exit an industrial segment through two ways: through dissolution and through acquisition. Dissolution and acquisition represent distinctly different organizational outcomes in terms of organizational capabilities (Mitchell, 1994; Mitchell & Singh, 1993). Dissolution exit refers to a firm that ceases to operate at the business or corporate level without merging with another firm, including voluntary liquidation and involuntary bankruptcy. Acquisition exit refers to a firm that is

sold off, at the business or corporate level, to another firm. Dissolution is likely to destroy routines and capabilities of the firm, whereas when a business is sold, capabilities are transferred to a new owner and continue to be part of the commercial practice (Mitchell, 1994; Nelson & Winter, 1982; Freeman, Carroll, & Hannan, 1983; Wernerfelt, 1984).

The exit of a business from a product market, whether the business is dissolved or is sold to another company, is an important event because of its effect on the evolution of the market (Mitchell, 1994). Exit has been extensively studied by sociologists and various influencing factors are identified. Age and size are important internal factors that are likely to influence firms' likelihood of exit. Stinchcombe (1965) proposed that new organizations are more likely to fail because they depend on transactions with strangers, have lower legitimacy, and cannot compete as effectively as established peers. However, this "liability of newness" receives limited support by following studies. For instance, Delacroix and Swaminathan (1991) found that older wineries were less likely to shut down, and Carroll and Swaminathan (1992) found insignificant negative age influences on the exit rate of mass brewers and microbreweries. Meanwhile, studies on size and dissolution generally found that exit rate declines with greater size (Baum & Oliver, 1991; Baum & Mezias, 1992; Evans, 1987; Delacroix & Swaminathan, 1991).

Firms' likelihood of exit is also likely to be influenced by external factors, one of which is competition. Competition occupies a central role in firm survival: the differential ability of firms to obtain scarce environmental resources under competitive conditions is considered determining factor on

which firms will survive (Hannan & Freeman, 1977). From an ecological perspective, increase in number of organizations increases the likelihood and intensity of competition between organizations and among population of firms, which may in turn increase firms' likelihood of exit (Hannan & Freeman, 1989). Increased competitive intensity in an industry caused by new entry can lead to the erosion of profits (Geroski, 1995), and is likely to threaten an incumbent's position in the market as well as its access to the finite set of resources, which may in turn affect its likelihood of survival (Scherer, 1980; Hannan & Freeman, 1989). An incumbent may choose to exit the attacked segment as it perceives the environment as highly competitive, which could lead to the conclusion that trying to survive is more costly than to completely disengage from the competition.

New entrants normally introduce new capabilities that differ substantially from existing capabilities of product market incumbents (Schumpeter, 1934; Tushman & Anderson, 1986). Entry of multinational firms represents a form of experiment by which new capabilities are introduced into the host country market by adapting routines from other contexts. The entry of MNCs thus tends to induce a major change in the competitive environment to the host market, which altered the industrial and competitive structure by creating additional competition for resources and markets. Caves (1996) contended that the proprietary assets of MNCs and their cost or productivity advantages over the domestic firms can drive the latter out of the market, increasing the likelihood that domestic incumbents are likely to exit following the entry of MNCs.

2.1.4 A Summary

The review of the literatures on market entry and firm exit leads to the following conclusions. First, new entry, especially entry of MNCs, is an important phenomenon that changes the competitive environment of the industry and is likely to induce strategic responses from incumbents. Second, to understand how and when incumbents react to new entry requires the complementary strategic perspective, which places competition as a central issue yet deals little with incumbents' strategic reaction to competitive entry. Third, a firm's resources are associated with its incentives and ability to adopt strategic reactions. More recent studies on resources and competitive response suggest that a firm's resources allow the firm to adapt to "unanticipated and uncontrollable changes" (such as the entry of foreign competitors) and search for new "profit-making or threat reducing opportunities" which can be redeployed to combat new competitive threat (Venkataraman, Chen & MacMillan, 1997). A summary conclusion from this stream of research is that a firm's resources are related to the firm's ability and incentives to take actions in response to the changed competitive environment.

2.2 Resource-based View (RBV)

In this section, I draw from resource-based view of strategy and detail why political ties are a value-generating resource and how it can affect firm strategy, such as exit decisions.

2.2.1 RBV: The core of the theory

The resource-based view (RBV) is central to strategy field in answering the fundamental question why firms differ in their conduct and profitability (Barney, 1991; Penrose, 1959; Rumelt 1984, 1991; Wernerfelt, 1984). In essence, this theoretical perspective views firms as bundles of heterogeneous resources comprising tangible and intangible assets (Penrose, 1959). The source of enduring sustainable competitive advantage then lies in those resource bundles that are both valuable in the marketplace and specific to the firm – which is inimitable, and not readily substitutable (Barney, 1986, 1991; Dierickx & Cool, 1989; Peteraf, 1993; Rumelt, 1984). These heterogeneous and valuable resources provide different firm-specific capabilities through organizational processes (Amit & Shoemaker, 1993) which in turn influence firm strategy. Therefore, the key dimension of firm's competitive strategy is, making choices about building and leveraging the firm's strategic resources (Dierickx & Cool, 1989; Penrose, 1959).

The search for competitive advantage has focused primarily on such resources inside the firm (Barney, 1996), however, “critical resources may span firm boundaries”, and may be embedded in a firm's boundary-spanning relationships (Dyer & Singh, 1998: 661). Gulati, Nohria and Zaheer also acknowledged that “the search for the source of value-creating resources and capabilities should extend beyond the boundaries of the firm”, as this “presents a novel perspective for the RBV and answers an important question emanating from the literature as to the *origin* of value-generating resources” (2000: 208).

In fact, a firm's linkages with external institutions can be thought of as creating inimitable and non-substitutable value as a resource by itself and as a means to access inimitable external resources (Gulati *et al.*, 2000). Specifically, by virtue of firms' external linkages being idiosyncratic and created through a path dependent process (Gulati and Gargiulo, 1999; McEvily & Zaheer, 1999), they are difficult for competitors to imitate or substitute. Moreover, a firm's external ties allows it to access other key resources from its environment, such as information, capital, goods, services and so on that have the potential to maintain or enhance a firm's competitive advantage. Since these resources being accessed are themselves idiosyncratic, generated through the combination of unique networks the firm possesses, they too are relatively inimitable and non-substitutable. Thus together, the firm's external ties, and the resources they allow the firm to tap into, can serve as a source of sustainable competitive advantage. Gulati (1999) refers to these as "network resources". Thus, from the perspective of the RBV, an important source for the creation of inimitable value-generating resources lies in a firm's network of relationships. My dissertation, by focusing on one particular type of boundary-spanning firm resources – firms' political ties, addresses an important gap in our understanding of the determinants of firm exit following competitive foreign entry. In the following section, I will discuss theories and findings on political ties.

2.3 Political Ties

2.3.1 Definition

The research of social networks takes into consideration that economic relations are embedded within larger social, political and legal context (Granovetter 1973, 1985) and deals with the significance of relationships as a resource for social action (Bourdieu, 1986; Burt, 1992; Coleman, 1988, 1990; Jacobs, 1965; Loury, 1987). Deeply rooted in sociology, this stream of research first appeared in Jacobs' (1965) community studies, which proposed that networks of strong, crosscutting personal relationships that developed over time are of paramount importance in providing basis of trust, cooperation and collective action, and is critical for the survival and functioning of a community. Following research works applied this concept in studies on the development of human capital (Coleman, 1988; Loury, 1977), geographic regions (Putnam, 1993, 1995) and nations (Fukuyama, 1995).

The application of social network theory is also gaining importance in organization studies. In general, social ties are taken as another dimension to help explain the differential success of firms in their competitive rivalry: the actions of economic actors can be greatly facilitated by their ties with other social actors (Adler & Kwon, 2002). The social structure underlying the concept of social capital is rooted in social relations in which social exchange such as favors and gifts are exchanged, which is different from market relations in which economic exchanges such as goods and services are exchanged (Adler & Kwon, 2002; Blau, 1964; Homans, 1974). Drawing from

studies by Baker (1990), Bourdieu (1985), Lin (2001), Adler and Kwon (2002), and Nahapiet and Ghoshal (1998), social ties are the aggregate of the actual or potential resources that an actor derives from specific social structures and can be mobilized in the actor's purposive actions.

One distinct social tie is between organizations and the political system. Recent cross-country studies (Faccio, 2006) show that political connectedness is a widespread and important phenomenon across economies. In her pioneering paper, Anne Krueger (1974) addressed the business-government interface, and pointed out that entrepreneurs obtain access to business license by spending resources on politicians such as hiring the politician upon retirement. Following studies on political connections have defined political ties in various ways. For example, a firm can be connected to the political institutions by the personal political experience of the top management team or directors (Agrawal & Knoeber, 2001; Bertrand, Kramarz, Schoar, & Thesmar, 2004; Chung *et al.*, 2008; Hillman *et al.*, 1999), by family and social relationships with top politicians (Chung *et al.*, 2008; Fisman, 2001; Gomez & Jomo, 1997; Johnson & Mitton, 2003), or coalition between entrepreneurs and political leaders (Choi & Zhou, 2001).

Drawing on Faccio (2006) and Chung *et al.* (2008), I define a firm's *formal* political ties as its formal affiliation with a country's political system or/and positional overlaps between firm executives and the country's politicians. By political system, I refer to the set of political agencies, which normally consists of the government, the parliament or its equivalent legislative and representative bodies, and political parties. Following this definition, a firm can be connected to the political system through two ways:

(1) the firm is affiliated to the political system at the organizational level, or (2) the firm's owners or members of its leadership are members of legislatures, hold leadership positions such as minister or mayor in government, or are member of the administrative structure of the ruling party. The *formal* ties are different from informal ties, which are characterized by complex social relationships such as friendship and family ties. Formal ties are close yet different from *guanxi*, which refers to "a web of connections to secure favors in personal and organizational relations" (Park & Luo, 2001:455).

The key attribute of a formal political tie is the existence of a relationship that provides the firm with access to a political institution that provides the firm with actual or potential privileged access to a resource that it would not otherwise have. The resource access benefits of political ties will be detailed in the following section.

2.3.2 Effects of political ties

Political ties are a form of social ties that provide the focal actor with information and influence benefits. Social ties facilitate firms' access to broader sources of information and improving information's quality, relevance and timeliness (Adler & Kwon, 2002). Social relations can serve as a vehicle for accessing and disseminating information (Nahapiet & Ghoshal 1998). It is often less costly and more efficient than more formal mechanisms. One such example is that tacit information is shared efficiently through informal networks (Nahapiet & Ghoshal 1998; Tsai & Ghoshal 1998). Studies on inter-organizational relationships demonstrate that inter-organizational networks

facilitate information sharing and knowledge acquisition (e.g. Ahuja, 1996; Powell & Smith-Doerr, 1994).

Next, social ties also provide influence and power. Such influence and power enable the focal actors to get things done and achieve their goals (Coleman, 1988). Burt (1992, 1997) discussed the power benefit of external ties by studying the network locations of entrepreneurs, and argued that entrepreneurs spanning structural holes are more powerful as they control projects connecting different groups. As a special social tie, political ties also confer valuable reputation and status which brings social legitimacy and power to the connected firm. As Wank (2002: 106) describes, “spreading knowledge of these ties and links among the populace through gossip and publicity could enhance perceptions of the entrepreneur’s connections to officialdom, eliciting responses of deference and awe in interactions”. An improved reputation through network ties to political actors can in turn lead to privileged access to outside finance and technology.

Political connectedness may also provide firms with benefits other than information and influence provided by social ties in general. Politically connected firms have greater access to resources social political effectiveness. First, connections between a firm and the state not only act as information conduit, but also provide critical material resources and opportunities (e.g. government contracts, subsidies, and loans from government-owned banks) that government controls (Shleifer & Vishny, 1993, 1994; Backman, 1999; Dinç, 2002). Second, politically firms benefit from preferential treatment by government policy such as lighter taxation (De Soto, 1989) and reduced regulation or adverse regulatory decisions for rivals (Stigler, 1971; De Soto,

1989; Leff, 1964). Faccio's (2006) cross-country studies found that politically connected firms differ sharply from those not connected: on average, leverage is higher in connected firms, and these firms also enjoy lower taxation, and they display much greater market power.

Political ties are not established without *costs*. First, some political ties may require considerable investment in cultivating the relationship, and all may require some form of investment to maintain the relationship. As with any type of expensive investment, investment in political ties may not be cost efficient in certain conditions. There are considerable investments in information sharing, gift giving, and provision of privileges, and the other concrete mechanisms through which ties are established and maintained. Bian (2001) reports the common practice of giving banquets in China in return of favors. In some cases, firms may even sacrifice considerable economic gains to maintain their political ties, with the expectations of greater future returns. Second, there may also be greater opportunity costs in relying on political connections compared with using market mechanisms, especially when formal markets have already emerged (Uzzi, 1996). Heavy reliance on social networks has been criticized as to reduce the flow of new ideas into the group, and result in parochialism and inertia (Gargiulo & Bernassi, 1999). As Powell and Smith-Doerr (1994: 393) put it, "the ties that bind may also turn into the ties that blind". Costs of connections may be so great as to offset benefits (Faccio, 2006). Hellman, Jones and Kaufmann (2000), for example, find no evidence of better performance among firms engaged in administrative corruption.

2.3.3 Political Ties as a Resource

Linkages to political institutions are one type of social ties. Identifying firms' political ties as a firm resource will enrich the framework of RBV by introducing the social and political relationships as origins of competitive advantages. Strategy studies and RBV studies generally assume that the resources that form distinctive competences of firms are essentially economic and organizational in nature but not political (Boddeyn & Brewer, 1994). When evaluated, political factors very often appear to be viewed as constraints (e.g., Conner, 1991: 134). In other words, the means acquired and used to gain rents, as the aim of strategic behavior, are purely "intraeconomic" (Etzioni, 1988: 218-219). Therefore, incorporating political ties as a firm resource expands and enriches the resource-based view of strategy by "adding a political component that is largely missing in that literature, which ignores political resources and competitive methods" (Boddeyn & Brewer, 1994: 135).

Political ties fit right into the criteria of resources, namely, valuable, rare, inimitable, and non-substitutable. Political ties are either endowed (e.g. ownership ties) or created through idiosyncratic, path-dependent process (e.g. friendship ties). Besides, how political ties are cultivated and take effect are often more covert in nature, whether legal or not (Boddeyn & Brewer, 1994). Therefore, barriers to imitation (Reed & DeFillipi, 1990) may be higher for political resources due to the lower visibility (Etzioni, 1988: 220). Through its ties with political institutions, a firm is able to access critical resources from its environment, such as information, capital, subsidies and so on, which are

likely to be idiosyncratic, generated through the combination of unique ties of the firms, and are therefore also relatively inimitable and non-substitutable. In sum, the firm's actual political ties, together with the potential resources that its ties allow the firm to tap into, are a valuable resource and can serve as a source of sustainable competitive advantage.

2.3.4 Political ties and firm strategy

As resources form the basis and motive for competitive strategy (Penrose, 1959; Peteraf, 1993; Teece, 1982; Wernerfelt, 1984) and play pivotal roles in firms' competitive strategy, firm strategies are designed to make the most effective use of these resources (Grant, 1991). Similar to other resources, political ties as a resource do not constitute an end in itself for organizations, but rather it is a means for firms to achieve strategic objectives (Boddeyn & Brewer, 1994).

While the importance of political ties are recognized, studies directly examining how a firm's strategy is influenced by its political ties are scant (Chung, Mahmood & Mitchell, 2008; Siegel, 2007; Peng, Lee & Wang, 2004; Qian, 2004). It has been shown that politically connected keiretsu managers have been able to fight off reforms in response to pressures from the U.S. government to open up Japanese market (Gerlach, 1992; Fligstein, 1996). Setting his study in an emerging economy, Korea, Siegel (2007) showed that political connectedness is one of the most significant determinants of firms' international alliance formation, and the positive effect held even after the country's deep liberalization. Research also views political ties as a resource

that warrants repeated market entry and contributes to the emergence of conglomerates in emerging economies (Peng, *et al.*, 2004). Empirically, Qian's (2004) study on listed Chinese firms showed that social and political capital exerts substantial and complex influence on firms' diversification strategies. Chung, Mahmood and Mitchell (2008) reported that Taiwan business groups' political ties have been an important driver of group diversification both before and after liberalization.

2.4 Conclusions of Literature Review

2.4.1 Political ties: A summary

The above review permits the following conclusions. First, political ties are a potentially valuable resource, and may provide access to other resources for the firm. Second, connections with political institutions provide benefits to the firm, such as information, physical resources and social status. Finally, firms' political ties as a resource influence their strategy formulation.

2.4.2 Linking political ties with incumbent reaction

To conclude this chapter of literature review, I intend to link two distinct streams of research, incumbent reaction and political ties. The examination of the literature on entry and reaction shows that incumbent firms react to market entry in varying manners. The understanding of whether and when an incumbent reacts to new entry in certain way requires a close

examination of the role of firm resources. Therefore, focusing on firm resources as a determinant of incumbent reaction is logical and desirable.

The review of RBV and theories on political connection points out that, political ties are a valuable resource that spans across firm boundaries and provide a non-economic, political dimension to explain firm strategy and performance. Political connection is a widespread and important phenomenon, especially in environment with high competitive intensity and uncertainty, which is, for example, characterized by industry with substantial or sudden entry of MNCs. The impact of political ties on firm strategy is however not systematically examined. The resource-based view thus provides a conceptual basis for relating the above two phenomena such that incumbent firms' reaction to new entry can be explained by their political ties.

Empirically, the review indicates that in spite of the widespread phenomenon of political connectedness, there are few studies examining how political ties affect firm strategy, particularly, how politically connected firms vis-à-vis non-connected firms react to competitive foreign entry. In the following chapter, I will form propositions and hypotheses to answer the question how domestic firms' political ties relate to firm exit under various conditions.

CHAPTER 3 PROPOSITIONS & HYPOTHESES

In this section, I focus on domestic firms' exit as a strategic reaction to foreign entry, and form propositions and hypotheses on the relationship between exit and firms' political ties. First, I examine the main effect of political ties on firm exit. To do so, I first study why some domestic firms are more likely to exit the industry, and how political ties influence firms' exit decisions in this process. Next, I distinguish different types of political ties based on the origins and destinations of ties, and evaluate their effects on firm exit. Specifically, I examine the effects of ties at organizational and managerial level, as well as ties to political agencies with various resources and power, on firm exit. Next, adopting a dynamic view on the effects of political ties, I study the timing effects of political ties: till when the effects of ties will start to decay and since when the effects of (different types of) ties will start to kick in. Finally, I explore environmental contingency factors upon which the values of ties and firm strategies depend. Specifically, I examine how the value of political ties varies across environment with varying levels of macro-economic development, institutional development and market uncertainty originated from transition process.

3.1 Political Ties and Exit

3.1.1 Likelihood of Exit

As a form of social ties, political ties diminish a firm's likelihood of failure in competition by providing resource and legitimacy buffering. First, a firm gains access to different resources through its engagement in various kinds of relationships (Gabbay & Leenders, 1999), such as financial (e.g. Uzzi & Gillespie, 1999), technological (e.g. Stuart, 1999), and human (e.g. DiMaggio, 1992) resources. For instance, government leaders may draw on their own fiscal budget to assist firms that run into financial distress or under security litigation. These resources in turn insulate the firm from environmental turbulence, which reduces chance of failure. In addition, ties provide legitimacy and status that may reduce firms' likelihood of failure when facing environmental threats (DiMaggio & Powell, 1983). Connected firms also enjoy higher social legitimacy and status, and are more able to withstand or oppose threats from competitors. Ties with political institutions are thus critical for firms' survival and success (Luo & Chen, 1997). Firms that are able to gain access to the political institutions may benefit from a reduction in uncertainty, reduced transaction costs, and increased survival (Hillman *et al.*, 1999).

Empirical studies have shown that political connectedness enhance firm survival (e.g. Hillman, Zardkoohi & Bierman, 1999; Fisman, 2001; Johnson & Mitton, 2003; Peng & Luo, 2000; Roberts, 1990). For example, Johnson and Mitton (2003) found that firms with political connections

survived and even capitalized during a major financial crisis as a result of government-imposed controls during that period. Faccio, Masulis and McConnell (2006) also showed that firms that enjoy strong political connectedness are more likely to be bailed out by government when they encounter economic turbulence, thus being less likely to fail. In conclusion, to be connected with the state in regulation or protective legislation is important for firms to increase their chance of survival in competition (Fligstein, 1996).

External ties are found to be most beneficial in environments when competitive intensity is high (Baum & Oliver, 1991). As competition increases, resources become increasingly scarce. At the same time, firms need to exploit environmental resources to co-opt sources of environmental uncertainty, to achieve competitive advantage (Child, 1972; Pfeffer & Salancik, 1978). Better connected firms are more able to mobilize resources and social support, reducing uncertainty following the emergence of foreign competition, thus obtaining greater survival advantage over their unconnected peers. For instance, Fischer and Pollock (2004) showed that an organization's ties can have long-lasting effects on a firm's life chances at the time a transformational event such as IPO activities. With the entry of MNCs into the host country, intensive competition for suppliers, employees and customers may place the very survival of the less efficient domestic firms at stake (e.g. Aitken & Harrison, 1999; Caves, 1974, 1996). Political ties thus become helpful in highly competitive and hazardous environments, as they may help to protect domestic firms from failure. The concrete buffering effect of political ties may arise from a variety of factors, such as government support and regulations, access to outside resources and information, and trust from the public. This

line of reasoning leads to the conclusion that political ties provide resources and legitimacy buffering and enables connected firms to withstand the competitive pressure from foreign entrants.

On the other hand, there are costs in building and maintaining political ties, including costs of offering banquets and gifts, relying on politicians rather than the market, and letting the government officials to intervene into business decision-making. For example, it is a common practice for entrepreneurs in China to give free shares and lavish entertainment to officials at local or central authorities, which may in turn drain the finances of the firm as well as hamper its efficient management (Tsang, 1996). The maintaining costs and opportunity costs in relying on political ties instead of market mechanism may be so great as to offset the benefits (Faccio, 2006). Specifically regarding organizational failure, Uzzi (1996) has shown that relying solely on external networks vis-à-vis arm's-length transactions and devoting resources at a rate that exceeds firm's capacity may lead to a network that is out of step with the environment, and which may ultimately lead to organization failure. In addition, a large number of ties may even involve politicians with divergent interests, which is likely to increase the costs of maintaining ties. Therefore, a firm with more ties may not be able to survive longer, and may be under greater risk of exit, if the costs of maintaining political ties exceed their contributions.

To summarize, as a type of social ties, political ties provide resource and legitimacy to connected firms following substantial competitive entry. In parallel, the effects of political ties on firms also depend significantly on the maintaining and opportunity costs of these ties. For some firms these costs

may not be excessively large if they are only involved in a few numbers of ties. However, as the numbers of political ties increase, such costs are likely to increase more than proportionally, which may even involve politicians with divergent interests. Therefore, the impact of political ties on firm exit is likely to be non-monotonic. The possession of a few ties will be associated with advantages greater than costs, but beyond an optimal level, such ties may imply greater costs than benefits. This leads to the conclusion that the hazard of exit will first drop with the number of ties, but beyond some optimal level, additional political ties will be associated with a rise in hazard of exit.

Hypothesis 1. A firms' likelihood of exit following substantial foreign entry will be curvilinearly related to its possession of political ties. The hazard of exit will first drop with the number of ties, but beyond some optimal level, additional political ties will be associated with a rise in hazard of exit.

The above hypothesis however assumes that the negative aspects of political ties are either not clear to managers, or occur due to factors beyond managerial control, because rational managers would calculate their gains and costs, and would not choose suboptimal high level of political connections. In real life, however, managers still try to build as many political ties as they can, simply because it is difficult to estimate the optimal number. Moreover, ties are cultivated as an option, and it is not clear how valuable they will be after the fact. For these reasons, a linear negative relationship between political ties and firm exit is less likely.

3.1.2 Mode of Exit

To further understand the mechanism through which a firm's political ties affect its likelihood of exit requires better understanding of exit. A firm can exit a field through dissolution or acquisition. Acquisition and dissolution represent different types of exit, and are likely to be driven by different factors (Chang & Singh, 1999; Freeman, Carroll & Hannan, 1983; Mitchell & Singh, 1993). While dissolution may be a measure of overall failure (Mitchell, 1990); exit by acquisition may be a sign that a firm possesses valuable resources, but lacks the organizational resources and capabilities to leverage them.

Exit through acquisition can be a desirable strategic choice following foreign entry. Exit by being acquired makes possible the recovery of at least part of a firm's costs that, otherwise, will be irrevocably sunk (e.g. Jovanovic & Rousseau, 2003). Exit through acquisition thus allows the firms to exit with lower costs, increasing their mobility and also the contestability in the market, thus their willingness and incentive to drop out.

Politically connected firms are more likely to exit through acquisition in response to foreign competition. Serving as an information conduit, political ties that a firm possesses can help the firm to identify potential sell-off opportunities and buyers, thus facilitating efficient transactions. More importantly, the political resources embedded in a connected firm's formal and informal ties may be valued by potential acquirers who are seeking to establish themselves in the industry and economy (Carney & Zhang, 2005). Attempts by government agencies to rescue or bolster domestic firms facing intense foreign competition through buyouts are more likely to be channelled

to firms with stronger political connections. Less positively, owners or managers of politically connected firms may use their ties to expropriate residual resources from their firm through non-market disposal of the firm (Johnson, La Porta, Lopez-de-Silanes & Shleifer, 2000). Therefore, I expect that a firm with stronger political ties to be more likely to exit by acquisition than a firm with weaker ties after substantial foreign entry.

Hypothesis 2a. A domestic firm's likelihood of being acquired following substantial MNC entry is positively related to its possession of political ties.

A firm without political ties is less likely to benefit from positive intervention, and so is less likely to withstand foreign entry or be acquired as part of a rescue. Hence it is more likely to exit through dissolution than firms with stronger political ties.

Hypothesis 2b. A domestic firm's likelihood of exit through dissolution following substantial MNC entry is negatively related to its possession of political ties.

3.2 The Impact of Different Types of Ties

Focusing on formal political ties, I distinguish different types of ties based on their origins and destinations. The origin of ties refers to "through whom the firm is connected", while the destination of ties refers to "to whom is the firm is connected". Based on origins of ties, I distinguish two types of ties, organizational ties and managerial ties. Organizational ties refer to firms' affiliation with the political system at the organizational level, while

managerial ties refer to firms' top executives' positional overlaps in the political institutions. Based on destinations of ties, I study political ties linked to political agencies with different levels of resources and power. Due to the different natures of these ties, and different resources embedded in them, I expect them to have different effects on domestic firms' exit.

3.2.1 Origin of ties: Organizational ties vs. managerial ties

Following my definition of political ties, firms can be connected to the political system through the firm-level organizational ties or/and individual-level managerial ties. Examples of important way for a firm to be connected with the government are government ownership (Qian, 2004) and affiliation with government ministries or political parties (Miner *et al.* 1990). It is noted that the strongest connections are seen in large direct financial ownership positions by senior politicians and government officials (Faccio, 2006). In some countries, governments own stakes in publicly-traded firms and may have a vested interest in the firm's survival (Faccio *et al.*, 2006). For this reason, such firms may be more likely to receive preferential treatment and intervention from the state.

Moreover, in countries that are experiencing market-oriented transition, the coexistence of non-state-owned and state-owned enterprises (SOEs) is common. In these transition economies, where the markets are imperfect and the market-supporting institutions are weak, SOEs enjoy many advantages. For instance, they may have access to the markets for certain inputs that are not easily accessible to private firms, and may even enjoy monopoly profits in

certain highly regulated industries such as the telecommunication industry. The state may also use its power to help SOEs in contract enforcement, since the legal system in transition economies does not function well. Empirical evidence also shows that state-owned firms are more likely to survive than their unaffiliated counterparts in transition economies (Li, Zhang & Zhou, 2005).

Managerial ties in this study are defined as the position overlap between a firm's top executives' with the political institutions. Among various social networks of a firm, management level networks are the ones that can exert a strong effect on strategic choices (Burt 1997; Child 1972; Eisenhardt & Schoonhoven, 1996; Granovetter 1985; Geletkanycz & Hambrick 1997; Hambrick & Mason 1984; Peng & Luo 2000). Managers all over the world devote considerable amount of time to cultivating external ties (Mintzberg, 1973) and maintain a "disproportionately greater contact with government officials" in order to co-opt sources of environmental uncertainty (Child, 1994: 154). Conceptually, managers' linkages with government may lead to better performance of the firm (Nee, 1992; Walder, 1995). Empirically, Luo and Chen (1997:14) reported that managerial ties have a "systematic and positive effect" on firm performance. Peng and Luo (2000) supported the argument by showing that managers' relationships with the government have strong and positive effect on firm performance.

Following my arguments in the previous section, both organizational and managerial ties facilitate connected domestic firms in selling off and prevent them from dissolving. Despite the significant influence of both ties, I

believe that organizational level ties may cast stronger effects on domestic firms' exit decision than managerial ties.

First, the government has more control in firms affiliated at the organizational level, either through direct ownership control or indirect administrative control. This allows more government intervention in the firms with organizational linkages. For instance, the government exerts control over the firms through controlling its board (Fan & Wong, 2005) and through setting up corporate structure that facilitates direct intervention (Fan *et al.*, 2004). Thus for these firms the firm strategy to a large extent is influenced by the government's political and economic goals. On the other hand, stronger control also comes with more support from the state in firms with organizational-level political connections. For instance, opportunities such as bail-out or acquisition by foreign firms are more likely to be channeled to firms owned by or affiliated to political agencies.

This greater intervention and support is more evident for firms' exit through acquisition in transition economies, which are in the process of privatization, namely selling off government ownership of SOEs to private investors. Different from other transactions, there are normally three parties involved in the transaction of SOEs, the acquirer, the SOE, and the government. Due to its multiple objectives in SOEs, including meeting government' social and political goals such as infrastructure development and providing relief for fiscal and unemployment problems (Lin *et al.*, 1998), government would intervene the acquisition of SOEs both through its general economic policy and the deal terms (Uhlenbruck & De Castro, 2000). Therefore, in transition economies, state-owned firms are more likely to

receive government attention and intervention following competitive foreign entry.

Second, political ties at the organizational level are more or less “endowed” resources, whereas managerial resources are more transferable and tradable resources, and could be purchased from political markets (Boddeyn & Brewer, 1994). Therefore, being a harder-to-imitate resource, organizational-level ties such as state ownership or government affiliation may have even stronger effect on firm strategy, such as firms’ exit decisions. Empirically, Miner *et al.* (1990) showed that, even if financially independent of party intervention, Finnish newspapers affiliated with political parties exhibit a lower rate of failure. In sum, considering the greater support and control the government provides to firms connected at the organizational level, organizational ties will cast a stronger effect on firms’ exit decisions. Hence:

Hypothesis 3a. The impact of political ties on reducing domestic firms’ likelihood of dissolution exit following substantial MNC entry will be greater for organizational ties than managerial ties.

Hypothesis 3b. The impact of political ties on increasing domestic firms’ likelihood of being acquired following substantial MNC entry will be greater for organizational ties than managerial ties.

3.2.2 Destinations of Ties

Sociology literature suggests that differences in destination of ties may be critically important. In social network research, Lin, Vaughn and Ensel (1981) suggest that it is not how many people you know but whom you know that is the critical factor in explaining variation of occupational status

attainment. While the strategy literature recognizes the importance of social and political ties, scant studies have directly assessed how different power sources of ties may influence firm strategy and performance. The recent study by Chung *et al.* (2008), being one exception, noted that the impact of political connections on firms depends on the relative power of different actors in the political regime.

Resources and power are not equally distributed amongst political institutions and actors. In Coleman's example of the legislature, some legislators are more powerful and influential than others, because they have extra resources, have built up a set of obligations from other legislators and thus can get legislation passed (Coleman, 1988: S103). Destinations with more resources are able to provide the focal firm with greater benefits such as information with higher quality, greater relevance and timeliness. Since the value of ties comes from its actual resources and access to potential resources, it is natural to believe that political destinations with better resources and greater access to potential resources will be able to provide connected firms with greater survival advantages, or greater opportunities to sell off. Thus, I propose that

Hypothesis 4a. The negative effect of domestic firms' political ties on their likelihood of exit through dissolution is greater for firms with ties linked to destinations that have greater resources.

Hypothesis 4b. The positive effect of domestic firms' political ties on their likelihood of being acquired is greater for ties linked to destinations that have greater resources.

I will explore two manifestations of political power and resources, namely, the levels in the political hierarchy, and the specific political power sources in Chapter 4, when I discuss the political structures of my empirical context.

3.3 A Dynamic View on Effects of Political Ties

3.3.1 The “Until when” Question

The influence of political ties is not static. The buffering effects against competition of political ties on domestic firms may not be sustainable. First of all, political ties allow the connected firms to survive and operate with a lower efficiency due to easier resources access and negative intervention of political goals. Extra resources allow the connected firms to operate at a lower efficiency than other firms to withstand threats from their competitors (Miner, Amburgey & Sterns, 1990). The resource-buffering may take effect against competitive threats, whereas running at a low efficiency may eventually lead to failure. Besides, connected firms usually need to compromise their profit maximization with political goals placed on them, which may increase the hazard of failure in the long run. The politicians’ compensation and promotion are affected by their achievements in various social and political objectives. For instance, it is important for the politicians to improve the employment and fiscal conditions under his/her jurisdiction, building relationships with colleagues and superiors by trading favors (Fan & Wong, 2004). However,

achieving these goals may not help or jeopardize firm efficiency and profit maximization goal.

Further, connections to the political agencies may create a new vulnerability to the source of buffering, making firms subject to the whim or fate of the resource-supplying institutions (Pfeffer & Salancik, 1978). For instance, a politically connected firm may be able to obtain government contract thus survived competition following competitive foreign entry; in the long run, however, the value of ties that used to insulate the firm from external turbulence may disappear if the politician loses his/her power in the political hierarchy. Therefore, political ties that used to reduce uncertainty may have a diminished effect on firms, or even turn against the firm in the future and increase the uncertainty due to shift of political power.

Therefore, as a resource, political ties do not have perpetual effect on firm exit and dissolution exit, and has its limit up to a point where the buffering and insulation effect may eventually disappear. So the political ties will allow the connected firms to survive until it is acquired, or dissolved. In conclusion, political ties are more likely to exert *immediate* effects on firm exit and exit through dissolution. As to the effect on long-term exit of political ties, I leave the question open in my empirical analysis. Accordingly, I propose that

Hypothesis 5. The effects of political ties on firms' likelihood of exit through dissolution following substantial foreign entry decline over time.

3.3.2 The “Since when” Question

Not all ties impact firm exit simultaneously. In addition to stronger impact, I also expect political destinations with greater resources will have an earlier impact on domestic firms’ more desirable strategic choice, namely, being acquired. Chung *et al.* (2008) found that business groups in Taiwan connected with the KMT party diversified more extensively, whereas linkages to legislators and government officials have no effects on diversification. This study did not distinguish between earlier and later impact of different ties. I expect that more powerful destinations will have an earlier impact on domestic firms’ likelihood of being acquired because they allow for immediate access to information and resources, as well as political support for the acquisition deal. Simply put, more influential political actors can get things done faster. In contrast, politicians with weaker access to or less direct control over resources may also provide value in acquisition deals but which will take longer to influence the likelihood of being acquired of their favored firms. Thus, destinations with greater resources are likely to have an earlier impact on domestic firms’ likelihood of being acquired than destinations with fewer resources.

Hypothesis 6. Ties linked to political destinations with greater resources will have an earlier impact on domestic firms’ likelihood of being acquired.

The value and influence of political ties are not universally equal. For instance, prior studies have suggested that Party membership of private entrepreneurs enhance firm performance more in Chinese provinces with a

less developed market (Li, *et al.*, forthcoming). Therefore, a more intriguing and important question is: when and where do ties matter more? In the following sections, I explore two sets of boundary conditions of the tie-exit relationship, namely the value of ties across economic conditions and over the process of market and institutional transition.

3.4 Political Ties across Economic Conditions

I argue that the effect of political ties on firm strategy is likely to be stronger in regions with less developed macroeconomic conditions. Resources are limited in less developed regions, so firms need to compete harder for environmental resources. Firms' external linkages are argued to be most beneficial under competitive conditions (Baum & Oliver, 1991). Therefore, in regions with limited resources to distribute and firms are competing for such resources, those with better linkages to the government are more likely to mobilize resources as well as social and political support, thus are more likely to have a survival advantage over their unconnected competitors. Further, the enhanced ability of connected firms is more likely in transition economies, where resources are still greatly controlled by the state. Thus, I argue that ties with the government become more important in less developed regions compared with in regions with more resources to distribute.

Hypothesis 7a. The impact of political ties on reducing domestic firms' likelihood of exit following substantial MNC entry will be greater, the lower the rate of economic growth in a region.

Hypothesis 7b. The impact of political ties on reducing domestic firms' likelihood of dissolution exit following substantial MNC entry will be greater, the lower the rate of economic growth in a region.

Hypothesis 7c. The impact of political ties on increasing domestic firms' likelihood of being acquired following substantial MNC entry will be greater, the lower the rate of economic growth in a region.

3.5 Political Ties in Institutional Transition

3.5.1 Value of political ties in transition

The embeddedness approach (Granovetter, 1985; Uzzi, 1996, 1997), which has demonstrated the importance of social relationships for economic transactions, needs to be complemented by the dynamic view of the influence of the “larger, historically transient, social structures” in which economic transactions are embedded (Lie, 1997: 351; Luo & Chung, 2005). Prior research on social and political ties has taken place in relatively stable environments (Peng & Luo, 2000). Transition from centrally planned economies to market economies – such as the ongoing processes in some major and emerging economies of Asia and Eastern Europe – offers opportunities to explore how changing market-supporting institutions alter the effects of political ties on domestic firms' strategic reactions over time. The evolving institutional environment, such as the increasing legal effectiveness, the shift of political power, implementation of new law and regulations, and privatization of incumbent firms, shape the efficacy of political ties by affecting the benefits and costs of such ties (Adler & Kwon, 2002; Peng, 2003). Thus the value of external ties, as a firm resource across firm

boundaries, tends to vary with changing external environment during market transition. For example, Chung *et al.* (2008) show that different types of political ties have different effects on firm diversification strategy over time as political regimes evolved in Taiwan.

a. Increasing or reducing value of political ties?

There are two perspectives on the value of political ties in institutional transition. One argues that the value of political ties will gradually disappear in transition. Connections are viewed as substitutes for formal institutional and structural support (Xin & Pearce, 1996). Political ties are thus particularly beneficial in environment with under-developed institutional environments. Characteristics of under-developed institutional environment include unreliable property rights protection, inefficient and corrupt governments, inefficient judicial systems, and weak enforcement of laws and contracts which add to the weak institutional infrastructure in these economies (Khanna & Palepu, 1997; Kock & Guillen, 2001). In these economies, institutional underdevelopment leads to a great deal of information asymmetry between economic actors, which in turn leads to high uncertainty and turbulence in the environment. As Hoskisson *et al.* (2000) suggested, competitive advantage is difficult to establish without good relationships with the government in environment of weak institutions. Following this line of reasoning, the value of political ties will decrease when market institutions get stronger. Scholars (Guthrie, 1999; Keister, 2002) found that as transition economies installed

better laws and regulations, firms' use of political connections will be increasingly dangerous as law enforcement is strengthened.

The other view holds that despite the movement to a more efficient market-economy, the need for political ties may be even greater during the time when an economy undergoes market-oriented transition. The market institutional transition is likely to introduce, at least in the short run, considerable chaos and uncertainties as new institutions emerge to replace old ones (Oliver, 1992). This process creates uncertainties for firms as to the exact direction and speed of reform (Child & Tse, 2001). Such policy uncertainties during transition, in turn, create further need for connections to the political circle for information and support (Park & Luo, 2001). As a result, given the rule setting, monitoring and sanctioning functions of the state, particularly frequent arbitrary intervention from the government in transition economies (Nee, 1992; Peng, 1997), linkages with state and regulatory institutions can help firms navigate uncertain environments.

In addition to policy uncertainties during transition, intensified competition for resources and markets may increase the value of political ties. When an economy undergoes economic transition, previously government-controlled resources may become available in the market, and barriers to restricted markets may be lowered, attracting market entry and greater competition. When entry barriers decline but state actors retain many levers for steering these resources in the directions that they prefer, it may be profitable for firms to rely on political ties for resource acquisition (White 2002; Westney 2001; Fligstein 2001; Gulati & Gargiulo, 1999; Keister, 1998; Zhou, 2003). Therefore, the potential returns from political connections may

be even greater than in the pre-marketization period, and research suggests that network or political ties can be even more valuable after economies undergo democratization and deregulation (Ghemawat & Khanna, 1998, Siegel, 2004). Rettberg (2001), for instance, showed that after the large wave of privatization in Colombia in the early 1990s, political ties to the government were critical for business groups to access contracts, licenses and credit. Choi and Zhou's (2001) findings also support their idea that the effects of entrepreneurs' prior political experience on economic gains actually increase as markets develop.

b. A way towards reconciliation

My interpretation is that arguments and findings from these two seemingly conflicting perspectives are not contradictory. In short, while better market-supporting institutions may decrease the value of political ties, policy and market uncertainties during the transition process can enhance the value of these ties. Peng (2003) demonstrates the changing benefits and costs of external social relationships as opposed to market-based exchanges, suggesting that the *benefits* of using social relationships will first increase then decrease, whereas the *costs* will decrease and then increase during market transition. We can see that for a relatively long period during transition, there are *multiple* periods in which benefits outweigh costs, as well as the other way around, suggesting a changing sign of net benefit more than once. This means that, empirically, we may or may not be able to detect significant difference in the value of political ties during transition, if we examine these effects *over*

time. However, if, instead, we measure specific aspects of the institutional transition, we are likely to find the varying effect of political ties over these changes.

Essentially, I propose that political ties remain an important influence on firms' exit strategies following substantial foreign entry, but expect that the strength of effects of these ties to vary along changes in transition, with the exact nature of the variation depending on contextual factors and firms' *strategies* which again depends on the external environment. Therefore, I separate two important aspects of institutional transition, the development of market-supporting institutions (e.g. market development and legal effectiveness) and uncertainties originated from transition, and examine how these contextual factors impact the effects of political ties on firm exit.

3.5.2 Institutional development and political ties

Legal effectiveness. I first examine how a gradually improving and established codified legal system will influence the value of political ties. Personal connections are particularly important in environment without a strong legal and regulatory environment that allows for impersonal transactions (Xin & Pearce, 1996). Firms are unlikely to deal with parties that they do not trust without an effective judiciary system. Therefore, they resort to personal connections in environment with weak legal system. When laws and regulations get better, the net benefits associated with relying on informal ties will decrease relative to the benefits of relying on formal legal system. These arguments pertaining to social ties in general can be extended to

political ties. When an impartial judiciary is in place, firms are more likely to go to courts, whereas in environment with low legal effectiveness, ties linked to the political agencies become an important mechanism that substitute for the norms and processes associated with formal legal system. Therefore in environment with higher legal effectiveness, the value of political ties will be lower, and thus the weaker effects of political ties on domestic firms' exit decisions following foreign entry.

Market development. An important feature of market transition is the installation and improvement of market-supporting institutions. In environment with poor market development, even if there are substantial costs involved, firms choose to rely on their connections for transactions (Keister, 2001). As market system expands and market barriers decrease, firms can resort to formal markets more intensively, which can be more reliable and less costly than using social relationships to obtain resources and thus can economize both opportunity costs and investment costs for cultivating and maintaining political ties (Zhou, 2004). Following these arguments, the gains from using political ties in doing businesses will decrease while the gains from using formal markets will increase as the market develops. In sum, market development decreases the value of political ties (Guthrie, 1999; Keister, 2001). Li *et al.*'s (forthcoming) study, for instance, has shown that Party membership in China helps executives to achieve better firm performance in environments with weaker legal protection and weaker market development. Combining the arguments for legal and market institutions, I thus propose that:

Hypothesis 8a. The impact of political ties on reducing domestic firms' likelihood of dissolution (or increasing domestic firms likelihood of being acquired) following substantial MNC entry will be greater, the weaker the legal effectiveness.

Hypothesis 8b. The impact of political ties on reducing domestic firms' likelihood of dissolution (or increasing domestic firms likelihood of being acquired) following substantial MNC entry will be greater, the weaker the market development.

3.5.3 Market Uncertainty and Political Ties

Uncertainty is the inability to forecast or predict (Anderson & Tushman, 2001). External environment can be the source of uncertainty for firms (Katz & Kahn, 1978; Scott, 1992). Economies undergoing market and institutional transition provide an ideal empirical setting to allow for substantial economic and policy uncertainties, as the transition process creates uncertainties for firms as to the exact direction and speed of reform (Child & Tse, 2001). Research has suggested that uncertain environments are most hazardous for firm survival (Anderson & Tushman, 2001; Podolny & Stuart, 1995) for two reasons. First, firms are more likely to fail when they make changes to adapt to the unpredictable environment (Rosenbloom & Christensen, 1994). Next, firms facing unpredictable environment are more likely to encounter internal political turbulence (Anderson & Tushman, 2001), which will reduce firms' ability to deal with environmental turbulence.

On the other hand, the real option theory suggests otherwise: the higher the environmental uncertainty and volatility, the greater the value of continuing status quo vis-à-vis exit (Dixit, 1989). When a firm enters an industry, there is usually a positive value in waiting for "good news" about

future profits before taking a step (such as exit) that might prove difficult to reverse (Bernanke, 1983). Regardless of whether demand rises or falls, the firm can tailor an appropriate strategy, provided it keeps the option open. The more volatile the opportunity, the less it risks losing by holding the option. Conversely, as volatility decreases, the firm may gain more by striking (Bowman & Hurry, 1993). Therefore, during times of high uncertainty, when the market is hard to predict, firms have more incentives to wait and “keep their options open” than in the more stable environment, reducing potential losses as much as possible. Following this perspective, firms are less likely to exit in uncertain environment.

While the impact of uncertainty on firm exit may be ambiguous, the influence of uncertainty on the value of political ties is relatively direct. Since market uncertainty implies an absence of information regarding industry structure and change (Duncan, 1972), uncertainties during transition create greater need for connections to the political circle for information and support (Park & Luo, 2001). Being an information conduit, by providing information to connected firms which is not readily available publicly, political ties are a source of competitive advantage (Mizruchi, 1997) that will allow connected firms to stay longer in competition or find suitable acquirers. Operating in uncertain, turbulent environment, firms tend to rely more heavily on their external ties for strategic decision, as these ties act as informational conduits “that shapes managerial views of the environment and contributes to the set of alternatives from which strategic choices are made” (Geletkanycz & Hambrick, 1997: 655). Connections to the state may also provide indirect linkages to important suppliers and buyers in volatile environment, creating more stable

and reliable suppliers and more loyal customers. Therefore, the strength of tie impact will be enhanced by the increasing level of environmental uncertainty. Research on China finds that political ties provide firms with more institutional support to mitigate challenges arising from market uncertainty (Luo, 2003; Peng & Luo, 2000; Xin & Pearce, 1996). Thus, I propose that

Hypothesis 9. The greater the market uncertainty, the greater the effects of political ties on domestic firms' likelihood of dissolution or being acquired following substantial MNC entry.

In conclusion, the propositions and hypotheses detailed above in this section summarize the critical aspects of the effect of political ties on how domestic firms react to the competitive entry of MNCs. The various sets of hypotheses relate domestic firms' exit decisions to their possession of political ties. Collectively, these hypotheses suggest that external ties with political institutions are relevant in understanding the exit decisions of domestic firms following substantial foreign entry, and in a transition economy (see Figure 3.1 for an overview).

*** Figure 3.1 about here ***

CHAPTER 4 METHODS AND MEASURES

This chapter describes the empirical context of the study, the Chinese TV manufacturing industry. I elaborate the competitive dynamics of foreign and domestic firms in this industry and introduce the political ties in the China context. Next, I discuss the key methodological issues of variable definition and operationalization, model specification, and statistical estimation. This chapter is divided into three sections. The first section reviews general FDI trend in China, the entry of MNCs into the Chinese TV industry, as well as the issue of the political connectedness in China. The second section describes all variables, explains the procedures used to collect data, and details the sources from which data are obtained. The third section presents formal models which will be used to test my hypotheses.

4.1 Context and Sample

The empirical setting of this study is the Chinese TV manufacturing industry during the period 1993-2003. China is a suitable context for this study. China is a developing economy with somewhat developed local industries in some areas since the opening up of the economy. There is rapid rise of FDI and competition between domestic and foreign players in China, especially in recent times, providing good macro context for the test of my research question and hypotheses.

The Chinese TV manufacturing industry is an appropriate context to examine my research question as it was not only the world's largest TV manufacturing industry during the period of study, but was a largely domestic industry prior to 1993 before the sudden entry of foreign TV manufacturers. The Chinese TV industry received substantial foreign investment during a period of rapid transition over the period of my study, leading to sufficient domestic-foreign competitive dynamics. The entry of foreign firms in this industry also took place after the domestic industry had grown and developed to the point of approaching international standards of design, technological and operating efficiencies. This allows a focus on the competitive aspects of the interaction between foreign and domestic firms. The relatively late entry of foreign firms also permits comprehensive analysis without the "left censoring" problem.

In the following sections, I will detail various aspects of my context, including FDI in China, the Chinese TV industry, political ties and political institutions in China, and characteristics of China's transition.

4.1.1 FDI in China

China has experienced rapid growth in FDI inflow and has become the largest recipient of FDI amongst the developing countries. Along with China's entry into World Trade Organization (WTO), China's economy is becoming increasingly open to foreign investors. Against the background of a transition enterprise sector, this growing openness is raising concerns over the ability of domestic firms to compete with their more efficient foreign counterparts (Hu

& Jefferson, 2002). In this section, I will briefly describe the trend and distribution of FDI in China.

Foreign direct investment started modestly in China after the passage of the 1979 Law on Joint Ventures. Along with the gradual improvement of the investment environment, China experienced a steady increase in FDI inflow during the 1980s, from a few hundred million dollars annually during the late 1970s to almost US\$3.5 billion annually in the late 1980s. Despite a delay of many FDI projects after the 1989-Tiananmen Square Event, China has again started attracting an increasing amount of FDI since 1991. The year of 1992 is a symbolic year in the transition history of China. Foreign investments started to pour into the China market soon after Deng Xiaoping's tour to the Southern China (*nanxun*) during the early 1992. The year 1992 saw a jump of about 152 percent in FDI compared with previous year, followed by an almost 150 percent increase for 1993. This impressive, sudden increase of FDI inflows is outlined in Figure 4.1. The trend continues in the following years despite a slight drop during the late 1990s. The FDI inflow continues to rise steadily after 2000. By the end of 2005, China has become world's third largest FDI recipient, according to the *World Investment Report* (2006).

*** Table 4.1 about here ***

*** Figure 4.1 about here ***

4.1.2 The Chinese TV manufacturing industry

The first TV set in China was produced in 1958, but it was not until the 1970s that the TV manufacturing sector started to emerge with heavy planning by the Chinese government. The first group of entrants into the TV industry was driven by government's intention to utilize the excess capacity of electronic industry caused by "Warfare for electronics (*dianzi dahuiizhan*)" commanded by the then-vice-chairman, Lin Biao. Then during the late 1970s, another group of entrants, which used to produce military electronic goods and were under the direct control of Ministry of Electronics Industry, began to enter the TV market. The market structure has since then been very dispersed during the partial reform era, and the central government made several attempts to consolidate the market, such as appointing "qualified" TV makers (*dingdian qiye*) and component suppliers, adopting rationing system for TV distribution and setting quota for TV production.

It was also during this period that Hitachi made the first foreign entry (in 1981) into the Chinese TV industry by setting up a joint venture, Fujian Hitachi Television Co. Ltd. Unfortunately, the venture was unable to fully exploit the domestic market as the Chinese government restricted its sales to 200,000 units per year and demanded the company to maintain a "foreign exchange balance" which resulting in "Fujian Hitachi" competing against other Hitachi brands on the market of East Asia (Marukawa, 2002). The government's plan to reorganize the industrial organization was eventually frustrated by the rampant entry of new firms. Finally, in 1993, all government controls over the quantity and price of TVs were abolished. As a result, major multinational household appliance manufacturers started to make investment

in the Chinese TV market and tremendous changes have since taken place in this industry. Table 4.2 demonstrates the major events of the Chinese TV industry before the market was opened. Figure 4.2 presents the number of firms and industrial sales in the Chinese TV industry over the period of 1993-2004.

*** Table 4.2 about here ***

*** Figure 4.2 about here ***

Figure 4.3 shows the trend of imports and sales of foreign TV manufacturers in the Chinese market. It is evident that sales made by MNCs in Chinese TV industry was almost non-existent before 1993, and only started to pick up after 1993. The year 1998 was a turning point in the industry, as sales of foreign firms started to decline, leading them to shift to higher-end markets focusing on plasma, LCD and projection televisions (Wang *et al.*, 2005). Therefore, the competition in this industry can naturally be divided by 1998 into two competitive stages based on the focus on competition. Figure 4.4 describes the industrial structure of the TV manufacturing industry by showing the proportion of manufacturers by ownership year to year from 1993 to 2005.

*** Figure 4.3 about here ***

*** Figure 4.4 about here ***

Most of the multinationals entered the Chinese market by setting up joint ventures with domestic manufacturers. Two leading European producers invested in the early 1990s. Thomson from France relocated its manufacturing for export from Taiwan to Shenzhen in 1991. In 1992, Philips of the Netherlands, which already had an extensive network of Chinese affiliates, took a 51% stake in the Suzhou TV Set Factory to produce medium-size sets with annual capacity of 800,000 and joined the top ten selling brands in 1996. More MNCs arrived after 1993, when the government eased the rules on domestic sales by foreign-funded ventures. Japanese television producers have invested in China's television sector gradually. Matsushita, one of the world's largest producers, entered in 1995 through a 50% joint venture to produce 21- to 29-inch sets with a local producer, Shandong Dong Chen Industrial. This has been followed by three 70% foreign-controlled joint ventures: Sony with Shanghai Video & Audio, primarily for export; Sharp with Nanjing Panda, and Toshiba with Dalian Daxian Group for 21-29-inch sets. The leading Korean television producers were also relatively late investors in China's television industry. In 1994, Samsung Electronics formed a 50%-owned joint venture in Tianjin with the same partner it had joined a year earlier for a VCR plant. LG Electronics has made several investments in China since 1994, but its investment in televisions, a 70%-owned venture in Shenyang in 1996, was at a relatively modest initial scale of 200,000 units (White and Linden, 2002). Table 4.3 lists the time and mode of entry of all major foreign TV manufactures that entered the Chinese TV industry.

*** Table 4.3 about here ***

4.1.3 Political ties in China

Political connectedness is a widespread phenomenon all over the world (Faccio, 2006), but in a market-oriented transition economy such as China, the ties and coalition between the government and entrepreneurs cover a greater area since the state was in control of most resources (Choi & Zhou, 2001). Political ties are viewed as one element in the concept of “*guanxi*”, and are seen as a potential substitute for the lack of institutional infrastructure in China (Xin & Pearce, 1996). For example, given the weak institutional arrangements in China, connections to the government is argued to be an effective way for firms to gain resources and influence to support new initiatives (Peng & Health, 1996; Xin & Pearce, 1996). Evidence has shown that, to access the resources in government’s hand, Chinese managers have maintained a “disproportionately greater contact” with government officials (Child, 1994:154; Luo & Chen, 1997; Peng & Luo, 2000).

Some scholars have argued for a declining economic importance of political ties in China (Guthrie, 1998). However, at least two phenomena in China challenge this view. First, despite more than two decades of reform and increasingly improved institutional framework, officials at various levels of the political institution still have tremendous power over resource allocation and project approval (Walder, 1995). In addition, politicians in China have maintained heavy, and arbitrary, intervention into business activities (Nee, 1992; Peng, 1997). Therefore, it becomes critical for firms in China to maintain good ties with the political agencies to stay competitive. On the other hand, the business-government relationship becomes increasingly open during

market transition, since private ownership gained legal recognition. This liberal policy has enabled government officials to negotiate deals openly with enterprises, and often in competition with bureaucrats from other government offices (Choi & Zhou, 2001).

Recent empirical evidence has supported the argument that political connectedness is critical for firms' resource acquisition and performance in China. For instance, Li *et al.* (2007) has found that affiliation with the ruling Communist Party in China helps private entrepreneurs to obtain loans from banks and other state institutions, which leads to higher performance ultimately. Choi and Zhou's (2001) study also shows that prior political experience significantly increased entrepreneurs' profit. In spite of the increasingly interest on political ties in China, to my best knowledge, there is no empirical study on the effect of political ties on firms' exit decisions in the context of China.

4.1.4 Political system in China

(1) Political institutions at central vs. local levels

The political hierarchy of China is a political power staircase. The central government is at the top of the stairs in terms of its authority. The central government designs macro-economic plans for the lower levels of government to implement; it initiates various regulations and rules to constrain the lower level of governments; and it plans for the resource allocation of the entire economy. Below central government lie the governments at the

provincial level, including governments of provinces, autonomous regions and centrally administered municipalities. A province or an autonomous region is in turn subdivided into autonomous prefectures, counties, autonomous counties and /or cities. A local government's authority is confined to its region and is restricted by adherence to policies and regulations of the central government¹. The political power staircase is ideal for testing tie destinations with different power and resources. I next explore what impacts central and local ties exert on domestic firms' exit strategies.

For the case of China, in which the state is highly centralized and retains significant power over economic matters, I believe that ties linked to the central political agencies may provide greater resources and power, and thus stronger effect on firms' exit decisions as compared with ties to local government. First, political institutions at the national level such as central governments have the greatest political power and authority. Firms affiliated with a higher level of government enjoy greater exposure to political resources than a firm linked to local government. Examples of such resources are good reputation and greater bargaining power, if a firm is linked with central government. In addition, greater political power leads to greater economic power of the national political agencies. For instance, Walder (1995) argued that the industrial base of each level of government in China decreases dramatically, meaning that the higher the government level, the larger its industrial base. This further implies that linkages to higher level of government can be related to higher level of deployment of resources for

¹ I use "local" and "regional" interchangeably in this study.

economic activity. In sum, considering the great political power and resource access of political institutions at the national level, I believe that *ties to political institutions at the national level exert the strongest effect on firms' exit following substantial foreign entry.*

(2) Political agencies in China

The political system of China consists of four major bodies, representing four power sources²:

a. The Government Agencies

The government agencies in China include (1) the State Council and the government ministries and (2) provincial and lower level government. The State Council of China, also known as Central People's Government, is the highest executive organ of State power, as well as the highest organ of State administration. It is generally considered equivalent to a cabinet in Western political system (ECPRCY, 1999). The State Council is composed of a premier, vice-premiers, State councilors, ministers in charge of ministries and commissions, the auditor-general and the secretary-general. Directly under the State Council are government ministries (e.g. Ministry of Science and Technology, Ministry of Education, Ministry of Information Industry), commissions (e.g. State Development Planning Commission), and bureaus (e.g. State Bureau of Taxation, National Bureau of Statistics).

Governments at the lower level replicate many features of the central government in Beijing. Each province has its government, which is in turn

² A substantial proportion of the following description is from the website of the Chinese government, www.gov.cn

replicated at the level of city, county and lower levels within the province. Each province also has bureaus of central government ministries, commissions and offices. Cities with independent planning authority may exercise many functions of a province, particularly in investment and economic planning.

b. The People's Congress (PC)

The People's Congress is China's legislature, which, as stipulated by the Chinese Constitution, is the highest organ of state power in China. Following the government hierarchies, there is a PC at each administrative level, including the central, provincial, municipal, county, and township levels. Local PCs have the power to elect chief officials at their own administrative levels, to draft and approve local laws and policies, and to impeach government officials when necessary. The PC at the central level, i.e. the National People's Congress (NPC), is considered the highest organ of state power of the People's Republic of China. Its main functions and powers include making laws and policies and electing top government officials in the central government. Theoretically, the PCs at all levels are instituted through elections, but the party and government officials still control the process of candidate nomination. Thus, it is not surprising that all major party and government officials are deputies of the PC at the local/central level.

c. The Chinese People's Political Consultative Conference (CPPCC)

The Chinese People's Political Consultative Conference is an advisory body to the party/government in China, somewhat analogous to an advisory legislative upper house. It served as the de-facto legislature of the PRC until

the Constitution of 1954 when this function was transferred to the National People's Congress. The main current functions of the CPPCC are to hold political consultations and to exercise democratic supervision of the party and governments. Political consultation is held on major political, economic, cultural and social policies, both before decisions are made and in the process of their implementation. By making proposals and criticisms at regular meetings with the party and government officials, the CPPCC exercises its function of democratic supervision over the enforcement of China's Constitution, laws and regulations, the implementation of major policies and the performance of government departments and their employees. When a CPPCC member makes a proposal, the government is committed to responding to it within a certain period. Although the party/government still has tight control over the CPPCC, it is more independent from the party/government than is the PC. CPPCC nominees on the preliminary list need to survive the screening process by the party to get on the final slate, but all social and economic organizations are allowed to nominate their own candidates. Because of the special mechanism for selecting CPPCC members, it has a much smaller party representation than the PC and its members come from more diversified backgrounds, many of them being members of the social, cultural, and business elite (Li et al., forthcoming). The PC and CPPCC, together, represent the country's legislative institutions.

d. The Communist Party

A unique feature of China that sets it apart from other transition economies is the continuing ruling of the Communist Party. The Communist

Party of China (CPC) is the party in power in the country. The CPC has both central and local organizations. At the top is the Central Committee and, while when it is not in session, the Political Bureau and its Standing Committee exercise the power of the Central Committee. Both the Political Bureau and its Standing Committee are elected by the plenary session of the Central Committee. The highest leading body of the Party is the National Congress and the Central Committee elected by it.

Considering the political structures in China, I argue that ties linked to the government will have a stronger effect than those linked to the legislature and political parties. Broadly, compared with the legislature and political party, the government agency has direct access to and control over resources, and is thus more able to provide immediate and direct support and resources to firms connected to it. Moreover, the government has great control over military and other state-owned institutions, and is able to regulate the market through tax policy, industrial policy, antitrust policy, and through its regulation of the banks, among other tools that it has at its disposal (Siegel, 2004). On the other hand, the influence of ties to legislature and political party is unlikely to be immediate and direct. Politicians in the legislative body or the political party may need to resort to their ties with the government, and indirectly support their favored firms. Faccio (2006), for instance, shows that the ties to government ministers generate greater value than ties to parliament members. In summary, I argue that *ties to the government have the strongest impact on firms' exit decisions by providing direct and immediate resources.*

4.1.5 China's transition

China shares common characteristics with other transition economies – “committed (in varying degrees) to strengthen their market mechanism through liberalization, stabilization, and the encouragement of private enterprise” (Hoskisson, Eden, Lau & Wright, 2000). On the other hand, the economic transition in China has its distinct feature from other transition economies. It is well known that in Russia and Eastern European countries, privatization – which is driven by the central government – is the key focus and driver of economic transition. Meanwhile, “one of the most distinct features of China's transition has been associated with devolution of authority from the central to local levels of government” (Qian & Roland, 1998: 1156). This is consistent with the view that “the critical component of China's market-oriented reform, which began in 1979, is decentralization” (Qian & Weingast, 1996).

During its economic reform, the Chinese central government gradually delegated authority to the lower level government units, including provincial, municipal and village governments. The decentralization was motivated by the central government's desire of promoting market mechanism and gradually replacing its central planning function. Such decentralization from the central government provides an institutional basis for local government to support economic development (Oi, 1999). These local governments are now able to “formulate their own policies that attract investment and govern business operations under their jurisdiction, within a general framework set by the central authorities” (Child & Tse, 2001: 8).

Relating to my Hypothesis Set 7, researchers on market transition suggests that governments in regions with less developed markets can influence the local economy more significantly and tend to have more controlling power over local companies (Qian & Weingast, 1997; Qian & Roland, 2000). It is important for a politician to improve the employment rate and the fiscal condition of the region under his jurisdiction, so local governments of different regions have demand for improving economic development using corporate resources. Therefore, in less developed regions, local governments have more urgent needs to make use of corporate resources to mitigate economic problems (Fan & Wong, 2004). Due to the greater needs of regional politicians to use corporate resources to promote economic growth, politically connected firms in less developed regions are more likely to receive attention and preferential treatment by the local government, thus less likely to dissolve following the entry of foreign competitors, and more likely to be acquired. I explore this relationship empirically.

4.2 Data and sample

I test my hypotheses on 330 Chinese TV manufacturers for the 1993-2003 period. A list of firms in the Chinese TV manufacturing industry (close to the population) is obtained from Wanfang Data Company (www.wanfangdata.com.cn), a Beijing-based business and academic-information provider under China's Ministry of Science and Technology. Wanfang's Chinese Enterprises and Companies Database was started in 1988. Its data are included in the DIALOG online systems. These data were

collected through multiple means, including mailed questionnaires, telephone surveys, and printed materials, and are updated annually. Research using this data source has appeared in academic journals (Li & Wong, 2003; Lu & Xu, 2006).

The database provides firm registration information (firm ID, date of incorporation, province, city and other characteristics), fixed assets, sales, different industry classification, product details and ownership type. In addition, the names of top management are provided by Wanfang. I use the names of these top executives to collect data of managerial ties.

Other firm-level variables were obtained from a variety of sources. Data on exit was collected primarily from the *China Electronics New (CEN)*, a unit of China's Ministry of Information Industry, and the most influential and comprehensive industry newspaper on various segments of the electronics industry in the country. Data on political ties were collected from the following sources: (1) official websites of the government, the legislature and the political party, at central, provincial and municipal levels; (2) *China VIPs* (the 2003 edition), a directory published by China INFOBANK. *China VIPs* lists a total of 4,828 names and positions of key personnel in China, including leading government officials, persons of political, military, academic and economic importance. All information was compiled from public sources including newspapers, magazines and books up to March 2001; (3) Xinhua News Agency, the state news agency in China; and (4) search on individuals managers of sample firms on the internet. The process of identifying specific political ties will be detailed in the following section.

Country- and industry-level variables are obtained from *China Statistical Yearbook (CSY)* and *China Electronics Industry Yearbook (CEIY)*, which is published by the Publishing House of Electronics Industry, a unit of China's Ministry of Information Industry.

I use the 50% threshold to define foreign ownership. I chose to use the sum of foreign ownership instead of the ultimate owner used by recent study (Kosova, 2004). Although foreign parents may not have the ultimate control in a multiple-owner firm, they bring more advanced technology and managerial skills to the firm, which clearly pose a competitive edge against domestic firms. Therefore, the sum of foreign ownership is more relevant to my study compared with the ultimate ownership. The final sample I use to estimate firm exit has eleven years' firm-level data points, which after removing cases with missing and extreme values on key variables, resulted in 248 firms, 1452 valid firm-year observations.

I address the issue of variable definition and operationalization at some length next. I discuss the measurement of the key dependent and independent variables as well as the controls variables in Section 4.3.

4.3 Variables

4.3.1. Dependent variable

Exit

Exit is measured by a dichotomous variable that takes the value of 0 or 1. An exit was recorded if a firm discontinued its operations either in the TV

segment or ceased to operate as a corporation. Then in my empirical analyses, I set the variable, $Exit_{it}$, equal to 1 in the year when a domestic firm exits and 0 for all prior years. Firms that survive until the year 2003 are recorded as having $Exit_{it}=0$.

Exit from the industry was recorded in two situations: when the firm ceased operation on its own accord (*Dissolution*) or when it was acquired by another firm (*Acquisition*)³. This measurement of exit through acquisition is consistent with measuring industry participation at the parent level: a change of ownership of the business unit is treated as a change of the firm itself (Mitchell, 1988); however change at levels above this, such as when a holding company sold its ownership of the parent firm, was not recorded as exit. Dissolution and acquisition events are reported in *China Electronic News*. A total of 136 exits by 330 firms over 11 years were identified. Among these 136 exits, 110 were by dissolution, and 26 by acquisition.

*** Table 4.4 about here ***

³ The threshold used in this study is 50% equity.

4.3.2 Independent variables

Political Ties

Political ties at the organization level

A firm is considered politically connected at the organizational level if it is:

(a) Owned by the state. State-owned enterprises are politically connected through their government ownership. Huang (2003) has intensively documented the strategic behaviors of Chinese SOEs after massive inflow of FDI during the reform era, and concluded that government ownership is a key factor that determines its strategy. Recent empirical results (Li, Zhang & Zhou, 2006) have also shown that Chinese SOEs are less likely to exit in market transition.

(b) Member of “qualified TV makers” (*dingdian qiye*) group. This is an industry-specific measure. In the 1980s, the Chinese government appointed 58 “qualified TV makers”, receiving most governmental support (Marukawa, 2001). These 58 firms spread across every province and municipality, and are thus less likely to be chosen based on their capabilities. The “qualified TV maker” group measures an important affiliation of a firm with the political institution, and reflects the support and intervention the firm receives from the government.

Political ties at the managerial level (see Table 4.5 on need for more specific details of all variables)

Managers view their personal ties – particularly their political ties – as a business secret. Therefore, researchers often ask broad questions regarding firms’ connections, namely to ask the extent (usually on a five- or seven-point scale) to which managers utilized or spent effort on cultivating ties (Xin & Pearce, 1996; Peng & Luo, 2000; Li & Atuahene-Gima, 2001). While these measures provide managers’ perception of the firm’s utilization of or efforts spent in cultivating ties, the firm’s actual ties cannot be identified by this approach. For instance, firms that devote significantly more resources in cultivating ties may not enjoy stronger connections with officials because some of their peers may be “endowed” with better ties and need less effort in cultivating these ties. As summarized by Siegel (2004, 2007), it is important to place greater attention on the more observable ties originating from firms’ shareholders or executives.

Drawing on prior research in measuring political ties through connectedness between the firm and government agencies (Bertrand et al., 2005; Chung et al, 2008; Faccio, 2006; Siegel, 2007), I measure managerial political ties by directly assessing the positional overlap between the firm’s top management team and the political system. Specifically, a firm was considered having managerial ties if:

(a) The firm’s CEO/chairman/executives were currently serving or previously served in the government agencies and ministries (at various levels). For example, the president of *Neimenggu Electronics*, *Zheng Weian*, was the

deputy director of Bureau of Electronics of Huhehaote City between 1980-1985; therefore the firm was coded as politically connected to the government through Zheng Weian.

(b) The firm's CEO/chairman/executives were currently members or used to be members of the Central Committee of the Communist Party of China (the highest administrative body of the party), or members of various provincial or municipal committee of the Communist Party. One such example is *Xiangfan TV Works*, which was treated as having political ties after 1994 through its president, *Zhang Jianyi*, who was on the Xiangfan Municipal Committee of Communist Party from 1994 to 1995.

(c) The firm's CEO/chairman/executives were currently or were previously on the Committee of the National People's Congress (NPC) or Committee at the provincial or municipal levels. *Haier Group* was regarded as having political ties to the NPC through its now-chairman, then-assistant-factory-manager, *Yang mianmian*, who has been a member of NPC since 1988.

(d) The firm's CEO/chairman/executives were currently or previously on the Committee of the Chinese People's Political Consultative Conference (CPPCC), at national or/and local levels. *Shenzhen Chuangwei-RGB Electronics Ltd.*, for example, was connected through its president, *Huang Hongsheng*, who was a member of the CPPCC Shenzhen Municipal Committee in 1997 and since has been a member of the CPPCC Committee at Provincial (Guangdong) and National level.

Measures (a) to (d) were based on the political hierarchy of China, with the agencies being key administrative agencies. (c) and (d), together, represent ties to the country's legislative institutions. Membership of the PC or CPPCC is valuable to firm managers not only because it gives them some measure of political power, but also because it makes it easier for these managers to cultivate social ties with important government bureaucrats who are also members of the two organizations (Li, Meng & Zhang, forthcoming).

There are two broad steps in identifying firms' managerial ties, coding firms' current ties and the historical ties. To obtain data on current political ties, I first coded the names of the chairman of the board, CEO (general manager), and divisional managers of each firm. These names were provided by Wanfang Data Company. I then collected data of prime position holders of the four major political agencies identified above. The names of keys officers were coded from (1) websites of central, provincial and municipal governments; (2) websites of the PC and CPPCC, at central, provincial and municipal levels, respectively; (3) Xinhua News Agency, the state news agency of China. Next, I matched the names of firm managers with those in the major political institutions to identify position overlaps.

Second, as political ties are a time-varying resource, I referred to China VIPs to identify firm executives' political background. This book lists a total of 4,828 names and positions of key personnel in China, including leading government officials, persons of political, military, academic and economic importance. For each listed individual, details on his or her background were provided, which allowed me to trace managers' political experience, if any,

before they joined the firm. This approach was complemented by internet searches of each executive and through historical news reports. In sum, firms' political ties at the managerial level, to the government and ministries, to key legislative agencies (i.e. PC and CPPCC), and the ruling party were detected and coded. Each link for an individual manager was counted as one tie. The total number of ties for each firm allowed me to measure the strength of each firm's managerial ties by summing the number of ties.

In sum, among 248 firms, 182 are SOE, 58 are qualified makers, 31 are connected through managers, and 7 are connected at both organizational and managerial levels.

Regional economic development. Regional economic development is measured by *Provincial GDP*, i.e. GDP per capita in each province, autonomous regions and centrally administered municipalities.

Market development. Market development is measured by the proportion of the gross output value produced by private firms in the economy to that of SOEs. In my robustness check, I also adopted measures such as number of individuals employed in the private sector divided by number employed in state-owned sector (Keister, 2001; Li *et al.*, forthcoming).

Legal effectiveness. Legal effectiveness is measured by number of *cases filed by court divided by total population annually*. Specifically, cases filed by courts refer to cases accepted by People's Courts according to the first trial proceedings. Lu and Yao (2005) recently propose this measure of the rule

of law in China, and argues that this index measures the trust that people have in the legal system⁴. This index was adopted by recent studies to measure effective legal protection in a locality (Li *et al*, forthcoming).

Market Uncertainty. Market uncertainty is operationalized as the degree that realized industry sales deviate from the forecasted value of industry sales. To do so, I first predicted industry sales at t , given the time series of industry sales observed till $t-1$. The market uncertainty is then calculated as the absolute percentage difference between forecasted industry sales and the realized value of industry sales (Anderson & Tushman, 2001). A simpler measure of variance of industry sales has also been utilized in my sensitivity analysis.

4.3.3 Control variables

I employed a set of firm, industry and economy control variables likely to influence firm exit.

Firm Controls

Size. Firm size has been viewed as an indicator of scale economies and market power. Larger firms may be less likely to exit (e.g. Baum & Oliver, 1991; Freeman, Carroll & Hannan, 1983). *Size* is measured by the logarithmic transformation of each firm's total employees.

⁴ Lu and Yao (2005) also used the ratio of closed cases to all commercial court cases in a year as a measure for the effectiveness of legal system. However, this measure has little variation for 2002. Thus, I do not use this measure in my study.

Age. Empirical studies have demonstrated that mortality rate tends to decline with firm age (Carroll & Delacrois, 1982; Freeman, Carroll & Hannan, 1983). *Age* was defined as the number of years since corporate foundation.

Diversification. Whether a firm is *Diversified* determines competitive pressures and resources available. Domestic firms' level of diversification is measured by a count variable which counts the number of industrial segment with different 2-digit SIC code from SIC3651 (household audio and video equipment), the primary code for TV manufacturers.

Export/Import Permit. Since a global presence may likely influence domestic firms' response strategies toward the entry of MNCs (Wu & Pangarkar, 2006), firms' international presence is controlled by a dummy variable taking the value of 1 if the firm has a *Permit* to export.

Geographic region. Since competition in China was to a large extent regionalized by provincial boundaries (Chang & Xu, 2006), I created seven *region dummies* to control for different regional government policies, economic development and competitive pressure. The Shanghai Security Exchange divides mainland China into eight parts according to each region's aggregate GDP levels, industrial structure, infrastructure facilities, degree of openness, scale of markets, residential consumption levels and growth prospects. The eight regions are *Northeastern* (Heilongjiang, Jilin, and Liaoning), *Northern Coastal* (Beijing, Tianjin, Hebei, and Shandong), *Eastern*

Coastal (Shanghai, Jiangsu, and Zhejiang), *Southern Coastal* (Fujian, Guangdong, and Hainan), *Middle Huang River* (Shanxi, Shaanxi, Henan, and Neimenggu), *Middle Yangzi River* (Hunan, Hubei, Anhui, and Jiangxi), *Southwestern* (Yunnan, Guizhou, Sichuan, Chongqing, and Guangxi), and *Northwestern* area (Gansu, Qinghai, Ningxia, Xizang, and Xinjiang).

Industry Controls

Industry density. Ecological studies have shown that firms' mortality rates vary according to the number or density of firms in a particular industry (Hannan & Freeman, 1988). *Industry density* is measured by the number of firms operating in the TV manufacturing industry annually.

Foreign competition. The competitive pressure arising from direct FDI was controlled for by adding *percentage of foreign sales* in total annual industry sales.

Import competition. Competition arising from imports is found to influence firm strategy (Bowen & Wiersema, 2006). Similarly to foreign competition, import competition is measured by the *percentage of imports* to total industry sales.

Economic & Institutional Controls

FDI inflow. The total annual *FDI Inflow* is included as a general economic control in my empirical model.

Year Dummies

Eleven years are grouped into eight groups due to a “perfect failure determination” problem, similar to that described by Kosova (2004). Table 4.4 demonstrates this problem: for instance, there is no exit during 2003, so the coefficients on the year dummy of 2003 would be negative infinity. Therefore, I combined 2003 and 2002 to make a new year-dummy, 2002&2003, so that there is variation in exit. Similar steps were taken for dependent variables “acquisition” and “dissolution”.

A list of the variables and brief descriptions are presented in Table 4.5.

*** Table 4.5 about here ***

4.4 Model Specification

The problem of left-censoring and right-censoring are common for time based analyses. For instance, some firms may be at the risk of exit prior to my study period. So the beginning of the duration may be unknown for these cases, which is known as left-censoring. There was almost no market-seeking FDI (with the limited scale Hitachi operation as an exception) in Chinese TV manufacturing industry prior to 1993. The relatively late entry of

major foreign TV manufacturers avoids the left-censoring problem. In other cases, events (i.e. exit) may not have occurred at the end of my study, which is known as right-censoring.

The body of techniques known as event history or survival analysis (Allison, 1984; Blossfeld, Hamerle & Mayer, 1989; Kalbfleisch & Prentice, 1980; Lee, 1992) is designed to evaluate the likelihood of a particular event occurring within a specific time interval. Such technique is able to account for the right-censored problem. This is a significant advantage in the present study, since 195 of the 330 firms in my sample (59.1%) had not exited at the end of the study period.

The basic model of event history analysis is the examination of the time interval between a subject being placed at risk of an event and the actual occurrence of that event. When there is one non-repeatable event being tracked and the duration of the event is measured continuously, this model is that of a “continuous time, discrete state stochastic process” (Blossfeld *et al.*, 1989: 27), for which the rate of change of state is measured by the hazard rate. The probability of an event occurring in the time interval $(t, t + \Delta t)$ conditional on the event not having occurred till then is given by:

$$h(t | X(t)) = \lim_{\Delta t \rightarrow 0} \frac{1}{\Delta t} P(t \leq T < t + \Delta t | T \geq t, X(t))$$

where $X(t)$ represents a vector of covariates measured at time t .

I estimate firm exit and mode of exit by two types of event history techniques. First, I use event history analysis for continuous data, as in reality firm survival is a continuous not a discrete variable. Specifically, I use a parametric Log-logistic model, which assumes a non-monotonic hazard rate for events. Additionally, since my data are reported annually, they are grouped

by discrete intervals-years. Hence I also use discrete methods, namely logistic model, to assure the robustness of my log-logistic results⁵. If the results are robust they should be similar across different specifications. More details about individual methods are below.

4.4.1 Log-logistic Regression

The standard log-logistic distribution is a 2 parameter distribution with the following hazard rate:

$$h(t) = \frac{p\lambda(\lambda t)^{p-1}}{1 + (\lambda t)^p}$$

where λ is the parameter that scales the time effect and determines when the hazard rate peaks. The second parameter, p , is the shape parameter and indicates the pattern of the hazard rate. The log-logistic is a flexible distribution, taking on a monotonically declining shape when $p \leq 1$ (representing a declining hazard rate) or a non-monotonous inverted U shape when $p > 1$ (indicating an initially increasing then declining hazard rate).

The following process was used to determine the suitability of the choice of the log-logistic model for the present study. As a first step, the hazard rate was computed and graphed by the statistical software, STATA. As shown in the set of Figures 4.4a-c, the hazard rates for exit, exit through dissolution, and exit through acquisition are all non-monotonous, initially

⁵ The Logistic model is employed in my sensitivity analyses. The results produced are not presented in the result section unless otherwise indicated.

increasing and then decreasing. This suggests that the choice of log-logistic distribution is appropriate⁶.

Figures 4.5a, b &c about here

In addition to the assumed underlying distribution, three important assumptions need to be satisfied in the survival analysis. First, subgroups within the sample experience the same hazard rate. This was tested for firms with and without political ties. Figure 4.5, for instance, demonstrates that qualified maker and non-qualified maker had approximately parallel survivor function, supporting the validity of this assumption. Second, censoring should not be systematically related to the occurrence of events. This condition is reasonably satisfied as censoring only occurs at the end of the study period. Third, unobserved heterogeneity is not significant. Besides including sets of firm, industry and environment control variables to reduce the likelihood of unobserved heterogeneity, I also tested for frailty (i.e. unobserved heterogeneity) for my sample using LR test. It shows that unobserved heterogeneity is not a problem in my study.

*** Figure 4.6 about here***

⁶ I also estimated lognormal model, which also allows for non-monotone hazard rates. However, Log-logistic model had maximum likelihood function higher in most cases and thus lower Akaike information criterion (AIC), which is one way how to choose the proper distribution. $AIC = -2(\log likelihood) + 2(p + k)$, where p is the number of ancillary parameters in the particular model and k is the number of regressors including constant. Since p and k are the same in lognormal and log-logistic the lowest AIC is automatically determined by the highest value of Log likelihood function.

4.4.2 Logistic Regression

Logistic regression is a discrete-time hazard rate model, when used with yearly-spell event history data. The discrete time hazard rate P_{it} defines the conditional probability of an event for subject i occurring at time t , given that it has not yet occurred:

$$P_{it} = \Pr(T_{it} = t | T_i \geq t_i, X_{it})$$

The hazard rate can be modeled as the logistic regression function as follows:

$$\log\left(\frac{P_{it}}{1 - P_{it}}\right) = \alpha + \beta' X_{it}$$

This model indicates that for each subject i , the odds of event occurring at time t is determined by the vector of covariates X_{it} . The log odds of event P_i has a linear association with the vector of covariates.

For both log-logistic and logistic models, to control for causality, I used a one-year lag between explanatory variables and dependent variables, resulting in the loss of observations for 2003. I corrected the standard errors for potential heteroscedasticity and arbitrary correlations between firm observations by adjustment for firm level clusters.

CHAPTER 5 RESULTS AND DISCUSSIONS

This chapter presents the results of the tests of hypotheses. The first section provides summary and descriptive statistics for the data employed. The following section presents and interprets results. This chapter ends with findings from sensitivity analyses to test the reliability of results.

5.1 Descriptive Statistics

A total of 136 exits by 330 firms over 11 years were identified in my pre-cleaned data, which gives a 41.1% exit rate. Figure 5.1 plots the annual exit rate over these years⁷. Among these 136 exits, 110 were by dissolution, and 26 by acquisition.

*** Figure 5.1 ***

Table 5.1 presents descriptive statistics for all variables utilized in this dissertation. It shows that political ties in general are negatively correlated with firm dissolution and positively correlated with acquisition. The number of political ties for firms ranged from 0 to 3⁸. For example, Shenzhen Chuangwei-RGB Electronics Ltd. had three political ties, all linked to the CPPCC, at the central, provincial, and municipal levels through its managers.

⁷ Exit rates are calculated as the ratio: dj/nj ; where dj = number of firms which exit at tj and nj = number of all firms at tj in my sample.

⁸ There is not a large variation in the number of ties; however, the 0 to 3 variation is reasonable considering they are *formal* ties in nature.

*** Table 5.1 about here ***

5.2 Political Ties and Exit

Hypothesis 1 relates political ties with firms' likelihood of exit, and predicts that the likelihood of exit will first drop then increase with the increasing number of political ties. Table 5.2 reports log-logistic estimates that test this hypothesis, distinguishing organizational ties (*SOE* and *qualified* firm) and managerial ties. Note that the dependent variable is survival, thus relevant interpretation requires change of signs. Hypothesis 1 is partially supported. Managerial ties exert a curvilinear influence on firms' exit, first reducing then increasing firms' likelihood of exit (Columns 4&5). This is consistent with my earlier argument that political ties may incur high opportunity costs and maintaining costs. The possession of a few ties will be associated with greater advantages than costs, but beyond an optimal level, such ties may imply greater costs than benefits. Based on results in Column 4, firms are more likely to exit when the number of managerial ties becomes larger than 1.35⁹. On the other hand, just contrary to my prediction, being a *qualified* firm decreases firms' mean survival time by 19.75% (Column 2)¹⁰. Better understanding of this result may require closer examination of the mode of exit, which will be discussed shortly. Turning to *SOE*, it shows that being an

⁹ $-0.602/2*(-0.223)=1.35$

¹⁰ $[\text{Exp}(-0.220)-1]*100\%=19.75\%$

SOE is not significantly related to firms' likelihood of exit following substantial foreign entry.

Turning to control variables, the results indicate that larger, and more diversified firms are more able to withstand the competitive entry by MNCs, thus are more likely to survive. In terms of industry control, MNC competition, measured by the share of foreign sales to total sales, has a consistent positive effect on firm exit, indicating that domestic firms are more likely to exit the industrial segment when competitive intensity arising from foreign firms is high. As an economy control, FDI inflow has a negative effect on firm exit, indicating that domestic firms in the TV manufacturing industry may benefit from the spillover effects of economy-wide FDI inflow, and are thus less likely to exit when there is great FDI inflow into the economy.

*** Table 5.2 about here ***

Hypotheses 2a and 2b takes a closer look at firms' exit decisions, and relate political ties to different modes of exit, namely, whether the firm stopped operation on its own or is acquired by another firm. Specifically, I predict that political ties are positively related to firms' likelihood of being acquired and negatively related to firms' likelihood of dissolution. Table 5.3 presents results that support the set of Hypotheses 2a and 2b¹¹. Similar to the results for total exit, being an SOE does not have a significant effect on acquisition or dissolution. Consistent with Hypothesis 2b, firms with more

¹¹ Effects of political ties on dissolution and acquisition are estimated by two approaches: (1) dissolution and acquisition are treated as competing-risk events; (2) the likelihoods of dissolution and acquisition are compared with that of non-exit, respectively. Two approaches produced similar results, so only the results of approach (2) are reported, unless specified.

managerial ties are less likely to dissolve. Specifically, 1 more managerial tie will decrease firms' likelihood of dissolution by 53.27%¹² (Column 1).

Being a qualified maker significantly increases firms' likelihood of being acquired by 54.25%¹³ (Column 2). The negative coefficient of *qualified* maker on survival (as compared to exit through acquisition) exactly explains the earlier negative coefficient of *qualified maker* on survival (as compared to total exit). In other words, the earlier positive effects of ties on firms' likelihood of exit are driven by exit through acquisition, in the sense that firms affiliated to the political agencies (i.e. qualified maker) are more likely to be acquired following foreign entry, thus more likely to exit in general. Turning to control variables, large, more diversified firms are less likely to dissolve. MNC competition is the major factor driving domestic firms out of the market regardless being acquired or stopped operation on its own accord.

*** Table 5.3 about here ***

The results in Tables 5.2 and 5.3 show that both organizational and managerial level ties are important influences on firm exit, not necessarily which one is stronger than the other, thus the set of Hypotheses 3a and 3b is only partially supported (Hypothesis 3b). Specifically, managerial ties seem to have a greater effect on dissolution exit (Column 1, Table 5.3), meaning that firms connected through top executives are less likely to dissolve. On the other hand, organizational ties have a greater impact on acquisition exit (Column 2, Table 5.3), suggesting that firms affiliated with the state are more likely to be

¹² $[\text{Exp}(0.427)-1]*100\%=53.27$.

¹³ $[\text{Exp}(-0.782)-1]*100\%=-54.25\%$

sold to acquirers, which might arise from the government's political and social objectives. The contrasting results suggest that the impacts of organizational and managerial ties on firm exit may not lie in the strength/degree of their impacts, but may lie in the *mechanisms* through which organizational vis-à-vis managerial ties influence firm exit.

5.3 Tie Destinations with Varying Resources

Next, I examine the effects of different types of ties on firms' exit decisions. The Hypotheses 4a and 4b predict that ties linked to the institutions with greater resources have a stronger effect on firm exit. Tables 5.4 and 5.5 present results that relate firm exit with two manifestations of political resources, i.e. political institutions at different levels and ties linked to different power sources. Table 5.4 relates firm exit with political ties at central and local levels, while Table 5.5 explores how firm exit are affected by political ties linked to different power sources, namely, the government, the legislative body, and the political party, respectively.

5.3.1 Ties at Different Levels

The results do not provide support for the argument that ties linked to political institutions at the central level exert stronger effect than those to local ones. On the contrary, it indicates just the opposite: local managerial ties significantly affect firms' likelihood of being acquired (Table 5.4, Column 6) while central ties (both organizational and managerial) exert no significant

effect on firm exit and mode of exit. Specifically, 1 more managerial tie to the local political institutions will increase firms' likelihood of being acquired by 26.80%¹⁴. The strong effect of local ties suggest that although the central government is the highest-level political institution in China, after two decades of decentralization, local governments have been delegated with sufficient decision rights, and are now able to "formulate their own policies that attract investment and govern business operations under their jurisdiction" (Child & Tse, 2001: 8). Moreover, local politicians also have strong incentives to promote the local economy, attract mobile factors and to obtain fiscal revenues in order to compete for grant from the central government (Qian & Roland 1998). As a result, troubled firms in a province/city are more likely to be sold to attract inward investment in that locality. These results contrary to my prior predictions indicate that evaluation of value of political ties (a subset of social network ties) needs to be closely linked to the institutional environment that the firms are embedded in, because, after all, economic relations are embedded within larger social, political and legal context (Granovetter, 1973, 1985).

*** Table 5.4 about here ***

5.3.2 Ties to Different Power Sources

The results in Table 5.5 suggest that ties to government and ministry officers have a positive effect on firms' likelihood of being acquired. Specifically, 1 more government tie will increase firms' likelihood of being

¹⁴ I have also created a new indicator variable, *Local*, taking the value of 1 if the tie is linked to local political institutions, regardless of at the organizational or managerial level. Unfortunately, I did not detect a significant effect of *Local* ties on total exit, dissolution exit, or acquisition.

acquired by 49.24% (Table 5.5, Column 7). This strong effect of government ties on acquisition exit also drives the significant negative effect on firm survival in general (Column 1). This finding supports Hypothesis 4b, which predicts that tie destinations with more resources (government vis-à-vis the legislature and the political parties in China) have a greater impact on firm exit. Meanwhile, while Hypothesis 4a is not supported, interestingly, it shows that legislature tie has a strong negative effect on firm dissolution, meaning that 1 more tie to PC or/and CPPCC will decrease firms' likelihood of dissolution by 83.31% (Column 5).

Combining the effect of government ties on acquisition and the effect of legislature ties on dissolution, it may imply that following competitive foreign entry, for firms that incur greater costs than benefits to continue operating, the most desirable choice is to sell off, in which scenario the government can exert direct influence by making policies and negotiating a deal; on the other hand, ties to the legislative bodies have weaker influence and may only be able to provide firms with resources and legitimacy which allow them to stay on longer in the competition. In sum, the set of Hypotheses 4 are broadly supported, that government ties exert the strongest influence on firm exit. However, we need to note from the results that, first, the legislature (PC and CPPCC) are not simply rubber stamp in China – they demonstrate impacts on firms; second, ties linked to different political institutions have different effect on *different* exit choices.

*** Table 5.5 about here ***

5.4 The Timing of Impact

5.4.1 The “Until when” Question

To examine the timing effect of political ties on dissolution exit and acquisition exit, respectively, I also conducted 2-year and 3-year exit analyses of my sample firms. The 2-year exit analysis includes every second calendar year, beginning with the second year since 1993. The 3-year analysis includes every third year, beginning with the third year since 1993. This procedure eliminates serial autocorrelation that would result if I included overlapping year spells in the 2-year and 3-year exit models (Singh & Mitchell, 2005). Tables 5.6a&b report three periods of exit through dissolution and exit through acquisition, respectively. Columns 1-3, 4-6, and 7-9 of Table 5.6a report the results for the 1-year, 2-year, and 3-year dissolution exit analyses, respectively. Tables 5.6b follows similar format.

*** Tables 5.6a&b about here ***

Table 5.6c summarizes the results from previous 2 tables. Broadly, the results are consistent with Hypotheses 5a and 5b. The effects of political ties on firm exit through dissolution are only significant for the first time period, indicating an *immediate* rather than a long-term effect of ties on dissolution. This is consistent with my prediction that the effect of political ties on survival may not be able to hold, due to the lower efficiency allowed by the political buffering and negative political intervention. On the other hand, the effects of

ties on acquisition exit last till the second or third time period, indicating a sustaining effect of ties on acquisition.

*** Table 5.6c about here ***

5.4.2 The “Since when” Question

Two results are worth noting in Tables 5.6a-c. First, the effect of managerial ties on acquisition starts to kick in only from the second time period, suggesting a longer time lag for managerial ties to influence acquisition than dissolution. This shows that managerial ties have an *earlier* impact on dissolution exit than that on acquisition exit, and have a *later* impact on acquisition than organizational ties. Second, ties to the legislature also start to influence on acquisition from the second time period. Linking back to the immediate effects of legislature on dissolution, as well as my prediction of a stronger, direct impact of government ties on acquisition exit, the longer time lag of effect of legislature ties on acquisition suggest that legislature ties do have a *significant, yet later* impact on firms’ likelihood of being acquired compared to government ties, due to the legislature’s relatively indirect power over and access to resources. This is consistent with my prediction in Hypothesis 6: Ties linked to destinations with greater access to resources will have an earlier impact on firm exit.

5.5 Effects of Political Ties across Economic Conditions

It has been shown by the previous results that political ties matter, but a more intriguing question is: where do political tie matter most? The set of Hypotheses 7a – 7c consider the contingent effect of macro-economic development in different regions in a country, and predict that political ties will exert a stronger effect on firm exit in poorer regions. Hypotheses 7a – 7c are partially supported by results reported in Tables 5.7a-c: interaction effects between political ties (particularly local ties) and regional GDP per capita are significant for total exits (Table 5.7a), but not for dissolution (Table 5.7b) or acquisition exit (Table 5.7c).

*** Tables 5.7a-c about here ***

Table 5.7a indicates a strong interaction effect between political ties and regional economic development. What is worth noting is that, *local* managerial ties have a stronger effect on firm exit in poorer regions. The negative main effect of local ties and positive interaction term (Column 5) indicate that domestic firms with local managerial ties are more likely to exit following foreign entry in regions with weaker macroeconomic conditions, which is primarily driven by exit through acquisition. This is consistent with my argument that there is greater need for business-government coalition in less developed areas. Meanwhile, both organizational and managerial ties have a stronger effect in regions with a lower GDP. Moreover, government ties and legislature ties also exert stronger influences on firm exit in the poorer regions,

indicating a strong moderating effect of regional economic conditions on the relationship between political ties and firm exit.

5.6 Political Ties in Institutional Transition

My last set of hypotheses (H8 and H9) focus on major manifestation of the market transition, and proposed that the impacts of political ties will decrease with installation of better market and legal institutions, and increase with higher level of uncertainty originated from transition. I thus test the moderation of institutional development and market uncertainty separately in Tables 5.8 and 5.9, respectively – Table 5.8 tests the moderation effects of market development and legal effectiveness, while Table 5.9 focuses on the moderation of market uncertainty.

Results in Table 5.8 on the whole support Hypotheses 8a and 8b. Columns 5, 8 and 9 of Table 5.8 reports results that support Hypotheses 8a and 8b: the negative effect of political ties on firms' likelihood of dissolution becomes stronger in environment with weaker market development, and the positive effect of ties on firms' likelihood of getting acquired becomes stronger in environment with lower level of legal effectiveness. These results support the view that social ties act as a substitute to formal, structural market-support institutions.

*** Table 5.8 about here ***

Hypothesis 9 examines the moderating effect of market uncertainty on the relationship between political ties and exit. Table 5.9 reports related results. Results in Table 5.9 moderately support my predictions. The results show that, in general, firms are less likely to dissolve during periods of high uncertainty, consistent with Dixit's (1989) view that firms tend to "wait" for future opportunities in uncertain environment. Turning to the moderating effect of uncertainty on the tie-exit relationship, firms with local ties are more likely to be acquired following foreign entry; and this effect gets stronger in more uncertain environment (Column 5). These results demonstrate that in relatively stable environment, politically connected firms are more likely to stay in the competition, whereas as uncertainty level goes up, political ties allow executives in the connected firms to sell off and obtain the residual value. Hypothesis 9 is thus partially supported as the connected firms are more likely to be acquired in highly uncertain environment.

*** Table 5.9 about here ***

5.7 Sensitivity Analysis

5.7.1 Unobserved heterogeneity

Although prior LR tests indicate no problem of unobserved heterogeneity, I estimate the specifications with firm-level means as additional controls (Kosova, 2004), to explicitly model firm unobserved heterogeneity as one of my explanatory variables. Wooldridge (2002) suggests to use a

Mundlak (1978) version of Chamberlain's assumption that unobserved heterogeneity can be modeled as a function of firm level means of included regressors. Then the error term, μ_i , in the structural model is now divided into two parts, namely, $\mu_i = \overline{X_i} \varepsilon + a_i$, where $\overline{X_i}$ is the vector of firm level means of individual regressors over the period a firm is observed and a_i is that part of firm unobserved heterogeneity in the error term that is uncorrelated with $\overline{X_i}$ and $\overline{X_{it}}$. My results in general did not show significant changes after adding the firm-level means.

5.7.2 Prior performance

Prior performance could be a factor driving firms out of the market. I did not include prior performance in my main analyses, because more than half of the values are missing. Theoretically, excluding prior performance in the present study is less likely to create problem, as prior performance may have a weak influence on firms' *endowed* political ties, despite that poor-performing firms may try to establish more *informal* social linkages, which is beyond the scope of this study. However, to test models with prior performance as an explanatory variable, I first ran regressions on firm profitability based on a sub-sample of 122 firms, 642 firm-year observations with non-missing profit values¹⁵. I then added the predicted value of profitability in my main models as a control variable. Results in Table 5.10 show that, even after including prior performance, firms' political ties have

¹⁵ The sub-sample is not significantly different from my full sample.

significant effect on firm exit – allowing domestic firms to survive longer. Meanwhile, it is indicated that poorly performing domestic firms are more likely to dissolve following competitive foreign entry.

*** Table 5.10 about here ***

5.7.3 Political ties measured as a dummy variable

As the variation of the independent variable, political ties, is not great, I have also measured firms' political ties as a dichotomous variable, taking the value of 1 if having one or more than one ties, 0 otherwise. Results in Table 5.11 are consistent with my prior findings: connected firms are less likely to dissolve following competitive foreign entry than their unconnected peers.

*** Table 5.11 about here ***

5.8 Conclusion

This chapter has discussed the empirical findings of my. Table 5.12 summarizes the results for hypotheses testing. The stability of these results after extensive sensitivity analyses suggests that the findings are robust. The evaluations of alternate explanations have also clarified the appropriateness of result interpretation. In general, the results support the importance of political ties as an important influence on firms' exit decisions following substantial

foreign entry, and identified conditions where political ties might be most critical.

*** Table 5.12 about here ***

CHAPTER 6 CONCLUSION AND IMPLICATIONS

6.1 A Summary

I study domestic firms' choice of exit as an important strategic reaction in response to competitive foreign entry. Drawing on resource-base view, political economics and social capital theory, I study how domestic firms' political ties influence their exit decisions in response to foreign entry, specifically, the likelihood and timing of dissolution and being acquired. I approach this research question by developing three clusters of hypotheses. Specifically, I distinguish firms' political ties at organizational and managerial levels, as well as ties linked to political institutions at different levels and with different identities. Further, adopting a dynamic view on political ties, I examine the timing issue, i.e. to what extent are the effects of political ties sustainable on firm exit and since when the effects of ties will start to kick in. Finally, I explore the varying effects of different ties on firm exit across environmental factors, namely, the macro-economic conditions, the development in institutional environment and uncertainty originating from the market transition process.

Using a sample of Chinese TV manufacturing firms during 1993-2003, my empirical results suggest that political connections were important influences on firm exit throughout my study period, positively affecting firms' likelihood of being acquired and negatively affecting firms' likelihood of

dissolution. Consistent with my predictions, ties with different origins and destinations carry different resources, thus having varying impacts on firms' exit decisions. Specifically, managerial ties allow firms to survive longer, while organizational ties facilitate firms' sell-off decisions. In addition, along with the decentralization process in a transition economy such as China, local ties exert stronger effect on firm exit and exit through acquisition than central ties, particularly in regions with lower economic development. Moreover, ties to the government agencies and ministries have a stronger and earlier impact on firm exit than ties to legislative bodies and the Communist Party. Further, political ties do not have perpetual effect on firm survival: the effects of ties on dissolution exit decline with time. Finally, I find that the value political tie varies in environments characterized with different levels of institutional development and market uncertainty: the impacts of political ties become stronger in environment with weaker legal effectiveness and market development, and in environment with higher level of market uncertainty.

6.2 Theoretical Implications

This study has a broad set of theoretical implications. First, by taking political ties as a firm resource, this dissertation expands and enriches resource-based view of strategy by “adding a political component that is largely missing in that literature, which ignores political resources and competitive methods” (Boddeyn & Brewer, 1994: 135). To complement prior researchers' search for economic and organization resources, the present dissertation highlights that political resources in the form of formal ties with

the political system can be valuable for firms in the face of emerging and intensifying foreign competition.

Further, I decompose the concept of political ties and conduct detailed analyses on ties at different levels, and ties with different origins and destinations, which are broadly missing in the extant literature. Moreover, adopting dynamic view and contingency perspective on political ties, this study evaluates the timing and environmental boundary conditions of political ties, improving understanding of the dynamic and contingent value of political ties and social capital in general. For instance, one important finding to the social capital theory is that social ties, as one firm resource, do not have perpetual impact. Rather, it has its limit up to a certain time line. This implies that firms still need to combine their external social resources with the more sustainable, internal resources to achieve long-term success. Moreover, the varying effects of political ties also reflect how the value of external connections are enhanced or reduced by the changing external environment (Adler & Kwon, 2001).

Third, the adoption of a domestic-firm perspective contributes to studies of international business. Most studies in this research stream focus on strategy and management of multinational corporations (MNCs), taking domestic competitors as less important or passive players (Chang & Xu, 2006; Li & Shenkar, 1996). Considering domestic firms as proactive players following substantial competitive foreign entry, this study broadens the one-sided view of domestic-foreign competitive dynamics, and intends to push the research frontier from the MNC-dominated paradigm to the other side of the coin, i.e. the domestic firms.

Finally, to the best of my knowledge, this is the first empirical study of formal political ties in the transition economy of China that evaluates effects of ties with different origins and destinations. Despite a considerable amount of research done on the social and political aspects of *guanxi* networks in China (Xin & Pearce, 1996; Park & Luo, 2001; Peng & Luo, 2000), studies often focused on identifying the “resources spent on building and maintaining” ties and managerial perception of ties. The important formal political ties arising from position overlaps have been under-researched. Several recent studies have started to examine the effect of political ties on access to bank loans and firm performance, but the ties examined are limited to one or two aspects such as party membership (Li *et al.*, forthcoming) and identity of former government bureaucrat (Fan & Wong, 2004), thus opportunities of comprehensive analyses of formal political ties in China are warranted.

6.3 Managerial Implications

This study has important managerial implications by providing insights into competitive reaction and implications for both domestic and foreign firms. The entry of MNCs into emerging economies is often viewed as a competitive shock and threat, if not a death sentence to the domestic firms. By demonstrating the strategic reactions that domestic firms can actually take in response to foreign entrants and by empirically examining how political ties can affect domestic firms’ strategic choice, this study provide insights for local manager in the rapidly changing competitive environment. At the same time,

managers in MNCs will also benefit by understanding the competitive behaviors and outcomes of the domestic players.

6.4 Policy Implications

My study also has implications for FDI policies, competition policies and regulations to support domestic industries. It becomes the policy priorities of many governments to attract FDI, as it is generally believed that FDI has the potential to contribute to the economic development of the host country through primary and various secondary channels. However, this dissertation raises important policy questions on the impact of FDI. Clearly, the benefits of FDI are substantially reduced if the entry of foreign firms is accompanied by substantial exit of domestic firms, particularly if such exit undermines the domestic industry. Therefore, those policies focused on attracting FDI might not be justified, especially at the firm level and in developing countries. If policy interventions are able to influence the amount of FDI inflow, it is critical for policy makers to attract FDI while at the same time create an encouraging environment for domestic firms to compete, collaborate and learn from the MNCs.

6.5 Limitations and Future Research

Though this study has provided significant details of different types of political ties, I also recognize limitations in identifying political ties. I have thus far focused on formal positional overlaps with political agencies, and not

addressed the issue of informal ties, which are formed through family, marriage, historical friendship and other personal associations. These ties exist widely in many economies, and can have great impact like formal political ties (Chung *et al.*, 2008; Faccio, 2006). Further analysis exploring the impact of informal political ties and the interplay of formal and informal ties together offers substantial research potential.

Next, a closer look at the heterogeneity of ties might be an interesting follow-up study. The number of ties may not necessarily be the most influential factor, as linkages to politicians with different political and social interests may place a firm in a dilemmatic situation, which might hurt the firm's eventual survival and performance. A study that aims to explore heterogeneous ties with different political interests warrants a deeper understanding of the values of connections.

Moreover, this study has shown that political ties have a limited life span in influencing firm dissolution, allowing connected firms to survive until they get acquired or dissolve. This finding suggests that solely relying on political ties has limited influence on firms' long-term survival and performance; it again boils down to the internal intangible assets such as firms' technological and managerial capabilities. It would be interesting to examine how political ties interplay with other firm intangible assets and impact firms' strategic choices.

My future research will also conduct detailed analyses on other types of domestic firms' strategic reaction, such as collaborate. How will the entry of MNCs impact domestic firms' choice of collaboration? Who do they collaborate with? What is the role of political ties in firms' propensity to

collaborate and how in turn will political ties affect their collaboration outcomes? All these issues are of considerable importance for strategy and organization research, and indeed for management, but which have attracted little research attention.

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FIGURES

Figure 1.1
Research Questions: Domestic Firms' Reaction to Foreign Entry

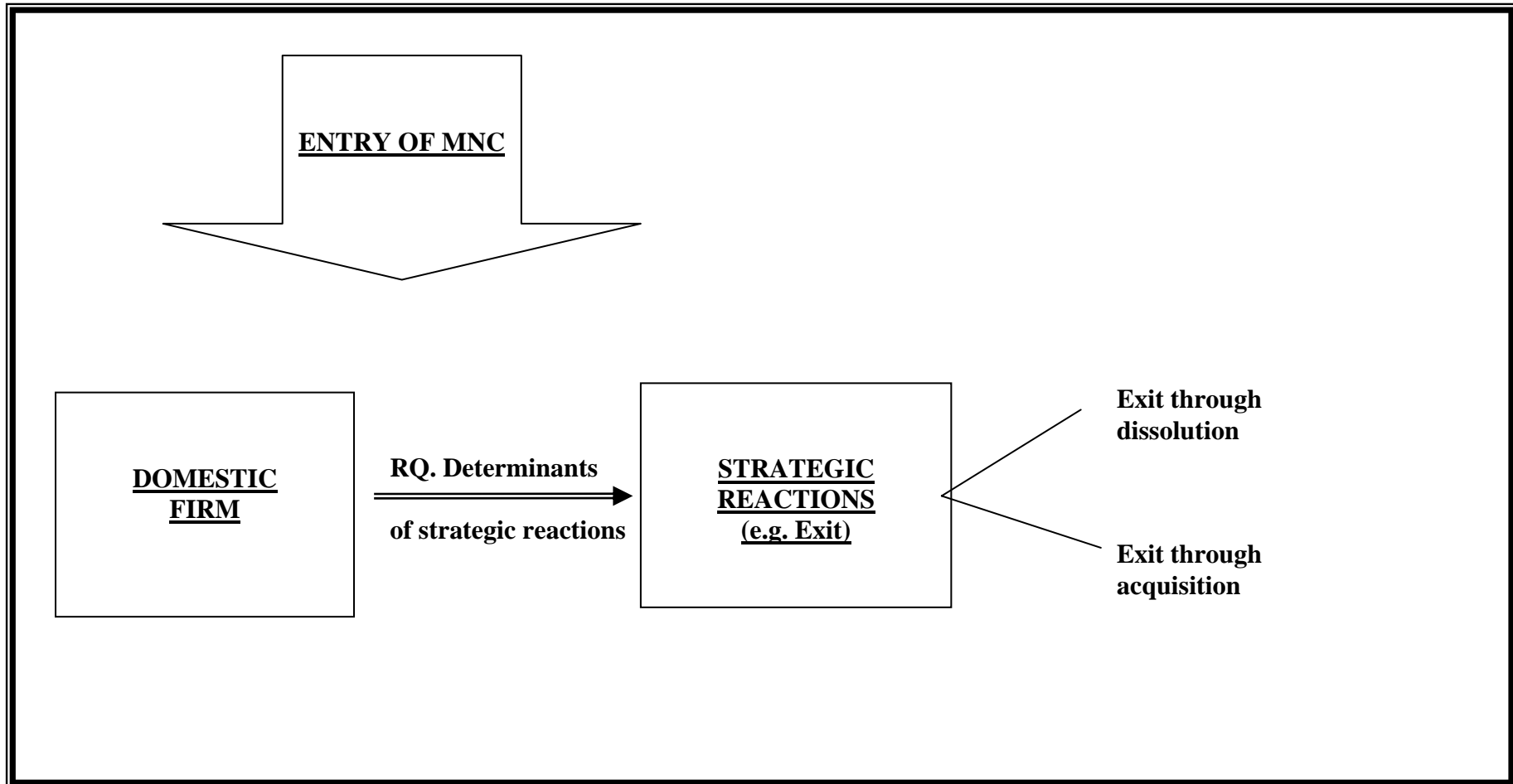


Figure 3.1 A Summary of Hypotheses

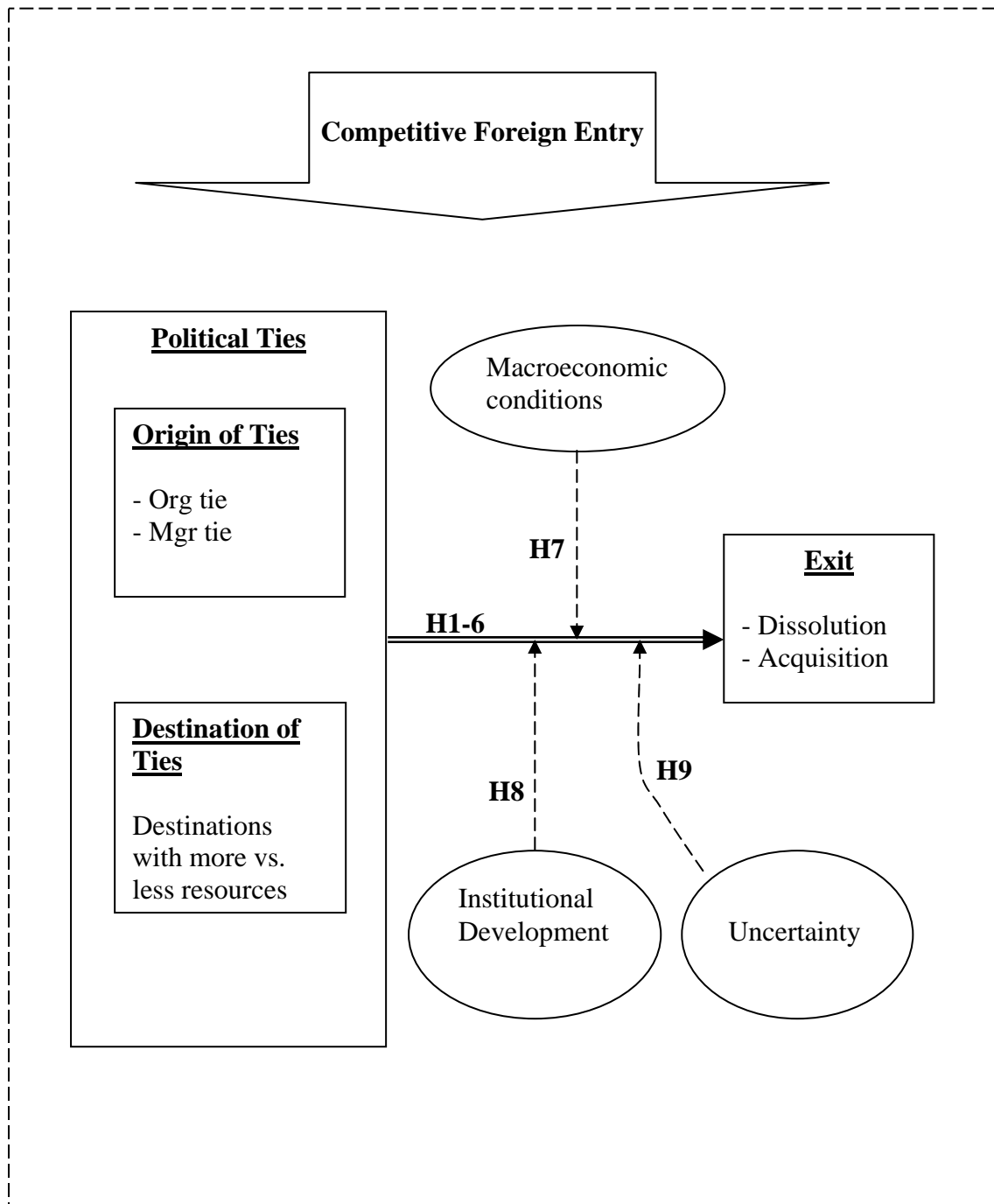
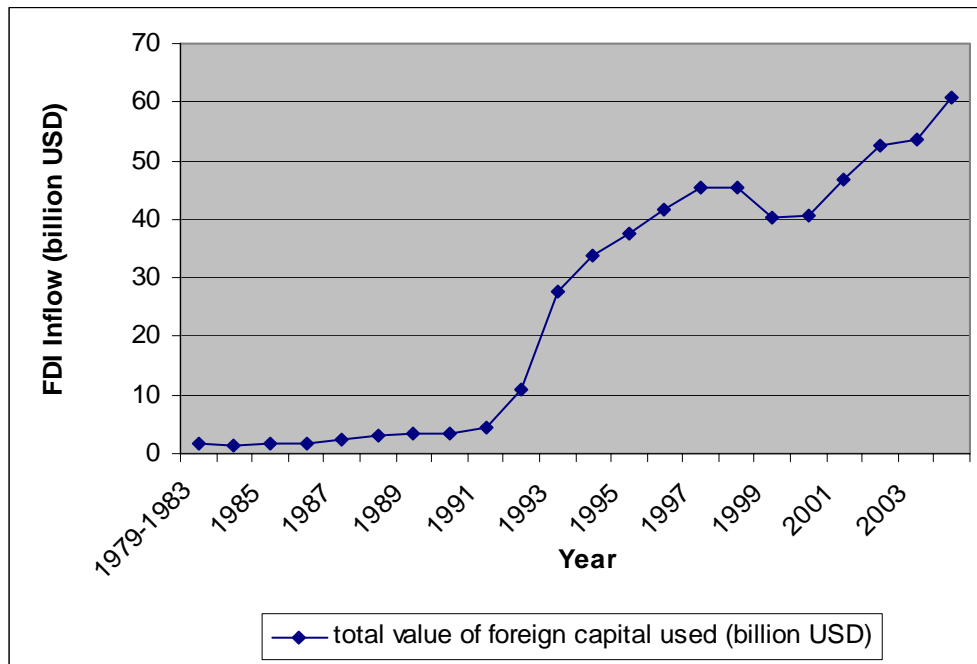


Figure 4.1.
FDI inflows into China (1979-2004)



Source: *China Statistical Yearbook* (National Bureau of Statistics of China).

Figure 4.2
Chinese TV Manufacturing Industry, 1993-2004

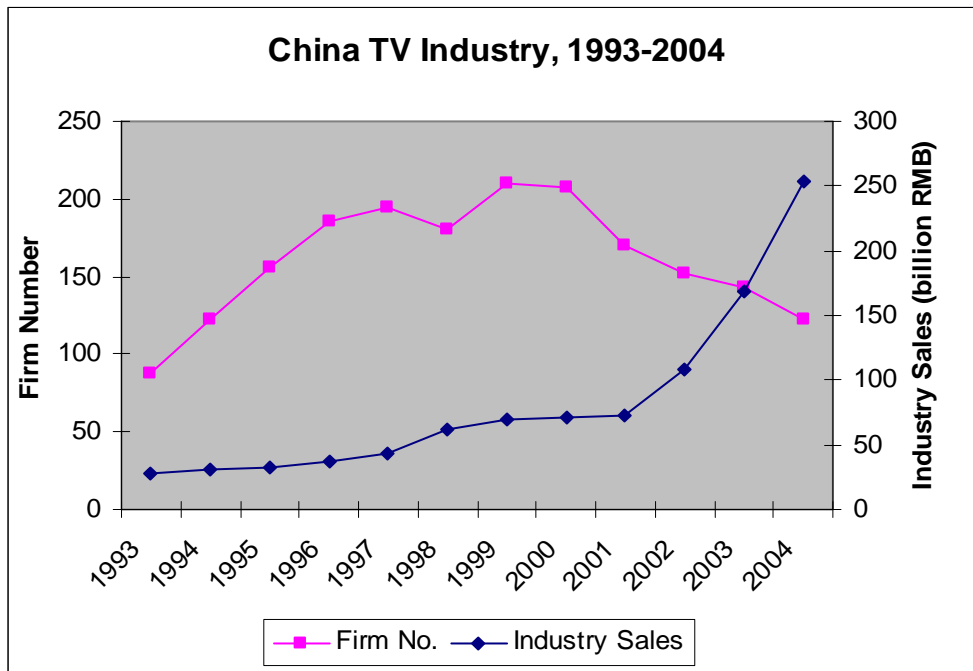


Figure 4.3
Foreign Competition in TV Industry, 1993-2003

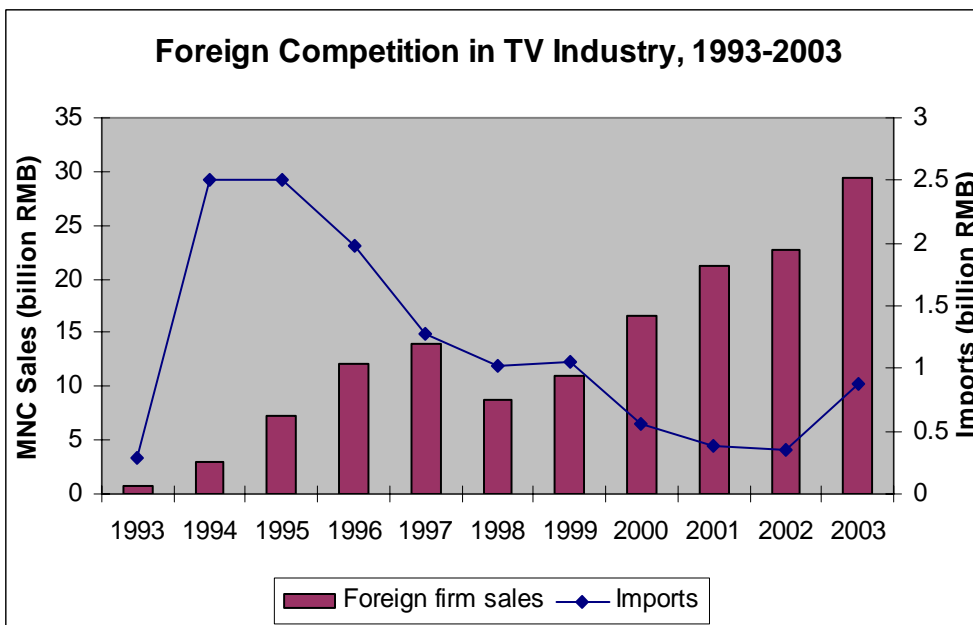


Figure 4.4 Industrial Structure of Chinese TV Manufacturing Industry

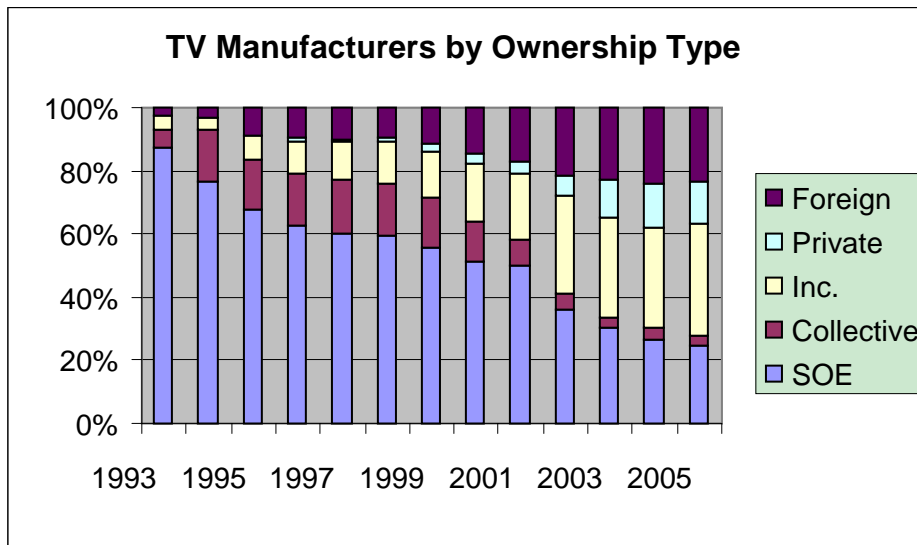


Figure 4.5a
Smoothed Hazard Rate for “Exit”



Figure 4.5b
Smoothed Hazard Rate for “Exit through Acquisition”

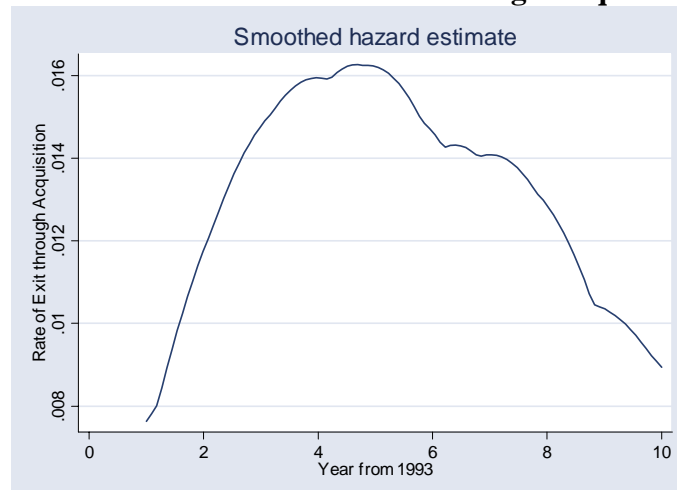


Figure 4.5c
Smoothed Hazard Rate for “Exit through Dissolution”

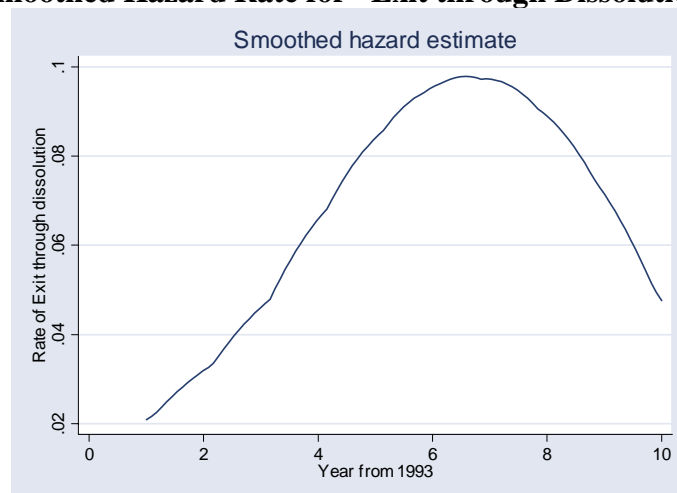


Figure 4.6
Comparison of Survivor Function

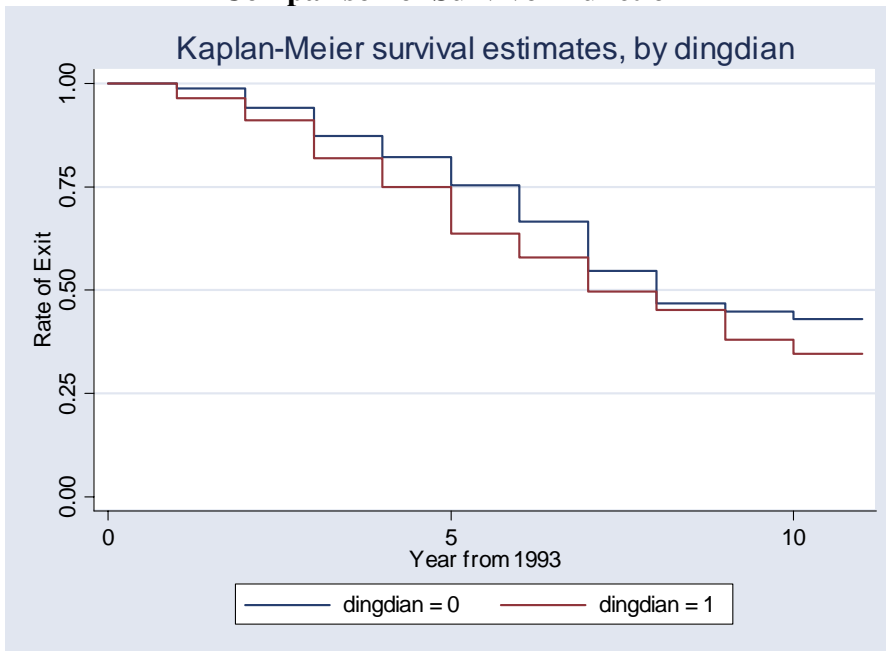
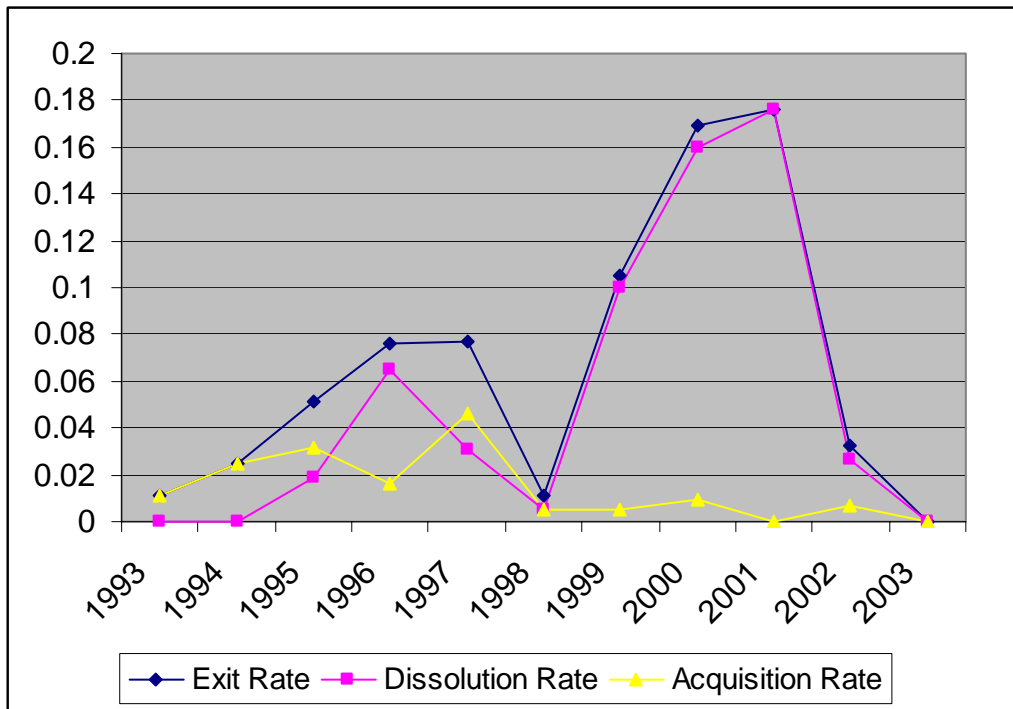


Figure 5.1
Exit Rates for TV Manufacturing Firms, 1993-2003



TABLES

Table 4.1
FDI inflows into China (1979-2004)

Year	Total value of foreign capital used (billion USD)
1979-1983	1.802
1984	1.258
1985	1.661
1986	1.874
1987	2.314
1988	3.194
1989	3.392
1990	3.487
1991	4.366
1992	11.007
1993	27.515
1994	33.767
1995	37.521
1996	41.725
1997	45.257
1998	45.463
1999	40.319
2000	40.715
2001	46.878
2002	52.743
2003	53.505
2004	60.63

Table 4.2
Brief Review of Chinese TV Manufacturing Industry

YEAR	EVENTS
Pre-reform Era	
1958	- 1 st monochrome TV set produced in China
1973	- Central government encouraged consumer electronics end products; - induced first group of entrants, most of which are controlled by local government
Late 1970s	- Second group of entrants, most of which are under direct control of Ministry of Electronics Industry and used to produce military electronic goods
Partial reform Era: 1980-1992	
1980	- Rationing system of monochrome TVs was abolished and the distribution was liberalized
1985	- the Ministry of Electronics Industry appointed 58 firms as “qualified color TV makers”
1986	- Liberalization of monochrome TV price
1991	- Liberalization of color TV price - the 58 “qualified color TV makers” were further ranked into 3 groups: A(5 firms), B(7 firms), and C.
1992	- Liberalization of production
Domestic-foreign competition	
1993	- All government controls were abolished; - entry of MNCs;
1996	Domestic manufacturer, Changhong, announced a price deduction of 8% - 18% in response to aggressive expansion of foreign firms, leading to the subsequent price war.
1998	Foreign firm started to shift to higher-end markets focusing on plasma, LCD and projection televisions.

Table 4.3
Major Foreign TV Manufacturers in China

MNCs	Manufacturers	TV Market Entry	Ownership and activity
Hitachi	Fuzhou Hitachi (Furi)	1981	50%-owned joint venture (Japan); under strict government restriction in production and sales; limited impact
Thomson	Thomson	1991	Export-oriented, French-controlled
Philips	Suzhou Philips	1994	Netherlands-controlled 51%-owned joint venture
Samsung	Tianjin Samsung	1994	50%-owned joint venture (Korea)
Sanyo	Dongguan Huaqiang Sanyo	1995	50%-owned joint venture (Japan) Started domestic sales from 1998.
Sony	Shanghai Sony (Suoguang)	1995	70%-owned joint venture (Japan)
Matsushita	Shangdong Matsushita	1995	50%-owned joint venture (Japan)
Sharp	Nanjing Sharp	1996	70%-owned joint venture (Japan)
Toshiba	Dalian Toshiba	1996	70%-owned joint venture (Japan)
LG	Shenyang LG	1996	70%-owned venture (Korea)

Table 4.4
Total Annual Exits by Year

Year	Firms in Industry	Total Exits	Dissolution	Acquisition
1993	87	1	0	1
1994	122	3	0	3
1995	156	8	3	5
1996	185	15	12	3
1997	195	15	6	9
1998	181	2	1	1
1999	210	22	21	1
2000	207	35	33	2
2001	170	30	30	0
2002	152	5	4	1
2003	143	0	0	0
Total	330	136	110	26

Note: all data measures at the end of each year.

Table 4.5
List of Variables and Definitions

VARIABLES	DESCRIPTION	SOURCES
DV: Reaction		
Exit	A dichotomous variable that took the value of 1 in the year in which a firm discontinued its operations either in the TV segment or as a corporation, or 0 otherwise.	- China Electronics New (CEN) - Wanfang Data Ltd - internet sources
- Exit through Acquisition	A dichotomous variable that took the value of 1 in the year in which a firm discontinued its operations on its own accord, or 0 otherwise	
- Exit through Dissolution	A dichotomous variable that took the value of 1 in the year in which 50% (or above) equity of a firm was acquired, or 0 otherwise	
Explanatory Variables		
Political Ties		
Organizational Ties	- owned partially or entirely by the government - Membership of “qualified TV makers”. An industry-specific measure. The “qualified TV maker” group (58 firms) measures an important affiliation of a firm with the political institution, and reflects the support and intervention the firm receives from the government.	Wanfang Data Ltd - China Electronics Industry Yearbook (CEIY) - Data shared by Prof Tomoo Marukawa

Managerial Ties	<ul style="list-style-type: none"> - Managerial ties are measured as a count variable. A managerial tie is recorded if the CEO/Chairman/executives of a firm: - is currently serving or used to serve in government (at various levels), industrial ministries and bureaus, or regulatory and supporting institutions such as tax bureau and other administrative bureaus - is a member of the Committee of the Communist Party of China - is on the national or regional committee of the Chinese People's Political Consultative Conference - is a member of the Committee of the National or regional People's Congress 	<ul style="list-style-type: none"> (1) official websites of the government, the legislature and the political party, at central, provincial and municipal levels; (2) <i>China VIPs</i> (the 2003 edition); (3) Xinhua News Agency; and (4) search on individuals managers of sample firms on the internet.
Central ties	Organizational or managerial ties (as described above) at the national level	<ul style="list-style-type: none"> (1) official websites of the government, the legislature and the political party, at central, provincial and municipal levels; (2) <i>China VIPs</i> (the 2003 edition); (3) Xinhua News Agency; and (4) search on individuals managers of sample firms on the internet. (5) Wanfang Data Ltd
Local Ties	Organizational or managerial ties (as described above) at the local (provincial and municipal) level	Similar as above for central ties
Control Variables		
Size	Logarithm of total employment of each firm; time varying, measured annually	Wanfang Data Ltd
Age	Number of years since corporate foundation	Wanfang Data Ltd
Diversified	A count variable counting the number of industries a firm operates in, which have different 2-digit SIC code from SIC3651. Time varying, measured annually.	Wanfang Data Ltd

Permit to export	A dichotomous variable that indicates whether the domestic firm is granted a permit to export	Wanfang Data Ltd
Economic Region	Seven region indicator variables, taking the value of 1 for firms founded within the region or 0 otherwise. Fixed.	<i>Shanghai Security News</i>
Industry density	Number of local and foreign firms operating in the TV manufacturing industry annually	China Electronics Industry Yearbook
Foreign direct competition	Share of foreign firm's sales as % of total industry sales value. Time varying, measured annually	China Electronics Industry Yearbook (1993 to 2004)
Import competition	Ratio of imported TVs as % of total industry sales value. Time varying, measured annually	China Electronics Industry Yearbook (1993 to 2004) China Commerce Yearbook (1993-2004)
Regional economic development	GDP per capita in each province, autonomous regions and centrally administered municipalities. Time varying, measured annually	China Statistical Yearbook
Legal effectiveness	Number of civil cases filed in central law court annually. Time varying, measured annually	China Statistical Yearbook
Market development	The proportion of the gross output value produced by private firms in the economy to that of SOEs.	China Statistical Yearbook
Market uncertainty	Absolute percentage difference between estimated industry sales and realized industry sales. Time varying, measured annually	China Electronics Industry Yearbook (1993 to 2004)
FDI inflow	Total value of foreign direct capital invested in China annually	China Statistical Yearbook
Year dummies	Eleven years are grouped into eight groups to avoid a "perfect failure determination" problem, i.e. 0 exit (or acquisition/dissolution) in a particular year.	

Table 5.1
Descriptive Statistics for Complete Sample (N=1452; Figures and Pearson Correlation Coefficients)

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1. Exit	1																							
2. Dissolution	0.894	1																						
3. Acquisition	0.42	-0.007	1																					
4. SOE	0.024	-0.020	0.093	1																				
5. Qualified maker	0.044	-0.035	0.171	0.319	1																			
6. Mgr Tie	-0.033	-0.054	0.034	-0.016	-0.019	1																		
7. Local Org Tie	0.013	0.027	-0.025	0.127	0.058	-0.059	1																	
8. Central Ogr Tie	-0.058	-0.051	-0.024	-0.010	-0.057	0.698	-0.048	1																
9. Local Mgr Tie	0.003	-0.037	0.076	0.030	0.030	0.803	-0.048	0.297	1															
10. Local	-0.004	-0.008	0.005	0.113	0.058	0.513	0.670	0.170	0.647	1														
11. Government	0.020	-0.008	0.063	-0.038	0.099	0.325	-0.025	0.072	0.456	0.274	1													
12. Legislature	-0.030	-0.051	0.036	0.005	-0.041	0.869	-0.054	0.686	0.781	0.493	0.098	1												
13. Party	-0.022	-0.017	-0.015	-0.019	-0.001	0.572	-0.031	0.456	0.277	0.214	0.077	0.282	1											
14. Age	0.037	0.008	0.059	0.384	0.461	-0.004	0.095	-0.069	0.059	0.120	0.059	0.001	-0.033	1										
15. Size	-0.064	-0.097	0.047	0.343	0.293	0.217	-0.079	0.274	0.108	0.027	0.048	0.182	0.146	0.371	1									
16. Diversified	-0.071	-0.059	-0.035	0.001	-0.014	0.008	-0.066	0.014	0.001	-0.041	0.055	0.000	-0.007	0.128	0.226	1								
17. Permit	-0.022	-0.044	0.049	0.057	0.139	0.168	-0.098	0.170	0.080	-0.003	0.057	0.172	0.074	0.212	0.345	0.221	1							
18. Ind Density	0.158	0.167	0.022	0.045	-0.069	-0.062	0.014	-0.031	-0.060	-0.023	-0.054	-0.045	-0.033	-0.008	-0.051	0.067	0.024	1						
19. % Foreign sale	0.114	0.109	0.040	-0.055	-0.078	-0.029	-0.002	-0.005	-0.034	-0.025	-0.034	-0.014	-0.023	-0.010	-0.019	0.018	0.076	0.535	1					
20. % imports	-0.058	-0.098	0.073	0.148	0.159	-0.019	0.051	-0.065	-0.001	0.027	0.002	-0.023	-0.022	0.021	-0.018	-0.125	-0.030	-0.222	0.054	1				
21. Provincial GDP	-0.022	0.015	-0.083	-0.332	-0.231	-0.032	0.315	-0.008	-0.036	0.198	-0.050	-0.011	0.017	-0.097	-0.199	0.063	0.0147	-0.114	0.122	-0.322	1			
22. Case	0.098	0.125	-0.032	-0.137	-0.195	-0.017	-0.037	0.035	-0.031	-0.040	-0.028	-0.003	-0.004	-0.032	-0.051	0.179	0.087	0.765	0.526	-0.461	0.244	1		
23. FDI	-0.177	-0.179	-0.042	-0.149	-0.064	0.052	-0.050	0.059	0.039	-0.010	0.046	0.043	0.036	-0.020	0.028	0.165	0.032	-0.511	-0.397	-0.403	0.236	-0.101	1	

24. Uncertainty	-0.041	-0.028	-0.046	-0.260	-0.206	0.040	-0.072	0.083	0.018	-0.037	0.024	0.043	0.029	-0.042	-0.0001	0.229	0.116	-0.034	0.392	-0.516	0.481	0.494	0.566	1
Mean	0.07	0.05	0.01	0.60	0.18	0.12	0.05	0.05	0.07	0.10	0.01	0.08	0.02	22.46	6.75	0.89	0.18	166.17	0.21	0.03	1.27	5096.1	0.23	44.09
S.D.	0.25	0.23	0.11	0.49	0.39	0.47	0.21	0.22	0.30	0.30	0.11	0.34	0.14	14.22	1.57	1.24	0.38	34.22	0.08	0.03	0.84	534.47	0.19	7.54
Min.	0	0	0	0	0	0	0	0	0	0	0	0	0	0.97	1.61	0	0	87	0.03	0.00	0.12	3414.8	0.02	27.52
Max.	1	1	1	1	1	3	1	2	3	1	1	3	1	73	11.09	8	1	210	0.33	0.08	5.15	5692.4	0.56	60.63

All correlations >0.015 or <-0.015 are significant at .05 level.

Table 5.2
Log-logistic Estimates of Political Ties and Firm Exit, 1993-2003
 (positive coefficient = more likely to survive = less likely to exit)

Variables	(1) Baseline	(2) Org Tie	(3) Mgr Tie	(4) Mgr Tie squared	(5) Full
Age	-0.004 (0.004)	-0.001 (0.004)	-0.002 (0.003)	-0.002 (0.004)	-0.001 (0.004)
Size	0.121*** (0.035)	0.132*** (0.041)	0.089*** (0.028)	0.084*** (0.029)	0.098*** (0.037)
Diversified	0.255*** (0.087)	0.267*** (0.093)	0.283*** (0.085)	0.292*** (0.086)	0.292*** (0.091)
Permit	-0.073 (0.112)	-0.051 (0.116)	-0.011 (0.114)	-0.003 (0.115)	0.027 (0.119)
% Imports	1.932 (2.673)	3.254 (2.786)	3.599 (2.325)	3.686 (2.350)	4.511* (2.509)
% Foreign sales	-3.017*** (0.785)	-3.103*** (0.812)	-3.202*** (0.749)	-3.211*** (0.754)	-3.232*** (0.783)
Industry Density	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)
FDI inflow	0.075*** (0.014)	0.076*** (0.014)	0.076*** (0.012)	0.076*** (0.012)	0.077*** (0.012)
SOE		0.006 (0.105)			0.055 (0.099)
Qualified maker		-0.220* (0.119)			-0.204* (0.114)
Mgr Tie			0.058 (0.107)	0.602* (0.348)	0.584* (0.353)
(Mgr Tie) ²				-0.223* (0.129)	-0.219* (0.131)
Constant	-1.637** (0.797)	-1.763** (0.771)	-1.636*** (0.623)	-1.596** (0.628)	-1.649*** (0.632)
Observations	1452	1452	1452	1452	1452
Firm #	248	248	248	248	248
Log likelihood	-155.528***	-150.955***	-181.079***	-179.393***	-172.626***

Dependent variable: survival

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10;

** p<0.05;

*** p<0.01.

Table 5.3
Log-logistic Estimates of Political Ties and Firm Exit Mode, 1993-2003
(positive coefficient = more likely to survive = less likely to dissolve/be acquired)

Variables	(1) Dissolution Exit	(2) Acquisition Exit
Age	-0.002 (0.003)	-0.006 (0.004)
Size	0.097** (0.041)	0.128 (0.096)
Diversified	0.366*** (0.104)	0.109 (0.197)
Permit	0.153 (0.155)	-0.179 (0.213)
% Imports	9.030** (3.782)	-5.601 (4.948)
% Foreign sales	-3.743*** (0.955)	-3.096* (1.853)
Industry Density	0.001 (0.002)	0.005 (0.005)
FDI inflow	0.079*** (0.016)	0.051* (0.029)
SOE	0.145 (0.105)	-5.884 (439.956)
Qualified maker	0.061 (0.143)	-0.782*** (0.302)
Mgr Tie	0.427* (0.228)	-0.228 (0.156)
Constant	-1.616* (0.909)	5.736 (439.961)
Observations	1356	1035
Firm #	225	171
Log likelihood	-124.552***	-57.171***

Dependent variable: survival

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10;

** p<0.05;

*** p<0.01.

Table 5.4
Exit and Political Ties at National and Local Levels, 1993-2003
(positive coefficient = more likely to survive = less likely to exit/ dissolve/be acquired)

Variables	Exit		Exit through Dissolution		Exit through Acquisition	
	(1)	(2)	(3)	(4)	(5)	(6)
Age	-0.004 (0.004)	-0.002 (0.004)	-0.007 (0.005)	-0.004 (0.005)	-0.005 (0.005)	-0.004 (0.005)
Size	0.128*** (0.036)	0.099*** (0.036)	0.210*** (0.051)	0.178*** (0.051)	-0.028 (0.063)	-0.052 (0.069)
Diversified	0.254*** (0.086)	0.267*** (0.086)	0.268** (0.110)	0.280** (0.110)	0.287 (0.175)	0.310* (0.184)
Permit	-0.012 (0.114)	-0.004 (0.115)	0.153 (0.155)	0.161 (0.155)	-0.179 (0.213)	-0.153 (0.220)
% Imports	1.976 (2.649)	2.273 (2.634)	9.765** (4.273)	9.738** (4.236)	-9.277* (5.225)	-8.269 (5.142)
% Foreign sales	-3.038*** (0.779)	-3.012*** (0.776)	-4.139*** (1.085)	-4.078*** (1.075)	-2.598 (1.698)	-2.582 (1.698)
Industry Density	0.002 (0.002)	0.002 (0.002)	0.001 (0.003)	0.001 (0.003)	0.003 (0.005)	0.003 (0.005)
FDI inflow	0.075*** (0.014)	0.075*** (0.014)	0.091*** (0.019)	0.090*** (0.018)	0.052* (0.030)	0.051* (0.029)
Local Org Tie	0.211 (0.165)		0.156 (0.201)		5.244 (569.049)	
Central Mgr Tie		4.723 (258.703)		4.659 (239.666)		5.215 (338.224)
Local Mgr Tie		-0.124 (0.125)		0.038 (0.310)		-0.312* (0.159)
Constant	-1.721** (0.792)	-1.536** (0.783)	-2.524** (1.051)	-2.360** (1.041)	0.631 (1.790)	0.952 (1.800)
Observations	1452	1452	1356	1356	1035	1035
Firm #	248	248	225	225	171	171
Log likelihood	-154.667***	-150.778***	-112.311***	-109.964***	-68.444***	-65.866***

Dependent variable: survival

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10;

** p<0.05;

*** p<0.01.

Table 5.5
Exit and Political Ties with Different Destination, 1993-2003
(positive coefficient = more likely to survive = less likely to exit/ dissolve/be acquired)

Variables	Exit			Exit through Dissolution			Exit through Acquisition		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Age	-0.003 (0.004)	-0.003 (0.004)	-0.004 (0.004)	-0.006 (0.005)	-0.006 (0.005)	-0.006 (0.005)	-0.003 (0.004)	-0.003 (0.005)	-0.003 (0.005)
Size	0.094*** (0.028)	0.113*** (0.036)	0.119*** (0.036)	0.208*** (0.051)	0.137*** (0.036)	0.206*** (0.051)	-0.032 (0.067)	-0.025 (0.065)	-0.018 (0.056)
Diversified	0.282*** (0.086)	0.261*** (0.087)	0.257*** (0.087)	0.266** (0.111)	0.327*** (0.102)	0.268** (0.111)	0.288 (0.183)	0.275 (0.178)	0.267* (0.146)
% Imports	3.976* (2.358)	1.844 (2.654)	1.896 (2.671)	10.017** (4.354)	9.430** (3.715)	9.904** (4.330)	-8.904* (5.286)	-9.270* (5.292)	-24.653*** (7.841)
% Foreign sales	-3.338*** (0.760)	-2.986*** (0.780)	-2.983*** (0.784)	-4.193*** (1.111)	-3.878*** (0.961)	-4.145*** (1.100)	-2.790 (1.748)	-2.675 (1.734)	0.701 (1.575)
Industry Density	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.001 (0.003)	0.000 (0.002)	0.001 (0.003)	0.003 (0.005)	0.003 (0.005)	-0.008 (0.006)
FDI inflow	0.077*** (0.012)	0.075*** (0.014)	0.075*** (0.014)	0.092*** (0.019)	0.080*** (0.016)	0.091*** (0.019)	0.054* (0.030)	0.053* (0.030)	-0.030 (0.038)
Government Tie	-0.501* (0.300)			-0.147 (0.505)			-0.678* (0.403)		
Legislature Tie		0.165 (0.161)			0.606* (0.361)			-0.119 (0.159)	
Party Tie			0.227 (0.366)			0.028 (0.418)			3.311 (276.419)
Constant	-1.666*** (0.624)	-1.606** (0.796)	-1.614** (0.800)	-2.508** (1.056)	-1.725* (0.908)	-2.476** (1.055)	0.749 (1.824)	0.657 (1.813)	5.881** (2.689)
Observations	1452	1452	1452	1356	1356	1356	1035	1035	1035
Firm #	248	248	248	225	225	225	171	171	171
Log likelihood	-	-	-	-	-	-	-	-	-56.403***
	179.914***	154.919***	155.315***	112.570***	130.942***	112.609***	68.552***	69.811***	

Dependent variable: survival

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10;

** p<0.05;

*** p<0.01.

Table 5.6a
Timing of Effects on Exit through Dissolution, 1993-2003
(positive coefficient = more likely to survive = less likely to dissolve)

Variables	Dissolution(t+1)			Dissolution(t+2)			Dissolution(t+3)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Age	-0.006 (0.005)	-0.004 (0.005)	-0.006 (0.005)	-0.010 (0.007)	-0.007 (0.007)	-0.010 (0.007)	-0.000 (0.009)	0.003 (0.009)	0.000 (0.009)
Size	0.097** (0.041)	0.182*** (0.051)	0.137*** (0.036)	0.175*** (0.057)	0.236*** (0.067)	0.270*** (0.068)	0.182** (0.079)	0.281*** (0.088)	0.244*** (0.066)
Diversified	0.366*** (0.104)	0.282*** (0.108)	0.327*** (0.102)	0.289** (0.139)	0.179 (0.146)	0.166 (0.150)	0.309* (0.186)	0.173 (0.192)	0.228 (0.184)
% Imports	9.030** (3.782)	9.582** (4.181)	9.430** (3.715)	-7.086 (4.688)	-7.667 (5.270)	-7.736 (5.374)	-17.792* (9.161)	-18.678** (8.897)	-19.297** (9.339)
% Foreign sales	-3.743*** (0.955)	-4.066*** (1.064)	-3.878*** (0.961)	3.813*** (1.286)	3.850*** (1.367)	3.885*** (1.402)	4.085 (2.588)	4.740* (2.736)	4.515* (2.673)
Industry Density	0.001 (0.002)	0.001 (0.003)	0.000 (0.002)	-0.015*** (0.005)	-0.014*** (0.005)	-0.015*** (0.005)	-0.014** (0.007)	-0.012* (0.007)	-0.014** (0.007)
FDI inflow	0.079*** (0.016)	0.090*** (0.018)	0.080*** (0.016)	0.048** (0.023)	0.054** (0.026)	0.056** (0.027)	0.031 (0.051)	0.036 (0.050)	0.028 (0.052)
SOE	0.145 (0.105)			0.100 (0.143)			0.183 (0.192)		
Qualified maker	0.061 (0.143)			-0.076 (0.197)			0.211 (0.285)		
Mgr Tie	0.427* (0.228)			0.487 (0.298)			6.805 (445.458)		
Local Org Tie		0.160 (0.197)			0.168 (0.267)			-0.081 (0.326)	
Central Mgr Tie		5.266 (669.137)			6.129 (274.567)			6.722 (657.480)	
Local Mgr Tie		0.048 (0.307)			0.056 (0.380)			6.885 (546.715)	
Government Tie			-0.147 (0.505)			-0.461 (0.691)			7.593 (1,931.000)
Legislature Tie			0.606* (0.361)			0.749 (0.461)			7.245 (597.417)
Party Tie			0.028 (0.418)			-0.064 (0.538)			6.338 (441.524)
Constant	-1.616* (0.909)	-2.408** (1.039)	-1.725* (0.908)	0.856 (1.471)	0.413 (1.686)	0.324 (1.705)	1.930 (3.070)	0.695 (2.924)	1.943 (3.095)
Observations	1356	1356	1356	735	735	735	471	471	471
Firm #	225	225	225	225	225	225	225	225	225
Log likelihood	-124.552***	-109.633***	-130.942***	-148.978***	-137.815***	-140.496***	-101.893***	-96.125***	-94.035***

Dependent variable: survival

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10;

** p<0.05;

*** p<0.01.

Table 5.6b
Timing of Effects on Exit through Acquisition, 1993-2003
 (positive coefficient = more likely to survive = less likely to be acquired)

Variables	Acquisition(t+1)			Acquisition(t+2)			Acquisition(t+3)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Age	-0.003 (0.004)	-0.003 (0.005)	-0.003 (0.005)	-0.004 (0.004)	-0.006 (0.006)	-0.006 (0.006)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Size	0.128 (0.096)	-0.053 (0.068)	-0.032 (0.067)	0.182** (0.092)	-0.046 (0.073)	0.002 (0.061)	0.085 (0.080)	-0.006 (0.084)	0.025 (0.061)
Diversified	0.109 (0.197)	0.316* (0.184)	0.288 (0.183)	-0.316* (0.188)	-0.098 (0.163)	-0.141 (0.154)	-0.064 (0.174)	0.114 (0.240)	0.054 (0.163)
% Imports	-5.601 (4.948)	-8.288 (5.124)	-8.904* (5.286)	-2.629 (2.991)	-5.847 (3.818)	-3.930 (2.768)	10.036 (6.470)	-1.813 (4.422)	10.323* (6.054)
% Foreign sales	-3.096* (1.853)	-2.559 (1.685)	-2.790 (1.748)	-5.533*** (1.893)	-4.462** (1.748)	-5.874*** (1.868)	-11.196** (5.153)	-1.157 (2.619)	-11.881** (4.799)
Industry Density	0.005 (0.005)	0.003 (0.005)	0.003 (0.005)	0.010** (0.005)	0.008* (0.004)	0.010** (0.004)	-0.001 (0.005)	0.006 (0.004)	-0.002 (0.005)
FDI inflow	0.051* (0.029)	0.051* (0.029)	0.054* (0.030)	0.114*** (0.032)	0.102*** (0.030)	0.128*** (0.031)	0.272*** (0.099)	0.090** (0.040)	0.289*** (0.091)
SOE	-5.884 (439.956)			-5.081 (560.676)			-2.899 (726.979)		
Qualified maker	-0.782*** (0.302)			-0.710** (0.277)			-0.219 (0.183)		
Mgr Tie	-0.228 (0.156)			-0.283** (0.131)			-0.163 (0.103)		
Local Ogr Tie		5.181 (530.766)			221.154 (0.000)			160.638 (0.000)	
Central Mgr Tie		5.326 (430.422)			221.535 (0.000)			161.084 (0.000)	
Local Mgr Tie		-0.294* (0.157)			-0.363** (0.149)			-0.278* (0.158)	
Government Tie			-0.678* (0.403)			-0.766** (0.328)			-0.341 (0.242)
Legislature Tie			-0.119 (0.159)			-0.246* (0.149)			-0.183 (0.119)
Party Tie			3.311 (276.419)			3.722 (382.155)			98.233 (0.000)
Constant	5.736 (439.961)	0.915 (1.788)	0.749 (1.824)	1.613 (560.677)	-1.451 (1.541)	-3.089*** (1.101)	-4.172 (726.984)	-2.007 (1.406)	-7.195*** (2.197)
Observations	1035	1035	1035	606	606	606	364	364	364
Firm #	171	171	171	171	171	171	171	171	171
Log likelihood	-	-	-	-	-	-	-21.567***	-	-
	57.171***	64.270***	68.552***	47.118***	56.294***	58.964***		23.339***	24.245***

Dependent variable: survival

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10;

** p<0.05;

*** p<0.01.

Table 5.6c
Summary: Timing of Effects

Dependent Variables	Independent Variables	T+1	T+2	T+3
Dissolution Exit	Total Managerial tie	+		
	Local tie			
	Government tie			
	Legislature tie	+		
	Party tie			
Acquisition Exit	Total Managerial tie		-	
	Local tie	-	-	-
	Government tie	-	-	
	Legislature tie		-	
	Party tie			

Table 5.7a
Political Ties and Firm Exit across Economic Regions
(positive coefficient = more likely to survive = less likely to exit)

	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)
Age	-0.004 (0.004)	-0.002 (0.004)	-0.004 (0.004)	-0.002 (0.004)	-0.004 (0.004)	-0.005 (0.004)	-0.004 (0.004)	-0.004 (0.004)
Size	0.126*** (0.038)	0.155*** (0.039)	0.098*** (0.029)	0.104*** (0.029)	0.103*** (0.029)	0.104*** (0.029)	0.099*** (0.029)	0.100*** (0.029)
Diversified	0.263*** (0.089)	0.207** (0.086)	0.267*** (0.085)	0.260*** (0.085)	0.270*** (0.084)	0.256*** (0.083)	0.269*** (0.085)	0.265*** (0.084)
% Imports	2.692 (2.638)	2.973 (2.648)	3.976* (2.306)	3.579 (2.309)	3.970* (2.315)	3.823* (2.305)	4.062* (2.309)	3.758* (2.278)
% Foreign sales	-2.928*** (0.775)	-2.910*** (0.769)	-3.133*** (0.741)	-3.188*** (0.753)	-3.133*** (0.738)	-3.092*** (0.734)	-3.157*** (0.742)	-3.057*** (0.734)
Industry Density	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)
FDI inflow	0.070*** (0.014)	0.072*** (0.014)	0.072*** (0.012)	0.075*** (0.012)	0.071*** (0.012)	0.071*** (0.012)	0.072*** (0.012)	0.072*** (0.012)
Provincial GDP	0.047 (0.090)	0.084 (0.064)	0.070 (0.056)	0.067 (0.067)	0.069 (0.056)	0.075 (0.056)	0.068 (0.056)	0.077 (0.056)
SOE	-0.101 (0.181)							
SOE*GDP	0.093 (0.115)							
Qualified maker		-0.265* (0.156)						
Qualified*GDP		0.077 (0.133)						
Mgr Tie			-0.461** (0.211)					
Mgr tie*GDP			0.851** (0.413)					
Local Org Tie				1.576 (1.080)				
Local org tie*GDP				-0.523 (0.372)				
Local Mgr Tie					-0.526*** (0.201)			
Local mgr tie*GDP					0.826** (0.407)			
Government Tie						-1.450** (0.628)		
Government*GDP						1.979* (1.185)		
Legislature Tie							-0.571** (0.267)	
Legislature*GDP							0.964** (0.466)	
Party Tie								-0.600 (0.941)
Party*GDP								1.136 (1.323)
Constant	-1.640** (0.753)	-1.870** (0.756)	-1.561** (0.614)	-1.746*** (0.619)	-1.561** (0.621)	-1.571** (0.624)	-1.592*** (0.611)	-1.648*** (0.606)
Observations	1452	1452	1452	1452	1452	1452	1452	1452
Firm #	248	248	248	248	248	248	248	248
Log likelihood	-	-	-	-	-	-	-	-
	150.89***	151.76***	176.14***	178.70***	176.56***	177.50***	176.59***	179.34***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.7b
Political Ties and Dissolution Exit across Economic Regions
(positive coefficient = more likely to survive = less likely to dissolve)

Variables	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)
Age	-0.007 (0.005)	-0.006 (0.005)	-0.004 (0.005)	-0.007 (0.005)	-0.005 (0.005)	-0.006 (0.005)	-0.004 (0.005)	-0.006 (0.005)
Size	0.189*** (0.052)	0.210*** (0.052)	0.191*** (0.051)	0.217*** (0.052)	0.207*** (0.051)	0.212*** (0.051)	0.192*** (0.051)	0.207*** (0.051)
Diversified	0.311*** (0.118)	0.250** (0.110)	0.261** (0.109)	0.244** (0.113)	0.256** (0.110)	0.242** (0.109)	0.261** (0.109)	0.251** (0.110)
% Imports	10.401** (4.497)	9.593** (4.252)	9.393** (4.179)	9.492** (4.276)	9.668** (4.244)	9.743** (4.238)	9.498** (4.195)	9.657** (4.229)
% Foreign sales	-4.091*** (1.106)	-4.001*** (1.074)	-3.911*** (1.059)	-4.138*** (1.109)	-3.990*** (1.078)	-4.059*** (1.088)	-3.973*** (1.063)	-4.010*** (1.076)
Industry Density	0.002 (0.003)	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)
FDI inflow	0.087*** (0.019)	0.088*** (0.019)	0.086*** (0.018)	0.092*** (0.020)	0.087*** (0.019)	0.088*** (0.019)	0.087*** (0.018)	0.087*** (0.019)
Provincial GDP	0.038 (0.104)	0.063 (0.074)	0.062 (0.067)	0.061 (0.083)	0.060 (0.068)	0.058 (0.068)	0.061 (0.067)	0.057 (0.068)
SOE	0.060 (0.216)							
SOE*GDP	0.035 (0.136)							
Qualified maker		0.048 (0.228)						
Qualified*GDP		-0.009 (0.179)						
Mgr Tie			0.138 (0.546)					
Mgr tie*GDP			0.230 (0.615)					
Local Org Tie				1.537 (1.289)				
Local org*GDP				-0.526 (0.442)				
Local Mgr tie					-0.225 (0.722)			
Local mgr*GDP					0.529 (0.756)			
Government Tie						-2.341 (2.912)		
Government*GDP						3.127 (4.232)		
Legislature Tie							0.645 (0.965)	
Legislature*GDP							-0.143 (0.823)	
Party Tie								-0.862 (1.043)
Party*GDP								1.166 (1.460)
Constant	-2.388** (1.026)	-2.482** (1.040)	-2.392** (1.031)	-2.613** (1.074)	-2.460** (1.028)	-2.540** (1.030)	-2.435** (1.032)	-2.401** (1.039)
Observations	1356	1356	1356	1356	1356	1356	1356	1356
Firm #	225	225	225	225	225	225	225	225
Log likelihood	-	-	-	-	-	-	-	-
	109.10***	112.19***	110.40***	111.33***	111.31***	111.53***	110.43***	111.77***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.7c
Political Ties and Acquisition Exit across Economic Regions
 (positive coefficient = more likely to survive = less likely to be acquired)

Variables	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)
Age	-0.004 (0.005)	-0.004 (0.006)	-0.004 (0.005)	-0.002 (0.006)	-0.004 (0.005)	0.000 (0.006)	-0.004 (0.005)	0.000 (0.006)
Size	0.022 (0.057)	0.080 (0.070)	0.010 (0.066)	0.010 (0.063)	0.009 (0.066)	0.005 (0.063)	0.008 (0.066)	0.009 (0.063)
Diversified	0.205 (0.138)	0.166 (0.135)	0.221 (0.162)	0.222 (0.158)	0.232 (0.164)	0.213 (0.158)	0.229 (0.163)	0.220 (0.158)
% Imports	-19.820*** (7.361)	-18.190** (7.430)	-5.806 (4.352)	-5.971 (4.375)	-5.797 (4.367)	-5.799 (4.324)	-5.782 (4.361)	-5.824 (4.320)
% Foreign sales	0.504 (1.511)	0.309 (1.563)	-2.530* (1.517)	-2.386 (1.488)	-2.515* (1.505)	-2.345 (1.468)	-2.513* (1.519)	-2.378 (1.481)
Industry Density	-0.005 (0.006)	-0.004 (0.006)	0.004 (0.004)	0.004 (0.004)	0.004 (0.004)	0.004 (0.004)	0.004 (0.004)	0.004 (0.004)
FDI inflow	-0.027 (0.037)	-0.020 (0.037)	0.044* (0.026)	0.043* (0.026)	0.043* (0.026)	0.041 (0.026)	0.044* (0.026)	0.043* (0.026)
Provincial GDP	0.248 (620.441)	1.158* (0.604)	0.493** (0.218)	0.559** (0.231)	0.504** (0.221)	0.545** (0.219)	0.495** (0.220)	0.567** (0.224)
SOE	-3.845 (824.183)							
SOE*GDP	0.131 (620.441)							
Qualified maker		0.201 (0.351)						
Qualified*GDP		-0.971 (0.600)						
Mgr Tie			-0.401 (0.308)					
Mgr tie*GDP			0.777 (0.712)					
Local Org				4.906 (2,687.168)				
Local org*GDP				-0.325 (1,179.264)				
Local Mgr Tie					-0.453 (0.317)			
Local mgr*GDP					0.656 (0.725)			
Government Tie						-1.218 (0.879)		
Government*GDP						1.393 (1.740)		
Legislature Tie							-0.504 (0.392)	
Legislature*GDP							0.913 (0.880)	
Party Tie								4.049 (920.511)
Party*GDP								-0.215 (730.510)
Constant	8.258 (824.188)	3.224 (2.502)	-0.027 (1.476)	-0.094 (1.471)	0.057 (1.500)	0.130 (1.495)	-0.002 (1.481)	-0.105 (1.456)
Observations	1035	1035	1035	1035	1035	1035	1035	1035
Firm #	171	171	171	171	171	171	171	171
Log likelihood	-49.75***	-44.77***	-63.13***	-64.27***	-62.68***	-62.66***	-63.24***	-64.13***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.8 Market Development, Legal Effectiveness, Political Ties and Firm Exit, 1993-2003
(positive coefficient = more likely to survive = less likely to dissolve/ be acquired)

Variables	Market Development						Legal Institution					
	Acquisition Exit			Dissolution Exit			Acquisition Exit			Dissolution Exit		
	1	2	3	4	5	6	7	8	9	10	11	12
Age	-0.003 (0.005)	-0.003 (0.004)	-0.004 (0.011)	-0.005 (0.005)	-0.007 (0.005)	-0.007 (0.005)	-0.001 (0.001)	-0.003 (0.004)	-0.004 (0.001)	-0.006 (0.005)	-0.005 (0.005)	-0.008 (0.005)
Size	0.009 (0.049)	0.006 (0.051)	0.002 (0.052)	0.198*** (0.057)	0.213*** (0.055)	0.220*** (0.056)	0.069 (0.075)	0.001 (0.074)	0.010 (0.069)	0.167*** (0.058)	0.161*** (0.058)	0.191*** (0.058)
Diversified	0.136* (0.080)	0.129 (0.083)	0.141* (0.083)	0.095* (0.054)	0.095* (0.054)	0.089 (0.054)	0.111 (0.104)	0.152 (0.106)	0.144 (0.101)	0.138** (0.060)	0.137** (0.060)	0.128** (0.061)
Permit	-0.116 (0.132)	-0.098 (0.138)	-0.093 (0.136)	0.019 (0.160)	0.052 (0.158)	0.025 (0.159)	-0.217 (0.196)	-0.135 (0.177)	-0.136 (0.172)	0.047 (0.166)	0.050 (0.166)	0.044 (0.165)
% Imports	1.500 (3.061)	1.783 (3.178)	1.688 (3.124)	8.797 (5.510)	8.869 (5.444)	8.862 (5.561)	-3.197 (5.271)	-1.588 (4.711)	-2.213 (4.884)	12.288** (5.057)	12.336** (5.022)	12.585** (5.118)
% Foreign sales	-4.674*** (1.282)	-4.883*** (1.356)	-4.761*** (1.306)	-3.941*** (1.428)	-3.932*** (1.408)	-3.960*** (1.441)	-2.982 (2.192)	-2.265 (2.013)	-2.104 (2.093)	-5.179*** (1.340)	-5.186*** (1.333)	-5.309*** (1.363)
Industry Density	0.015*** (0.004)	0.015*** (0.004)	0.014*** (0.004)	0.001 (0.004)	0.001 (0.004)	0.000 (0.004)	-0.024* (0.013)	-0.027** (0.013)	-0.025** (0.012)	0.012* (0.006)	0.012* (0.006)	0.012* (0.006)
FDI inflow	0.087*** (0.018)	0.089*** (0.019)	0.087*** (0.018)	0.089*** (0.023)	0.088*** (0.023)	0.089*** (0.024)	-0.030 (0.045)	-0.042 (0.045)	-0.038 (0.042)	0.129*** (0.030)	0.128*** (0.030)	0.129*** (0.030)
Market Development	-0.856*** (0.250)	-0.842*** (0.254)	-0.886*** (0.250)	0.112 (0.191)	0.087 (0.187)	0.101 (0.190)	-0.856*** (0.250)	-0.842*** (0.254)	-0.886*** (0.250)	0.112 (0.191)	0.087 (0.187)	0.101 (0.190)
Legal Institution	0.002*** (0.001)	0.002** (0.001)	0.001*** (0.001)	-0.001** (0.001)	-0.001** (0.001)	-0.001** (0.001)	0.002** (0.001)	0.003*** (0.001)	0.002*** (0.001)	-0.001* (0.000)	-0.001* (0.000)	-0.001* (0.000)
SOE	-3.306 (234.485)	-3.522 (369.409)	-4.782 (201.972)	0.117 (0.136)	0.123 (0.136)	0.071 (0.129)	-5.983 (586.358)	-5.413 (875.428)	-6.215 (456.306)	0.126 (0.129)	0.129 (0.129)	0.128 (0.131)
Mgr Tie	0.111 (0.433)			2.535* (1.804)			1.597 (1.462)			4.837 (7.111)		
Local Tie		0.310 (0.653)			0.447* (0.606)			-3.164** (1.534)			5.145 (9.850)	
Government Tie			-0.032 (1.396)			3.624 (5.661)			-8.564* (4.786)			93.802 (6,213.1)
Legislature Tie			0.302 (0.684)			2.692 (2.287)			2.355 (2.079)			-0.655 (4.629)
Party Tie			2.680			3.762			-10.159			85.475

			(941.805)			(5.737)			(72,201)			(5,176)
Mgr tie * market	-0.078 (0.224)					-1.113* (0.796)						
Local * market		-0.267 (0.355)										-0.145* (0.343)
Government * market			-0.246 (0.784)									-1.757 (2.494)
Legislature * market				-0.197 (0.352)								-1.173 (1.042)
Party * market					0.264 (558.812)							-1.794 (2.527)
Mgr tie * legal												-0.001 (0.001)
Local * legal												-0.001 (0.002)
Government * legal												-0.017 (1.091)
Legislature * legal												0.000 (0.001)
Party * legal												-0.015 (0.909)
Constant	-1.492* (0.874)	-1.507* (0.893)	-1.351 (0.915)	-2.444* (1.255)	-2.477** (1.235)	-2.439* (1.262)	2.122 (586.362)	1.656 (875.430)	2.812 (456.311)	-1.516 (1.282)	-1.496 (1.274)	-1.621 (1.282)
Observations	1035	1035	1035	1356	1356	1356	1035	1035	1035	1356	1356	1356
Firm #	171	171	171	225	225	225	171	171	171	225	225	225
Log likelihood	-53.096***	-52.019***	-50.072***	105.148***	105.400***	110.392***	-58.548***	-53.180***	-54.488***	107.411***	106.413***	108.648***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.9
Market Uncertainty, Political Ties, and Firm Exit, 1993-2003
(positive coefficient = more likely to survive = less likely to dissolve/be acquired)

Variables	Total Exit			Acquisition Exit			Dissolution Exit		
	1	2	3	4	5	6	7	8	9
Age	-0.005 (0.004)	-0.006 (0.004)	-0.004 (0.004)	-0.001 (0.002)	-0.002 (0.002)	-0.002 (0.003)	-0.008 (0.006)	-0.008 (0.006)	-0.008 (0.006)
Size	0.123*** (0.046)	0.145*** (0.040)	0.127*** (0.043)	0.022 (0.027)	0.015 (0.025)	-0.013 (0.040)	0.182*** (0.065)	0.230*** (0.063)	0.242*** (0.063)
Diversified	0.137*** (0.052)	0.116** (0.047)	0.116** (0.048)	0.057 (0.038)	0.068* (0.038)	0.129* (0.070)	0.150** (0.066)	0.110* (0.059)	0.100* (0.060)
Permit	-0.085 (0.126)	-0.058 (0.119)	-0.075 (0.124)	-0.083 (0.060)	-0.072 (0.058)	-0.091 (0.095)	0.074 (0.183)	0.043 (0.175)	0.025 (0.177)
% Imports	15.894 (22.926)	14.395 (21.405)	13.649 (22.408)	0.365 (2.496)	0.436 (2.695)	-0.229 (0.000)	-1,105.8 (0.000)	-1,089.6 (0.000)	-1,118.9 (0.000)
% Foreign sales	-0.039 (0.054)	-0.035 (0.051)	-0.033 (0.053)	-0.010 (0.011)	-0.010 (0.011)	-0.002 (0.008)	322.3*** (7.055)	316.6*** (6.984)	325.3*** (7.114)
FDI Inflow	-0.498 (0.687)	-0.454 (0.642)	-0.434 (0.672)	-0.039 (0.077)	-0.040 (0.083)	-0.020 (0.023)	-0.792*** (0.009)	-0.779*** (0.009)	-0.801*** (0.009)
GDP	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.006*** (0.000)	0.006*** (0.000)	0.005** (0.000)	-9.812*** (0.187)	-9.639*** (0.185)	-9.906*** (0.188)
Legal institution	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)	0.001* (0.000)	0.001* (0.000)	0.000 (0.000)	0.006*** (0.000)	0.006*** (0.000)	0.006*** (0.000)
Mkt development	1.232 (1.620)	1.140 (1.511)	1.129 (1.582)	0.086 (0.250)	0.079 (0.257)	-0.168 (0.188)	-0.008*** (0.001)	-0.008*** (0.001)	-0.008*** (0.001)
Uncertainty	7.537 (8.130)	7.186 (7.599)	6.696 (7.955)	-0.494 (1.324)	-0.402 (1.384)	-0.310 (0.909)	22.122*** (0.779)	21.738*** (0.770)	22.358*** (0.785)
SOE	-48.676 (74.338)	-44.498 (69.680)	-41.197 (72.807)	-3.471 (8.502)	-3.535 (9.093)	-9.398** (4.112)	0.124 (0.143)	0.124 (0.143)	0.124 (0.143)
Mgr Tie	0.244 (0.177)			-0.001 (0.060)			0.228* (0.242)		
Local Tie		-0.446** (0.192)			-0.173* (0.144)			0.093 (0.287)	
Government Tie			-3.250** (1.629)			-0.487 (0.443)			6.415 (325.612)
Legislature Tie			-0.909** (0.449)			-0.185 (0.187)			0.320 (0.352)
Party Tie			0.169 (1.072)			58.144 (0.000)			-0.107 (0.539)
SOE*uncertainty	-1.709 (1.206)			-0.441 (3,798.93)			-1.509 (1.606)		
Qualified*uncertainty	-1.297 (0.848)			-0.398 (0.596)			-1.797 (0.148)		
Mgr tie * uncertainty	-0.684 (0.702)			-0.038 (0.367)			-0.501 (1.389)		
Local * uncertainty		-1.776** (0.903)			-0.518* (0.555)			-1.886 (1.487)	
Govt * uncertainty			17.619 (14.236)			1.809 (4.182)			77.733 (3,501)
Legisl * uncertainty			-2.444** (1.156)			-0.502 (0.661)			-1.952 (1.650)
Party * uncertainty			1.765 (6.127)			3,218 (0.000)			-1.185 (3.628)
Constant	21.298 (30.614)	19.400 (28.640)	18.462 (29.954)	1.619 (0.000)	-0.396 (3.450)	2.302 (0.000)	118.56*** (2.231)	116.54*** (2.198)	120.75*** (45.572)
Observations	1452	1452	1452	1035	1035	1035	1356	1356	1356
Firm #	248	248	248	171	171	171	225	225	225
Log likelihood	-149.16***	-145.19***	-148.37***	-36.654***	-35.278***	-34.248***	-132.47***	-123.19***	-131.86***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.10
Robustness Check: Adding (Predicted) Prior Performance in the Model
(positive coefficient = more likely to survive = less likely to dissolve/be acquired)

	(1) Exit	(2) Dissolution	(3) Acquisition
Diversified	0.122** (0.049)	0.148** (0.059)	0.097 (0.103)
Permit	-0.038 (0.118)	0.095 (0.164)	-0.212 (0.201)
% Imports	4.681* (2.611)	11.897** (5.002)	-0.770 (4.487)
% Foreign Sales	-3.089*** (0.830)	-5.026*** (1.310)	-1.657 (2.047)
Industry Density	-0.000 (0.005)	0.011* (0.006)	-0.025* (0.014)
FDI Inflow	0.074*** (0.018)	0.124*** (0.029)	-0.038 (0.045)
Case	0.000 (0.000)	-0.001* (0.000)	0.002** (0.001)
Market Uncertainty	0.048 (0.104)	0.142 (0.121)	-4.961 (586.115)
SOE	-0.177 (0.110)	0.069 (0.154)	-0.626** (0.252)
Mgr Tie	0.092 (0.126)	0.331* (0.236)	-0.047 (0.134)
Prior Performance (predicted)	0.100*** (0.037)	0.096** (0.046)	0.085 (0.070)
Constant	-2.077*** (0.731)	-0.759 (1.217)	1.493 (586.118)
Observations	1452	1356	1035
Firm #	248	225	171
Log likelihood	-156.028***	-110.622***	-47.235***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constraint

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.11
Robustness Check: Measuring Managerial Ties as a Dummy Variable
(positive coefficient = more likely to survive = less likely to dissolve/be acquired)

	(1) Exit	(2) Dissolution	(3) Acquisition
Size	0.100*** (0.039)	0.097** (0.045)	0.148 (0.098)
Diversified	0.122*** (0.045)	0.147*** (0.053)	0.063 (0.100)
Permit	0.016 (0.118)	0.155 (0.155)	-0.215 (0.205)
% Imports	4.704* (2.502)	10.507** (4.175)	-2.103 (4.766)
% Foreign Sales	-3.241*** (0.803)	-4.538*** (1.113)	-2.607 (2.044)
Industry Density	0.001 (0.005)	0.010* (0.006)	-0.021 (0.013)
FDI Inflow	0.074*** (0.017)	0.111*** (0.025)	-0.020 (0.043)
Case	0.000 (0.000)	-0.001* (0.000)	0.002** (0.001)
Market Uncertainty	0.079 (0.100)	0.178 (0.111)	-5.177 (368.921)
SOE	-0.224** (0.114)	0.027 (0.152)	-0.678** (0.267)
Mgr Tie Dummy	0.188 (0.187)	0.487* (0.286)	-0.170 (0.262)
Constant	-1.835** (0.734)	-0.836 (1.091)	1.868 (368.926)
Observations	1452	1356	1035
Firm #	248	225	171
Log likelihood	-174.728***	-125.354***	-53.277***

Robust standard errors are in parentheses.

7 Region and 8 Year dummies are not presented due to space constant

* p<0.10; ** p<0.05; *** p<0.01.

Table 5.12
Summary of Hypotheses Testing

Hypotheses	Content	Supported	Moderately supported	Not supported
H1	Political Ties and exit		X	
H2	Mode of exit	X		
H3	Organizational vs. managerial ties		X	
H4	Destinations with different resources: Local vs. Central ties			X
	Destinations with different resources: Power sources of ties	X		
H5	"Until when"	X		
H6	"Since when"	X		
H7	Moderation: Regional Economic development		X	
H8	Moderation: Legal effectiveness		X	
H9	Moderation: Market uncertainty	X		