

The Effects of Business and Political Ties on Firm Performance: Evidence from China

Despite increasing attention to the role of social ties in emerging economies, few studies have explicitly distinguished the differential roles of business versus political ties. Drawing on relational governance and institutional theories, this study offers a contingent view of business and political ties in China. The findings from a survey of 241 Chinese firms indicate that business ties have a stronger positive effect on performance than political ties, and both effects depend on institutional and market environments. Business ties are more beneficial when legal enforcement is inefficient and technology is changing rapidly, whereas political ties lead to greater performance when general government support is weak and technological turbulence is low. These findings indicate that firms operating in China should be cautious in their use of business and political ties and adapt their tie utilization to changing institutional and market environments.

Keywords: social ties, emerging economy, relational governance, institutional theory, institutional environment, *guanxi*

In recent years, strategic issues in emerging economies have attracted increasing attention in marketing strategy and relationship marketing literature (Ambler and Witzel 2004; Gu, Hung, and Tse 2008; Johnson and Tellis 2008; Walters and Samiee 2003). As a consequence of their economic liberalization and transition toward market systems, emerging economies experience rapid changes in their economic, social, and legal institutions, which create severe challenges for marketers (Zhou and Poppo 2010). In such turbulent circumstances, social ties emerge as an important strategic option that may enable firms to secure resources and deal with uncertain environments (Ambler and Witzel 2004; Peng 2003). Because social ties coordinate exchanges through informal, interpersonal social mechanisms (Granovetter 1985), they help overcome the limits of weak institutional infrastructures (Xin and Pearce 1996), especially in uncertain times (Heide and Wathne 2006; Uzzi 1997). In general, empirical evidence supports the positive effects of social ties on market (Gu, Hung, and Tse 2008; Li and Zhang 2007) and financial (Khwaja and Mian 2005; Li, Poppo, and Zhou 2008) performance in emerging economies.

Despite increasing interest in this topic, several aspects of social ties in emerging economies remain underdeveloped. First, extant research from a relational governance perspective (Granovetter 1985; Heide 1994; Uzzi 1997) recognizes the benefits of business ties, including relational connections with buyers (Heide and John 1992), suppliers (Jap and Ganesan 2000), and collaborators (Rindfleisch and Moorman 2001). Yet few studies in marketing explicitly consider political ties or distinguish the effects of business and political ties. Because of the lack of market-supporting institutions, governments in emerging economies are active in regulating industry development, guiding business policies, and influencing corporate operations (Hoskisson et al. 2000). Thus, building relationships with various government agencies (i.e., political ties) is imperative for firm survival (Ambler and Witzel 2004; Hillman, Zardkoohi, and Bierman 1999). However, previous studies have tended to treat business and political ties as the same (Peng and Luo 2000) or have captured ties with one dimension (Gu, Hung, and Tse 2008; Li, Poppo, and Zhou 2008), so it is still unclear whether business or political ties play more salient roles in emerging economies.

Second, according to institutional theory, social ties as informal governance become less important when legal and regulatory institutions improve and market-supporting systems develop (North 1990; Peng 2003). Market transitions in emerging economies foster dramatic changes in both formal (e.g., laws, rules, regulations) and informal (e.g., cultures, ethics, norms) institutions, which diverge across regions and industries (Hoskisson et al. 2000). For example, despite the continued efforts of China's central government to develop a unified legal framework, it has not established a stable legal institution for enforcing contract law nation-

Shibin Sheng is Associate Professor of Marketing, School of Business, Adelphi University (e-mail: sheng@adelphi.edu). Kevin Zheng Zhou is Associate Professor, School of Business, University of Hong Kong (e-mail: kevinzhou@business.hku.hk). Julie Juan Li is Associate Professor of Marketing, Department of Marketing, City University of Hong Kong (e-mail: julieli@cityu.edu.hk). The authors thank the three anonymous *JM* reviewers for their insightful and constructive comments on previous versions of this article. The work was fully supported by the General Research Fund from the Research Grants Council of the Hong Kong Special Administrative Region, China (Project No. CityU 145908).

wide (Luo 2007). However, because extant studies generally treat legal and regulatory frameworks as static backgrounds (Meyer et al. 2009) or theorize without explicit reference to institutional contexts (Steenkamp 2005), little is known about how variations in formal institutions affect the role of ties.

Third, from a relational governance perspective, the effect of social ties depends on exchange characteristics (Rindfleisch and Heide 1997), and one of the most salient exchange characteristics is uncertainty, which comprises technological turbulence and demand uncertainty (Poppo and Zenger 2002). Empirical evidence regarding the effect of uncertainty is mixed. Whereas Gu, Hung, and Tse (2008) find that the role of ties declines when technology changes rapidly, Li, Poppo, and Zhou (2008) show that social ties lead to better performance as industrial uncertainty increases. We suspect that this inconsistency can be resolved, at least partially, by differentiating between business and political ties. Because the two types of ties involve different resources, their contingent value may differ according to the environment variations.

Building on relational governance and institutional theories, we develop a conceptual framework (see Figure 1) that depicts the interplay among social ties, institutional factors, and market uncertainty. We distinguish between business and political ties and compare their relative effects on firm performance. Then, we assess whether the effects of business and political ties are conditional on institutional factors, such as enforcement inefficiency and government support, and exchange characteristics, including technological turbulence and demand uncertainty. Taken together, our efforts yield a contingent view of ties and provide a deeper understanding of business versus political ties in emerging economies.

We select China as our empirical setting for four main reasons. First, China has employed a dual-track approach to its market transition that liberalizes the former central planning system but retains government controls (Luo 2007). Thus, both the market and the government shape business operations and conduct, such that firms have incentives to

build ties with both the business community and government authorities. Second, China has a long tradition of using ties to conduct business, and marketing in China depends heavily on social connections (*guanxi* in Chinese) (Ambler, Styles, and Wang 1999). Third, although China has developed de jure unified laws nationwide, legal enforcement exhibits wide variations across regions because of the frequent interventions of local governments and various interpretations of laws by different enforcement authorities (Ambler and Witzel 2004; Zhou and Poppo 2010); de facto, the legal institution is not unified. Fourth, China is a major player in the world economy, and successful operations in China have become increasingly important for many multinational firms (Johnson and Tellis 2008). Therefore, modern marketing is particularly interested in the unique characteristics of China's emerging market (Gu, Hung, and Tse 2008; Walters and Samiee 2003).

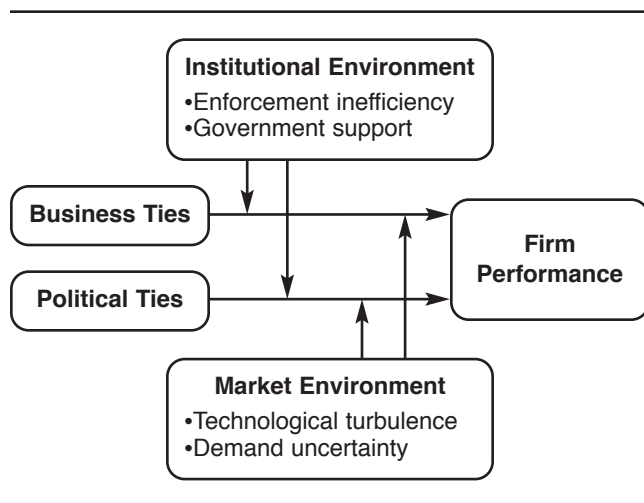
Theory and Hypotheses

Business Versus Political Ties

Because economic action is embedded in networks of interpersonal relations, the relational governance perspective highlights the importance of social ties as informal governance for coordinating exchanges (Heide 1994; Morgan and Hunt 1994; Uzzi 1997). Through their networking activities and personal interactions, firm executives build social ties not only with business players but also with government officials. Business ties are a firm's informal social connections with business organizations, such as buyers, suppliers, competitors, and other market collaborators. Political ties are a firm's informal social connections with government officials in various levels of administration, including central and local governments, and officials in regulation agencies, such as tax or stock market administrative bureaus (Li, Zhou, and Shao 2009; Peng and Luo 2000). Both forms of ties rely on personal interactions and social networks, instead of formal contracts and arm's-length transactions, to obtain resources and facilitate cooperation. However, business and political ties differ fundamentally with respect to the resources they may provide and their cooperation time horizons.

Business ties provide firms with important market resources. First, they offer crucial market information that may not be available in the open market, such as product information (Heide and John 1992), pertinent events or changes in the market (Lusch and Brown 1996), and information about trustworthy and untrustworthy partners (Poppo and Zenger 2002). Second, close social interactions and communications promote learning and mutual adjustment between business partners and facilitate knowledge transfer and technology acquisition (Rindfleisch and Moorman 2001; Saxenian 1996). By integrating new knowledge with its existing knowledge, a firm can increase its absorptive capacity and knowledge utilization (Cohen and Levinthal 1990). Third, because past behaviors are observable and indicative of the firm's reputation, social ties can help the firm obtain network legitimacy in a business community (Rao, Chandy, and Prabhu 2008). Such legitimacy is

FIGURE 1
The Conceptual Model



a strategic resource that may attract business partners, facilitate transactions, and offer economic benefits (Dacin, Oliver, and Roy 2007).

In contrast, political ties help firms obtain key regulatory resources. First, governments in emerging economies guide economic activities by devising industry development plans and setting regulatory policies. Political connections provide firms with crucial access to policy and aggregate industrial information (Hillman, Zardkoohi, and Bierman 1999). Second, the Chinese government still controls a significant portion of scarce resources, such as land, bank loans, subsidies, and tax breaks, and a firm's connections with government officials offer shortcuts to these resources (Faccio 2006; Khwaja and Mian 2005). Third, political ties improve a firm's political legitimacy, or the extent to which government officials or agencies assume that the focal firm's actions are desirable and proper (Suchman 1995). For example, Chinese firms with government connections can gain political legitimacy by obtaining positions in parliament (Peng, Tan, and Tong 2004). Political legitimacy then helps firms receive exclusive government endorsements and favorable treatment.

Business and political ties also differ with respect to their time horizons. In business ties, firms have common interests in maximizing their economic returns, so the parties work together to coordinate exchanges (Ghosh and John 1999; Lusch and Brown 1996). Ongoing interactions and collaborations cultivate trust, commitment, and mutual dependence between them (Morgan and Hunt, 1994; Poppo, Zhou, and Ryu 2008). Such relational norms constrain their opportunistic behaviors, reduce the perceived risks and transactional costs in the relationship, and encourage long-term cooperation (Ganesan 1994).

In contrast, political ties lack an effective mechanism to ensure long-term cooperation. In China, the bureaucratic system is characterized by a hierarchical structure in which the superordinate government has the power to appoint and promote subordinate government officials (Du, Lu, and Tao 2008). Government officials' primary interests center on developing their political careers, whereas business organizations attempt to achieve economic returns. Accordingly, the top priority of government officials is to please superordinate officials, not to accommodate business organizations, and this goal divergence may create relationship conflict that mitigates long-term cooperation.

Moreover, government officials rotate their positions across different departments and geographic locations regularly, which may weaken or terminate a firm's political connections. Political ties even may become a liability if incoming government officials represent a rival political group (Siegel 2007). In anticipation of such bureaucratic volatility, firms may be less committed to long-term political relationships. In addition, in political relationships, business organizations tend to depend more on political parties because the latter control scarce regulatory resources (Li, Zhou, and Shao 2009). Government officials (as the less dependent partner) are less motivated to develop strong, long-term relationships with business organizations (Ganesan 1994). Therefore, political ties tend to be more transient than business ties.

When a limited time horizon exists in a relationship, exchange parties, especially if they possess greater power (i.e., government officials), are more likely to engage in opportunistic behaviors (Rokkan, Heide, and Wathne 2003). For example, government officials may engage in rent-seeking behaviors to obtain personal benefits at the expense of business organizations (Shleifer and Vishny 1994). Government officials who want to maximize their short-term interests (e.g., get a promotion) may even issue direct commands or oblige firms to undertake projects with high social but low private returns (Shleifer and Vishny 1994). Dinc (2005) finds that government officials in emerging economies require politically connected banks to increase lending to boost their popularity among voters. Thus, although both business and political ties provide valuable resources, the short-term nature of political ties may make them less beneficial.

H₁: Business ties have a stronger positive effect on firm performance than political ties.

Contingent Effects of Institutional Environment

According to institutional theory, institutions support the effective functioning of the market mechanism (North 1990), and when formal institutions fail, informal governance mechanisms, such as social ties, act as substitutes to facilitate economic activities (Peng 2003). Institutional theory also predicts that social ties serve as a key form of governance during early transition phases in emerging economies in which market-supporting institutions are lacking; when emerging economies are more market oriented and marketing-supporting institutions are better developed, firms rely less on social ties to coordinate exchanges (North 2005; Peng 2003). This contingent view suggests that the effects of social ties depend on institutional contexts. Therefore, we examine the contingent effects of enforcement inefficiency and government support that characterize legal and regulatory institutional frameworks (Meyer et al. 2009).

Enforcement inefficiency refers to the extent to which the enforcement of legislation and regulations is problematic, as reflected by unlawful or unethical corporate behaviors (Ho 2001). Third-party legal enforcement is an essential public good that governments provide (North 1990) and can be more critical than written codes for supporting an efficient economic exchange system (North 2005). When legal institutional frameworks fail to impose effective punishments, unlawful or unfair competitive behaviors (e.g., false advertising, piracy, contract violations, counterfeiting) prevail in the market and disrupt economic order (Ho 2001). With inadequate legal institutions, firms find it difficult or expensive to follow normal legal processes to gain protection against such behaviors (McMillan and Woodruff 1999).

In such a situation, business ties can proxy for the legal framework to prevent unlawful or unethical behaviors through a legitimating mechanism (Grewal and Dharwadkar 2002). If courts fail, a strong reputation within the network can facilitate transactions because companies seek out only trustworthy partners (Zhou and Poppo 2010), which deters unlawful or unethical behaviors between firms connected by business ties. Even if market actors do not have ongoing

relationships, network reputation makes the focal firm more desirable as a partner because other firms want to pursue legitimacy in the eyes of important stakeholders (Rao, Chandy, and Prabhu 2008), so they avoid unlawful competitive behaviors against the focal firm. A firm with high network legitimacy also exerts significant influence within its professional network (Dacin, Oliver, and Roy 2007), which deters other firms from opportunistic behaviors.

Political ties provide an alternative enforcement mechanism through enhanced political legitimacy and status. With strong political ties, managers can turn to government officials to enforce business contracts or stop unlawful behaviors. When legal enforcements are ineffective, firms with close political connections can exploit the power of their government connections, and government involvement in these incidents may work more effectively than the legal process (Ambler and Witzel 2004). Moreover, inefficient enforcement significantly increases the costs of legal actions against unlawful behaviors (Johnson, McMillan, and Woodruff 2002), which makes political ties more critical for supporting transactions and preventing unlawful competition. In contrast, when legal enforcement is efficient, the importance of political legitimacy declines because firms can protect their interests through the courts at relatively lower costs. Thus:

H₂: Enforcement inefficiency positively moderates the relationship between (a) business ties and firm performance and (b) political ties and firm performance.

Government support reflects the extent to which the local government provides general and broad support to all firms in the region (Li and Atuahene-Gima 2001). Such general support differs from regulatory resources a firm can obtain through political ties: The former is available inclusively to all firms in the region; the latter is available exclusively to a focal firm that owns the political connection. Although the ultimate goal of China's central government is to build a strong bureaucratic system that facilitates business operations, government support varies across regions and areas as a result of uneven economic and institutional reforms (Luo 2007).

Strong government support may reduce the value of business ties. The Chinese government not only regulates economic exchanges but also participates actively in the market by owning thousands of enterprises and controlling business projects (Ambler and Witzel 2004). If government agencies pass on all relevant information to the public, business connections are less valuable for providing such information. Similarly, if a government provides an efficient infrastructure to support economic exchanges, managers rely less on network legitimacy to facilitate transactions (Rao, Pearce, and Xin 2005).

The value of regulatory resources obtained from political ties also may decline with strong government support. A supportive government delivers valuable policy and industry information through public channels and provides scarce resources, such as subsidies and tax breaks, according to a set of clear rules. As a result, a firm's political ties lose their exclusive value for obtaining information and government-controlled resources (Rao, Pearce, and Xin 2005). If the

government provides fair support to all firms to facilitate economic exchanges, it is less necessary for the firm to rely on political ties to gain legitimacy and get things done.

This discussion suggests that formal government support reduces the effect of informal social ties; yet previous literature also debates whether formal and informal governance mechanisms are complements or substitutes. Because formal governance (e.g., contracts) specifies rules and obligations, it may signify distrust and supplant informal governance, or because a contract contains expectations, it may promote informal, trust-based ties (Lazzarini, Miller, and Zenger 2004; Poppo and Zenger 2002; Stump and Heide 1996). Zhou and Poppo (2010) extend this line of inquiry to changing legal institutions and find that as legal institutions develop in China, companies rely more on formal governance (i.e., contracts) and less on informal mechanisms (i.e., trust) to coordinate their risky exchanges. That is, the choice of governance mechanism depends on the institutional context. Consistent with this contingent view, we posit that strong government support, as a formal market-supporting institution, reduces the performance effects of informal ties.

H₃: Government support negatively moderates the relationship between (a) business ties and firm performance and (b) political ties and firm performance.

Moderating Effects of Market Environment

Studies rooted in a relational governance perspective often pay attention to the impact of exchange characteristics (e.g., Rindfleisch and Heide 1997), such as uncertainty, which creates a need for mutual adaptation in market exchanges (Williamson 1996). Because uncertainty minimizes the effectiveness of governance for safeguarding and enforcing business relationships (Anderson and Weitz 1989), it is important to investigate the interplay between social ties and external environment uncertainty, which we conceptualize with regard to technological turbulence and demand uncertainty.

Technological turbulence refers to the speed of change and unpredictability of technology in a specific industry (Jaworski and Kohli 1993). A rapidly changing technological environment creates new product development opportunities that firms can use to appeal to and expand their customer bases. It also creates challenges that may propel firms to change or upgrade their products to maintain superior competitive positions (Tushman and Anderson 1986). Firms must overcome challenges and seize opportunities by developing advanced new products; otherwise, they will be squeezed out of the market (Li and Calantone 1998). Therefore, rapidly changing technologies obligate firms to obtain new technologies and skills to introduce new products quickly.

Market resources accrued from business ties may help firms circumvent technological turbulence. Business ties help a firm acquire the latest market information, including technological changes in the marketplace, and technological resources (Rindfleisch and Moorman 2001), which enhance its capabilities to identify and respond quickly to new market opportunities. In an industry characterized by complex

and expanding knowledge and technology, innovations may emerge from networks of learning rather than individual firms (Gulati 2007). In addition, a firm's network legitimacy helps it attract more technological cooperation partners. As Gulati and Gargiulo (1999) show, firms with prior mutual alliances and common third parties in a network are more likely to form new technological cooperation alliances. Thus:

H_{4a}: Technological turbulence positively moderates the relationship between business ties and firm performance.

In contrast, political ties may be less effective in conditions of high technological turbulence. A firm's knowledge and absorptive capability is one of the dominant sources of competitive advantage in turbulent technological environments (Cohen and Levinthal 1990). Although government-controlled resources obtained from political ties, such as land, bank credits, or tax subsidies, enable firms to expand production capabilities and reduce costs, they do not directly improve technological innovation capability, which is critical for dealing with technological turbulence (Tushman and Anderson 1986). Therefore, technological turbulence attenuates the value of these resources.

Moreover, a firm's absorptive capacity largely depends on its research-and-development (R&D) activities, which demand substantial financial and managerial investment (Cohen and Levinthal 1990). However, R&D investment is highly uncertain and risky because inputs do not lead automatically to successful new products or superior financial performance (Tellis, Prabhu, and Chandy 2009). If a firm can capitalize on relatively low-cost regulatory resources, such as low-interest loans and free land, it may commit fewer financial and managerial inputs to R&D and innovation activities (Kornai, Maskin, and Roland 2003). In addition, reliance on regulatory resources may have a negative impact on innovative corporate cultures. For example, Tan (2001) finds that managers in firms with direct political ties and access to regulatory resources are less innovative and tolerant of risk. Thus, the heavy use of regulative resources may inhibit a firm's absorptive capacity and impair its performance in conditions of high technological turbulence.

H_{4b}: Technological turbulence negatively moderates the relationship between political ties and firm performance.

Demand uncertainty refers to the instability and unpredictability of consumer preferences and expectations. In a market with high demand uncertainty, firms must modify their products and services continually to meet changing customer preferences (Jaworski and Kohli 1993). In such conditions, the value of market resources accrued from business ties appears more salient. Business ties provide valuable access to trustworthy market information that has not been codified or placed in the public domain (Li, Poppo, and Zhou 2008), which can help the firm develop new products appealing to changing customer needs (Rindfleisch and Moorman 2001). Connections with technology collaborators help a firm acquire advanced technology to improve the speed and quality of new product development, which is critical when demand changes rapidly. Furthermore, network legitimacy induced by business ties facili-

tates cooperative activities, which enable firms to respond rapidly to changing demand (Uzzi 1997). Thus:

H_{5a}: Demand uncertainty positively moderates the relationship between business ties and firm performance.

In contrast, the benefits of political ties may decrease with demand uncertainty. First, information that government agencies provide is usually aggregated, such as industrial or regional economic output. Such information tends to take a relatively long time to collect and compile, such that it becomes dated quickly in a volatile market (Glazer and Weiss 1993). Therefore, it offers limited insights into how firms should adjust their offerings to respond to changing market demand. Second, in a stable market, government-controlled resources may help a firm expand its production capability; in a volatile market, changes in demand may reallocate the opportunities before the firm can capitalize on such resources. As Nee and Opper (2007) find in their examination of a large sample of Chinese firms, competitive advantages stemming from political capital are highest in regulated and state-dominated markets, but political connections do not generate positive returns in competitive markets. Therefore, the value of regulatory resources declines as demand uncertainty increases.

H_{5b}: Demand uncertainty negatively moderates the relationship between political ties and firm performance.

Method

Sample and Data Collection Procedures

We selected high-tech firms in China as our empirical setting. Because the Chinese government views high-tech industries as strategically important, it supports these firms with preferential policies, tax breaks, and bank credits. Therefore, networking with government officials is a pervasive strategic choice (Li and Zhang 2007). Both domestic and foreign firms in China use local managers for their network building (Li, Poppo, and Zhou 2008), so we selected local senior managers (e.g., chief executive officer, general manager, senior marketing manager) as key informants and conducted the interviews in Chinese.

We developed the questionnaire using Gerbing and Anderson's (1988) recommended procedures. First, we conducted in-depth interviews with 12 senior managers in Shanghai and Guangdong to understand industry practices. These interviews revealed that networking with both the government and business communities is prevalent in the high-tech sector. Second, on the basis of these interviews and an extensive review of previous literature, we developed an English version of the questionnaire, translated it into Chinese, and then commissioned a back-translation by two independent translators to ensure conceptual equivalence. Third, we conducted a pretest with 50 managers from 25 firms (2 managers each) in Shanghai and Guangdong. These managers answered all the survey items and provided feedback about the clarity of the survey questions and instructions and the appropriateness of the terminologies used. Fourth, from this pretest, we refined the questionnaire and finalized the survey.

For the formal survey, we selected a random sample of 500 firms from a list of high-tech firms in Beijing, Shanghai, and Guangdong, compiled by a business research firm from the Beijing, Shanghai, and Guangdong High-Tech Enterprises Directories. The pretest generated high inter-rater reliability (all $r > .70$), so we employed a key informant approach (one senior manager from each firm) to reduce survey costs. We recruited experienced interviewers to conduct on-site interviews. The interviewers first called a manager to set up an appointment and then presented the questionnaire at the scheduled time in the manager's office and collected the survey after its completion. Compared with a traditional mail survey, this method is more effective for generating valid information and high-quality data because it ensures both access to the right respondents and correct understanding of the survey questions (Zhou, Yim, and Tse 2005).

In total, we obtained 241 usable questionnaires, for a response rate of 48.2%. A comparison of participating and nonparticipating firms indicated no significant differences in key firm characteristics, such as age, number of employees, and sales, so nonresponse bias did not appear to be a concern. The sample covered a broad spectrum of industries, firm scales, and ownership structures (see Table 1).

As a validity and quality check, we gathered information regarding the number of years the respondents had

worked in the industry and for their firm, their position, and their level of familiarity with the firm. On average, the informants had worked in their industry for 8.6 years and at their firm for 5.5 years. Their positions included chief executive officer or general manager (17.0%), senior marketing manager or director (32.4%), senior project manager or director (14.5%), and other senior-level managers. The mean of familiarity with the firm reached 5.92 (out of 7), comparable to similar previous studies (Rindfleisch and Moorman 2001), and indicated that the respondents were knowledgeable informants.

Measures

We operationalized the key constructs using both reflective and formative measures. Because of the direction of causality between the latent construct and the observed indicators (Jarvis, MacKenzie, and Podsakoff 2003), we treated business ties and government support as formative indexes, whereas we treated political ties, enforcement inefficiency, technological turbulence, demand uncertainty, and performance as reflective. The measurement items appear in the Appendix.

We adapted the measure of business ties from Dubini and Aldrich (1991) and Peng and Luo (2000). The scale captures the extent to which firm executives have good connections (*guanxi* in Chinese) with various market players, including suppliers, buyers, and competitors, as well as marketing-based and technological collaborators. As our in-depth interviews reveal, a "good connection" is a well-understood concept in Chinese society that is based on personal interactions and social relationships. We treated business ties as a formative index because its indicators capture different facets and may not be highly correlated.

We adapted the measure of political ties from previous studies (Li and Zhang 2007; Peng and Luo 2000; Xin and Pearce 1996). It consists of four items that reflect the relationships between the firm and government officials at various levels of government, such as tax and administration bureaus. Although political ties are structurally parallel to business ties in the conceptual model, its measure is reflective because of the content and meaning of the scale items: All items measure the extent to which managers have developed and maintained good social connections (i.e., *guanxi*) with government officials.

We derived the measure of the institutional environment from Li and Atuahene-Gima (2001). The scale assesses enforcement inefficiency as the extent to which unlawful behaviors, such as piracy and counterfeiting, and unfair competitive practices pervade the marketplace. Although laws and regulations exist, their enforcement is problematic. For example, China has intellectual property laws and piracy is illegal, but antipiracy enforcement varies significantly across regions.

We used a five-item formative scale to measure government support in terms of implementing beneficial policies and programs, providing technology and market information, and facilitating business transactions for all the firms. These indicators capture different facets; for example, a government may provide firms with beneficial policies but

TABLE 1
Profiles of the Sample Companies (N = 241)

Sample Characteristics	Frequency	%
Industry		
Computer equipments	10	4.15
Electronics engineering	36	14.94
Computer software	43	17.84
Telecommunication equipments	13	5.39
Internet technology	22	9.13
Biology and pharmaceutical	32	13.28
New materials	10	4.15
Other	75	31.12
Geographic Location		
Beijing	87	36.10
Guangdong	84	34.85
Shanghai	70	29.05
Ownership		
State owned	10	4.1
Private	115	47.7
International joint venture	29	12.0
Foreign wholly owned	30	12.4
Other	57	23.8
Number of Employees		
<100	76	31.54
200–299	28	11.62
300–499	36	14.94
500–999	26	10.79
>1000	29	12.03
Annual Sales (in Millions of RMB)		
<10	31	12.86
10–49	66	27.39
50–99	63	26.14
100–199	35	14.52
>200	45	19.09

not sufficient financial support, so we treated it as a formative scale.

We adapted the measures of technological turbulence and demand uncertainty from Jaworski and Kohli (1993). The four technological turbulence items evaluate the extent to which technology in the industry is changing. The three demand uncertainty items address the extent to which customers' product demands and preferences are changing rapidly, as well as the difficulty of predicting these changes.

We adapted the measure of firm performance from Li and Zhang (2007) and Zhou, Yim, and Tse (2005). The measure assesses firm performance with regard to returns on investment, sales growth rate, market share growth, and the growth rate of its profit relative to its major competitors in the same industry.

We considered several control variables: firm age, size, and foreign or domestic ownership, as well as the level of experience of the respondents and their familiarity with the firm. New organizations may suffer from the liability of newness and lack external networking ties. We measured firm age as the number of years the firm has been in operation. To prevent skewness, we measured firm size as the natural logarithm of the number of employees of the firm. We classified international joint ventures and foreign wholly owned firms as foreign (coded as 1) and others as domestic (coded as 0). We used tenure with the firm to measure respondents' experience and a self-reported scale to measure their familiarity with the firm.

Construct Validity

Conventional factor and internal consistency analyses are not appropriate to assess composite constructs with formative indicators (Diamantopoulos and Winklhofer 2001; Jarvis, MacKenzie, and Podsakoff 2003). Therefore, we followed the four steps that Diamantopoulos and Winklhofer (2001) suggest to ensure successful index construction: content specification, indicator specification, indicator collinearity test, and external validity test.

To specify the scope of the formative variables, we conducted an extensive review of network literature and in-depth interviews with 12 senior managers to specify the domain of the content of business ties and government support, as indicated in the Appendix. To assess the suitability of the two formative scales, we checked for multicollinearity among the indicators. Because a formative measurement model is based on a multiple regression, each indicator should have a unique influence on the latent variable, and high multicollinearity would render assessments of the indicator validity problematic (Diamantopoulos and Winklhofer 2001). The maximum variance inflation factor is 2.36 for business ties and 1.96 for government support, far below the threshold of 10.0, so indicator multicollinearity is not a concern.

We assessed external validity by examining the theoretical relationships of the formative scales to other constructs in the nomological network. A positive relationship between business ties and firm performance already has been established (Peng and Luo 2000), and we confirmed that business ties were significantly correlated with firm performance ($r = .38, p < .01$). Moreover, each individual indicator of business ties was significantly correlated with

firm performance ($r = .25-.58, p < .01$), which collectively suggests the external validity of their indicators. Extant literature also suggests a positive relationship between government support and firm performance (Li and Atuahene-Gima 2001), which is also evident in this study ($r = .24, p < .01$). However, one government support item was not correlated with firm performance ($r = .09, p = .17$), so we dropped it (Diamantopoulos and Winklhofer 2001).

For the reflective constructs, we assessed their reliability and validity with an overall confirmatory measurement model, in which each questionnaire item loads only on its respective latent construct and all latent constructs correlate. The measurement model fit the data satisfactorily (goodness-of-fit index = .90, comparative fit index = .92, and root mean square error of approximation = .07), and all factor loadings were statistically significant ($p < .001$). The composite reliability of each construct measure exceeded the .70 threshold (see the Appendix). To assess discriminant validity, we ran chi-square difference tests for all the constructs in pairs to determine whether the constrained model (correlation fixed at 1) was significantly worse than the unconstrained model (correlation estimated freely). All the chi-square differences were highly significant (e.g., technological turbulence versus demand uncertainty: $\Delta\chi^2 = 7.79, p < .01$), in support of discriminant validity (Gerbing and Anderson 1988). For the formative scales, the largest correlation was .38 (business ties and performance), such that only 14.4% of the variance between the two measures was shared. Overall, these results indicate that the measures possessed adequate reliability and construct validity.

Common Method Bias

To assess the potential common method bias, we applied the "MV" marker method and used a scale theoretically unrelated to at least one scale in the analysis as the MV marker, which offered a proxy for common method variance (Lindell and Whitney 2001). We used a six-item scale that measured the conflict between the firm and its principal customer firm (Song, Dyer, and Thieme 2006) (Cronbach's $\alpha = .89$) and selected the lowest positive correlation ($r = .02$) between the MV marker and other variables to adjust the construct correlations and statistical significance (Lindell and Whitney 2001). None of the significant correlations became insignificant after adjustment (see Table 2). Therefore, common method bias was unlikely to be a serious concern.

Analyses and Results

Because our model contains interaction effects between the ties and institutional and environmental factors, we ran moderated regression models to test our hypotheses. To mitigate the potential threat of multicollinearity and clarify the interaction effects, we mean-centered each scale used to construct the interaction terms (Aiken and West 1991). In our model, government support is likely to be an endogenous factor because a firm with close political ties may perceive more government support. According to Hamilton and Nickerson (2003), two- and three-stage methods can correct for endogeneity when both strategy (i.e., business and political ties) and performance are continuous. Therefore,

TABLE 2
Descriptive Statistics and Correlations

Variable	1	2	3	4	5	6	7
1. Firm performance		.37**	.07	.13*	.07	-.04	.22**
2. Business ties	.38**		.30**	.29**	.21**	.28**	.23**
3. Political ties	.09	.31**		.15**	.16**	.17**	.35**
4. Technological turbulence	.15*	.30**	.17**		.53**	.34**	.27**
5. Demand uncertainty	.09	.23**	.18**	.54**		.15**	.16**
6. Enforcement inefficiency	-.02	.29**	.19**	.35**	.17**		.21**
7. Government support	.24**	.25**	.36**	.28**	.18**	.23**	
8. MV marker (conflict)	.09	-.04	-.05	.14*	.02	.06	.19**
M	4.76	23.38	4.79	4.69	4.55	4.65	17.45
SD	.81	4.16	.85	1.00	1.05	1.08	3.11

* $p < .05$.

** $p < .01$.

Notes: $N = 241$. Zero-order correlations are below the diagonal; adjusted correlations for potential common method variance (Lindell and Whitney 2001) are above the diagonal.

we tested our hypotheses with a three-stage hierarchical regression model (Slotegraaf, Moorman, and Inman 2003).

In Stage 1, we regressed government support on political ties to obtain residuals free of its influence, and then in Stages 2 and 3, we used the residuals as indicators of government support to construct its interaction terms with the other variables. Stage 2 regressed performance against the residuals of government support, other predictors, and the controls, and Stage 3, the full model, added the interaction terms. In addition, the model hypothesized eight interaction terms, and if all of them enter the model together in Stage 3, the potential for high correlations between interaction terms associated with the same variable (e.g., business ties \times enforcement inefficiency versus business ties \times technological turbulence) may overinflate the standard error of the regression coefficient estimates and render them insignificant. Therefore, we employed a blockwise hierarchical approach (McGrath 2001) and derived Models 1–4 in Table 3. The largest variance inflation factor in the full moderated regression models is 2.27, substantially less than the critical multicollinearity threshold of 10.0.

As Table 3 shows, firm size has a significant effect on firm performance in Model 1. However, the control variables accounts for only 5% of the variance in firm performance. In Model 2, adding the focal independent variables increases R-square by .19 ($p < .01$). The addition of the interaction terms in Models 3 and 4 also increases the R-square significantly compared with Model 2 ($\Delta R^2 = .08$, $p < .01$; $\Delta R^2 = .05$, $p < .05$, respectively), in support of the significant moderating effects of institutional and market environments.

To investigate the moderating effects fully, we decomposed the significant interaction terms and compared the impact of business and political ties on firm performance at low and high levels of the moderating variables (Aiken and West 1991). We set the low levels of the moderating variables as one standard deviation below their mean scores and the high levels as one standard deviation above the means. In Figure 2, we depict the effect of business and political ties on firm performance for low and high levels of the significant moderating variables.

Business Versus Political Ties

As we show in Table 3, business ties are positively related to firm performance (Model 2; $\beta = .38$, $p < .01$), whereas political ties have no significant effect on it (Model 2; $\beta = -.01$, n.s.). The t-test of the equality of these two coefficients ($t = 6.12$, $p < .01$) indicates that the coefficient of business ties is significantly greater than that of political ties, in support of H_1 .

Moderating Effects of Institutional Environment

In H_2 , we consider the moderating role of enforcement inefficiency. The interaction between business ties and enforcement inefficiency is positive and significant ($\beta = .20$, $p < .01$; see Table 3, Model 3), in support of H_{2a} . Figure 2, Panel A, shows that business ties have a stronger positive effect on firm performance at high levels ($\beta = .11$, $p < .01$) than at low levels ($\beta = .06$, $p < .01$) of enforcement inefficiency. The interaction between enforcement inefficiency and political ties is also significant ($\beta = .12$, $p < .05$), in support of H_{2b} . Figure 2, Panel B, indicates a negative effect of political ties on firm performance at low levels of enforcement inefficiency ($\beta = -.17$, $p = .04$) but a positive and insignificant effect at high levels ($\beta = .06$, $p = .35$).

H_3 predicts a negative moderating role of government support. The interaction of government support and business ties is not significant ($\beta = .03$, n.s.; Table 3, Model 3), providing no support to H_{3a} . A possible explanation may be that public information and resources obtained from the government cannot substitute for the market resources obtained from business ties; therefore, changes in government support do not alter the impact of business ties. The interaction between government support and political ties is significant ($\beta = -.23$, $p < .01$), in support of H_{3b} . Figure 2, Panel C, shows that political ties have a positive effect on firm performance when government support is low ($\beta = .13$, $p = .01$) but a negative effect when government support is high ($\beta = -.24$, $p < .01$).

Moderating Effects of Market Environment

As Model 4 in Table 3 shows, higher levels of technological turbulence strengthen the positive effect of business ties on

TABLE 3
Standardized Regression Estimates

	Model 1		Model 2		Model 3		Model 4	
	β	t-Value	β	t-Value	β	t-Value	β	t-Value
Direct Effects								
Business ties	H ₁		.38**	5.80	.43**	6.74	.36**	5.41
Political ties	H ₁		-.01	-.11	-.06	-.98	.01	.24
Technological turbulence			.08	1.02	.12	1.61	.05	.74
Demand uncertainty			-.02	-.28	.02	.23	.00	.06
Enforcement inefficiency			-.22**	-3.41	-.15*	-2.26	-.18**	-2.76
Government support			.19**	3.12	.13*	2.06	.16*	2.51
Moderating Effects								
Business ties × enforcement inefficiency	H _{2a}				.20**	2.89		
Political ties × enforcement inefficiency	H _{2b}				.12*	2.03		
Business ties × government support	H _{3a}				.03	.41		
Political ties × government support	H _{3b}				-.23**	-3.56		
Business ties × technological turbulence	H _{4a}						.19*	2.26
Political ties × technological turbulence	H _{4b}						-.17*	-1.97
Business ties × demand uncertainty	H _{5a}						.04	.51
Political ties × demand uncertainty	H _{5b}						.16	1.95
Control Variables								
Size			.15*	2.31	.14*	2.35	.09	1.78
Age			.09	1.21	.05	.77	.03	.56
Foreign-domestic			-.06	-.81	-.05	-.84	-.03	-.74
Experience of respondents			.10	1.48	.02	.32	.00	.69
Respondents' familiarity			.08	1.32	.12*	2.03	.10	1.84
R ²			.05		.24		.32	
Adjusted R ²			.03		.20		.28	
ΔR^2					.19**		.08**	

* $p < .05$.

** $p < .01$.

Notes: N = 241.

firm performance ($\beta = .19, p < .05$), in support of H_{4a}. Figure 2, Panel D, reveals that business ties have a stronger positive effect on firm performance when there is high ($\beta = .10, p = .00$) than when there is low ($\beta = .04, p = .06$) technological turbulence. The interaction between technological turbulence and political ties is significant and negative ($\beta = -.17, p < .05$), in support of H_{4b}. Figure 2, Panel E, further indicates that political ties have a positive effect on firm performance when technological turbulence is low ($\beta = .15, p = .04$) but a negative effect when technological turbulence is high ($\beta = -.12, p = .07$).

The interaction between demand uncertainty and business ties is not significant ($\beta = .04, n.s.$), so H_{5a} is not supported. Network ties may create social obligations between existing parties that preclude a firm from exploiting new opportunities outside its current relations (Granovetter 1985), which cancel out the coordination efficiency of network ties in responding to fast-changing demand. The interaction between demand uncertainty and political ties is not significant ($\beta = .16, n.s.$), providing no support to H_{5b}. Some customer preference shifts

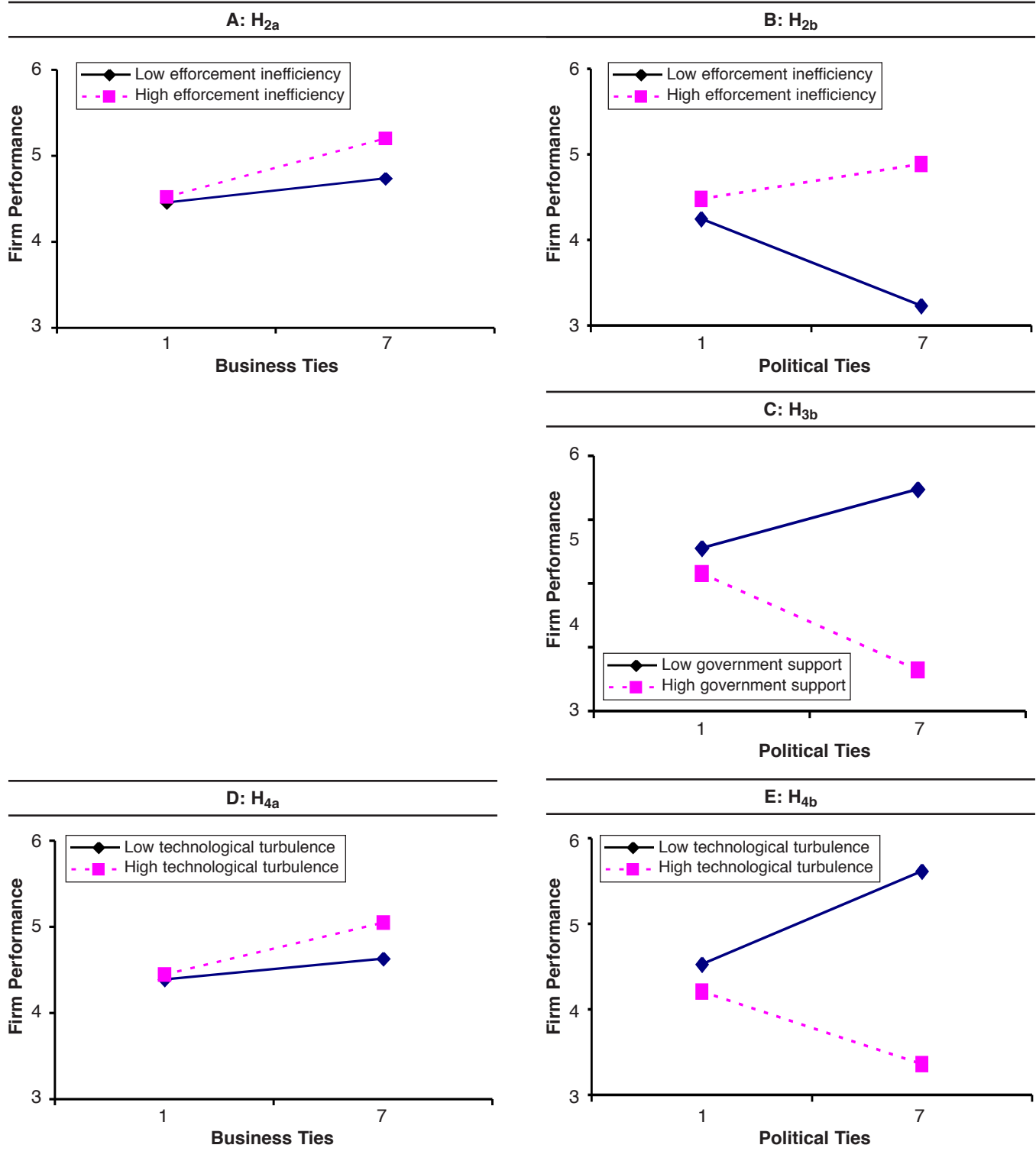
may not involve structural industrial change, which would make industry information and government-controlled resources obtained from political ties still valuable.

Discussion

Theoretical Contributions

Drawing on relational governance and institutional theories, this study investigates the role of social ties in China's emerging economy. We find that business ties have a stronger positive effect overall on firm performance than political ties. Moreover, our findings reveal that the effects of social ties are conditional on the institutional and market environments. Therefore, this study makes several important theoretical contributions to marketing literature. First, we enrich relational governance theory by distinguishing two types of social ties: business and political. This distinction is important because business and political ties capture two distinct facets of relational governance and provide access to different resources. However, previous research

FIGURE 2
Interaction Effects



has largely focused on business ties (Gulati 2007), whereas political ties, an equally important connection in emerging economies, has received scant attention (Gu, Hung, and Tse 2008). We reason that with market resources and a long-term orientation, business ties should have a stronger performance impact than political ties, which provide regulatory resources and are short-term in nature. The results

confirm that business ties have a stronger effect on performance than political ties, which have no significant impact. Our theoretical logic and empirical findings indicate that researchers must differentiate relational ties to explicate their role in emerging economies.

Second, this study adds to relational governance theory by developing and testing an institutional contingent view

of social ties (North 2005; Peng 2003). Extant research in marketing tends to treat institutions as a static “background,” but the institutional differences that mark emerging economies require firms to adapt their strategies (Gu, Hung, and Tse 2008). Our study represents an initial attempt to assess how the role of ties depends on the institutional environment. When courts cannot efficiently enforce exchanges, the legitimating effects of business ties are salient for deterring opportunistic behavior and boosting performance; yet such benefits decline when legal enforcement improves. If the government does not support all firms, political ties enable individual firms to secure regulatory resources for their own benefits. In contrast, if government support is strong and universally available, building and exploiting personal connections with government officials, which carries significant costs, is counterproductive.

Equally noteworthy is the finding that business ties enhance but political ties inhibit performance when technologies change rapidly. A rapidly changing technological environment propels companies to update their technologies and products to maintain their competitive position. By offering information sharing and joint cooperation (Gulati 2007; Rindfleisch and Moorman 2001), business ties facilitate the acquisition and use of updated technology. In contrast, government-controlled resources obtained from political ties are not directly linked to technological and absorptive capability and therefore cannot help firms deal with technological turbulence.

Third, this study attempts to push marketing theory into the new, challenging context of China’s emerging economy. Emerging economies constitute a major growth opportunity, but marketing literature has paid relatively little attention to them (Johnson and Tellis 2008; Walters and Samiee 2003). This paucity of attention seriously limits the generalizability of marketing theory, which is based primarily on studies conducted in Western countries, typically the United States (Steenkamp 2005). Although our study provides only a snapshot of the current market and institutional environments, our findings, in combination with previous studies, can provide valuable insights for both research and practice in China.

In their pioneering empirical work, Peng and Luo (2000 [data collected in 1996]) find that both business and political ties improve organizational performance. Li and Zhang (2007 [data collected in 1997–1998]) reveal that political ties foster the performance of high-tech ventures. Gu, Hung, and Tse (2008 [data collected in 2000]) show that, in general, *guanxi* has a positive impact on market performance. Li, Poppo, and Zhou (2008 [data collected in 2003]) document the different effects of ties for domestic and foreign firms. Our findings, based on data collected in 2008, suggest that business ties have a stronger impact on performance than political ties. These cumulative findings imply that the role of political ties is declining as the institutional infrastructure improves, whereas business ties remain salient. Because institutions (formal and informal) tend to change incrementally rather than discontinuously (North 2005), our results, together with previous findings, reveal a dynamic role of social ties in changing institutional environments.

Managerial Implications

Our findings provide important implications for doing business in China. First, marketers must distinguish between business and political ties and understand their distinct roles. Conventional wisdom states that marketers should build connections with business partners and government officials; therefore, many Chinese firms have multiple political connections that they regard as strategic assets. In 2007, approximately one-third of China’s richest 800 entrepreneurs were official party members, and 38 were delegates to the National People’s Congress, China’s parliament (*Financial Times* 2007). However, our findings indicate that companies must be cautious about using political ties, which may not improve their performance or could even become a liability in certain institutional and market conditions. Anecdotal evidence indicates that many of China’s most lucrative ventures, which relied on political connections, eventually prompted criminal investigations of their founders’ involvement in political scandals (*The Economist* 2009).

Second, uncertainty in the political system also may inhibit firm performance. For example, during the Shanghai Social Security Fund fiasco in 2006, 72% of 137 publicly listed firms with government connections suffered –2.21% average cumulative abnormal returns in the stock market during the five days surrounding the disclosure of the scandal (Xu and Zhou 2008). These findings are surprising but understandable: Since gaining entry into the World Trade Organization in 2001, China has been transitioning to a market economy, and the role of government has changed from guiding to facilitating economic activities. In turn, marketing managers should refrain from political connections and instead rely more on business networks, which still can foster performance. Consistent with our suggestion, ascendant Chinese professionals and entrepreneurs now rely more on networking among themselves (Balfour 2007).

Third, marketing managers should adapt their network building and utilization strategies to local institutional environments, which vary significantly across regions in China. When legal enforcement is inefficient, the use of business ties effectively reduces unlawful behaviors and unfair competition. When the government does not provide sufficient support to all organizations, firms can capitalize on their political connections. However, if the institutional environment is well developed, managers should be cautious of using political ties.

Fourth, marketers need to adjust their use of ties to reflect industrial uncertainty, such as technological turbulence. When the industry is characterized by low levels of technological turbulence, the resources obtained from political ties, such as tax subsidies and project approval, can help firms build competitive advantages and achieve better performance. For example, the real estate industry faces little technological turbulence and still relies heavily on resources controlled by the Chinese government, such as land and credit. Thus, the Hong Kong billionaire Li Ka-shing used his political connections to obtain valuable licenses and permission to build huge real estate developments (Balfour 2007). In contrast, entrepreneurs in knowledge-intensive

and turbulent industries, such as computer industries, may refuse political networking (Nee and Oppen 2007) and instead rely on their business connections to obtain market resources, which should enhance their ability to weather technological turbulence.

Finally, this study offers valuable implications for policy makers. The ultimate goal of China's reform is to deregulate its economy and build a free and open market system. However, because of the cultural tradition of using ties and the widely accepted premise that political ties are beneficial, political networks remain prevalent in practice. Our findings show that these political ties may hurt firm performance when institutional environments improve and industries are characterized by rapid technological changes. Therefore, policy makers should try to constrain governmental officials from developing close ties with business organizations. The recently implemented position-rotating policy, which requires major government officials to change their positions across regions every two terms, indicates that the central government recognizes this goal, though the effectiveness of this policy is yet to be observed.

Limitations and Further Research

This study has several limitations that further research should address. First, the cross-sectional nature of our study limits tests of causal linkages in our model. Because the role of ties may change during economic transitions, further research should undertake a longitudinal study to examine intriguing questions about their evolving roles. Our quantitative approach also offers only limited insights into complex organizational processes in a dramatically changing environment. Qualitative and interpretative approaches are necessary to gain a deeper understanding of how firms use their social ties in different market and institutional conditions.

Second, our measure of ties is holistic and may not capture the relationships of all business partners; a network

analysis with name and position generator approaches could help address this concern (Burt 1997). Because the concept of connections (*guanxi*) is so well known in China, our tie measures do not focus on the content of these relationships; however, the content and nature may vary for ties with different business partners or government officials in different administrative agencies and positions. Additional research might conceptualize and measure social ties with different market players and government officials and examine their varying impacts on firm performance.

Third, our sample is limited to firms in China. Although emerging economies share some common features in their market and institutional environments, they vary remarkably in the stages of their economic and institutional development. Moreover, social ties may contain different cultural constituents across countries, and their impact may depend on cultural contexts. Therefore, we advise caution before generalizing the results of this study to other economies. Political ties are not a unique feature of emerging economies; firms in developed countries, including the United States and Western European countries, are also politically connected (Faccio 2006). For example, the U.S. government is playing a highly salient role in the current financial crisis. Existing literature in developed markets focuses primarily on business ties, but further examination of political ties in these economies would enrich relational governance theory.

In this global era, firms must take advantage of the opportunities of emerging markets. Cultivating social networks may help companies overcome market and institutional hurdles in China, but firms should adapt their business and political ties to the different institutional and market environments and exercise caution in their use of political ties in certain conditions. We hope that further research continues to explore and document institutional changes, strategic choices, and their performance implications in emerging economies.

Appendix Measurement Scales

Construct and Source	Description	Factor Loadings
Business Ties (Dubini and Aldrich 1991; Peng and Luo 2000) Formative scale	Top managers at our firm have built good connections with managers at 1. Supplier firms. 2. Customer firms. 3. Competitor firms. 4. Marketing-based collaborators. 5. Technological collaborators.	
Political Ties (Li and Zhang 2007; Peng and Luo 2000; Xin and Pearce 1996) CR = .88	1. Top managers at our firm have maintained good personal relationships with officials in various levels of government. 2. Top managers at our firm have developed good connections with officials in regulatory and supporting organizations such as tax bureaus, state banks, and commercial administration bureaus. 3. So far, our firm's relationship with regional government officials has been in a good shape. 4. Our firm has spent substantial resources in building relationships with government officials.	.96 1.00 .86 .85
Enforcement Inefficiency (Li and Atuahene-Gima 2001) CR = .80	1. Our industry has experienced some unlawful competitive practices such as illegal copying of new products, counterfeiting of our firm's own products and trademarks by other firms. 2. Our industry has experienced increased unfair competitive practices by other firms in the industry.	.94 1.00

Appendix Continued

Construct and Source	Description	Factor Loadings
Government Support (Li and Atuahene-Gima 2001) Formative scale	In supporting local business, the government and its agencies have	
	1. Implemented policies and programs that have been beneficial to business operation.	
	2. Provided needed technology information and other technical support.	
	3. Provided important market information.	
	4. Played a significant role in providing financial support.	
Technological Turbulence (Jaworski and Kohli 1993) CR = .79	1. The technology in our industry is changing rapidly.	1.00
	2. It is very difficult to forecast the technology development direction in our industry.	.78
	3. Most technological developments in our industry are radical changes on existing techniques.	.82
	4. The technological changes in our industry can bring many opportunities for firms.	.75
Demand Uncertainty (Jaworski and Kohli 1993) CR = .74	1. In our kind of business, customers' product demands and preferences change quite a bit over time.	.94
	2. Our customers tend to look for new products all the time.	1.00
	3. It is difficult to predict changes of the market.	.67
Firm Performance (Li and Zhang 2007; Zhou, Yim, and Tse 2005) CR = .80	Our firm's overall performance compared with major competitors over the past year on	
	1. Sales growth rate.	.75
	2. Market share growth.	.88
	3. The growth rate of profit.	.93
	4. Return on investment. (1 = "far below the competitors," and 7 = "far above the competitors")	1.00

Notes: All items, except as specifically indicated, use Likert scales (1 = "strongly disagree," and 7 = "strongly agree"). CR = composite reliability.

REFERENCES

- Aiken, Leona S. and Stephen G. West (1991), *Multiple Regression: Testing and Interpreting Interactions*. Newbury Park, CA; Sage Publications.
- ▶ Ambler, Tim, Chris Styles, and Xiucun Wang (1999), "The Effect of Channel Relationships and Guanxi on the Performance of Inter-Province Export Ventures in the People's Republic of China," *International Journal of Research in Marketing*, 16 (1), 75–88.
- and Morgen Witzel (2004), *Doing Business in China*. London: RoutledgeCurzon.
- ▶ Anderson, Erin and Barton Weitz (1989), "Determinants of Continuity in Conventional Industrial Channel Dyads," *Marketing Science*, 8 (4), 310–23.
- Balfour, Frederik (2007), "You Say Guanxi, I Say Schmoozing; How East Is Meeting West and Building a Lingua Franca of Business Connections," *BusinessWeek*, (November 19), (accessed September 4, 2010), [available at http://www.businessweek.com/magazine/content/07_47/b4059066.htm].
- ▶ Burt, Ronald S. (1997), "The Contingent Value of Social Capital," *Administrative Science Quarterly*, 42 (2), 339–65.
- ▶ Cohen, Wesley M. and Daniel A. Levinthal (1990), "Absorptive Capacity: A New Perspective on Learning and Innovation," *Administrative Science Quarterly*, 35 (1), 128–52.
- ▶ Dacin, M. Tina, Christine Oliver, and Jean-Paul Roy (2007), "The Legitimacy of Strategic Alliances: An Institutional Perspective," *Strategic Management Journal*, 28 (2), 169–87.
- ▶ Diamantopoulos, Adamantios and Heidi M. Winklhofer (2001), "Index Construction with Formative Indicators: An Alternative to Scale Development," *Journal of Marketing Research*, 38 (May), 269–77.
- ▶ Dinc, I. Serdar (2005), "Politicians and Banks: Political Influences on Government-Owned Banks in Emerging Markets," *Journal of Financial Economics*, 77 (2), 453–79.
- ▶ Du, Julian, Yi Lu, and Zhigang Tao (2008), "Economic Institutions and FDI Location Choice: Evidence from U.S. Multinationals in China," *Journal of Comparative Economics*, 36 (3), 412–29.
- ▶ Dubini, Paola and Howard Aldrich (1991), "Personal and Extended Networks Are Central to the Entrepreneurial Process," *Journal of Business Venturing*, 6 (5), 305–313.
- *The Economist* (2009), "Business: Original Sin; The Stigma of Wealth in China," 392 (8647), 70–71.
- ▶ Faccio, Mara (2006), "Politically Connected Firms," *American Economic Review*, 96 (1), 369–86.
- *Financial Times* (2007), "China's Billionaires Begin to Add Up," (October 23), 14–15.
- ▶ Ganesan, Shankar (1994), "Determinants of Long-Term Orientation in Buyer-Seller Relationships," *Journal of Marketing*, 58 (April), 1–19.
- ▶ Gerbing, David W. and James C. Anderson (1988), "An Updated Paradigm for Scale Development Incorporating Unidimensionality and Its Assessment," *Journal of Marketing Research*, 25 (May), 186–92.
- ▶ Ghosh, Mrinal and George John (1999), "Governance Value Analysis and Marketing Strategy," *Journal of Marketing*, 63 (Special Issue), 131–45.
- ▶ Glazer, Rashi and Allen M. Weiss (1993), "Marketing in Turbulent Environments: Decision Processes and the Time-Sensitivity of Information," *Journal of Marketing Research*, 30 (November), 509–521.

- ▶ Granovetter, Mark (1985), "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology*, 91 (3), 481–510.
- ▶ Grewal, Rajdeep and Ravi Dharwadkar (2002), "The Role of the Institutional Environment in Marketing Channels," *Journal of Marketing*, 66 (July), 82–97.
- ▶ Gu, Flora F., Kineta Hung, and David K. Tse (2008), "When Does Guanxi Matter? Issues of Capitalization and Its Dark Sides," *Journal of Marketing*, 72 (July), 12–28.
- ▶ Gulati, Ranjay (2007), *Managing Network Resources: Alliances, Affiliation, and Other Relational Assets*. New York: Oxford University Press.
- ▶ ——— and Martin Gargiulo (1999), "Where Do Interorganizational Networks Come From?" *American Journal of Sociology*, 104 (5), 1439–93.
- ▶ Hamilton, Bart and Jackson Nickerson (2003), "Correcting for Endogeneity in Strategic Management Research," *Strategic Organization*, 1 (1), 51–78.
- ▶ Heide, Jan B. (1994), "Interorganizational Governance in Marketing Channels," *Journal of Marketing*, 58 (January), 71–85.
- ▶ ——— and George John (1992), "Do Norms Matter in Marketing Relationships?" *Journal of Marketing*, 56 (April), 32–44.
- ▶ ——— and Kenneth H. Wathne (2006), "Friends, Businesspeople, and Relationship Roles: A Conceptual Framework and a Research Agenda," *Journal of Marketing*, 70 (July), 90–103.
- ▶ Hillman, Amy J., Asghar Zardkoobi, and Leonard Bierman (1999), "Corporate Political Strategies and Firm Performance: Indications of Firm-Specific Benefits from Personal Service in the U.S. Government," *Strategic Management Journal*, 20 (1), 67–81.
- ▶ Ho, Suk-ching (2001), "Growing Consumer Power in China: Some Lessons for Managers," *Journal of International Marketing*, 9 (1), 64–83.
- ▶ Hoskisson, Robert E., Lorraine Eden, Chung Ming Lau, and Mike Wright (2000), "Strategy in Emerging Economies," *Academy of Management Journal*, 43 (3), 249–67.
- ▶ Jap, Sandy and Shankar Ganesan (2000), "Control Mechanism and the Relationship Life Cycle: Implications for Safeguarding Specific Investments and Developing Commitment," *Journal of Marketing Research*, 37 (May), 227–45.
- ▶ Jarvis, Cheryl B., Scott B. MacKenzie, and Philip M. Podsakoff (2003), "A Critical Review of Construct Indicators and Measurement Model Misspecification in Marketing and Consumer Research," *Journal of Consumer Research*, 30 (2), 199–218.
- ▶ Jaworski, Bernard J. and Ajay K. Kohli (1993), "Market Orientation: Antecedents and Consequences," *Journal of Marketing*, 57 (July), 53–70.
- ▶ Johnson, Joseph and Gerard J. Tellis (2008), "Drivers of Success for Market Entry into China and India," *Journal of Marketing*, 72 (May), 1–13.
- ▶ Johnson, Simon, John McMillan, and Christopher Woodruff (2002), "Courts and Relational Contracts," *Journal of Law Economics & Organization*, 18 (1), 221–77.
- ▶ Khwaja, Asim Ijaz and Atif Mian (2005), "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market," *Quarterly Journal of Economics*, 120 (4), 1371–1411.
- ▶ Kornai, Janos, Eric Maskin, and Gerard Roland (2003), "Understanding the Soft Budget Constraint," *Journal of Economic Literature*, 41 (4), 1095–1136.
- ▶ Lazzarini, Sergio G., Gary J. Miller, and Todd R. Zenger (2004), "Order with Some Law: Complementarity Versus Substitution of Formal and Informal Arrangements," *Journal of Law Economics & Organization*, 20 (2), 261–98.
- ▶ Li, Haiyang and Kwaku Atuahene-Gima (2001), "Product Innovation Strategy and the Performance of New Technology Ventures in China," *Academy of Management Journal*, 44 (6), 1123–34.
- ▶ ——— and Yan Zhang (2007), "The Role of Managers' Political Networking and Functional Experience in New Venture Performance: Evidence from China's Transition Economy," *Strategic Management Journal*, 28 (8), 791–804.
- ▶ Li, Julie Juan, Laura Poppo, and Kevin Zheng Zhou (2008), "Do Managerial Ties in China Always Produce Value? Competition, Uncertainty, and Domestic vs. Foreign Firms," *Strategic Management Journal*, 29 (4), 383–400.
- ▶ ———, Kevin Zheng Zhou, and Alan T. Shao (2009), "Competitive Position, Managerial Ties, and Profitability of Foreign Firms in China: An Interactive Perspective," *Journal of International Business Studies*, 40 (2), 339–52.
- ▶ Li, Tiger and Roger J. Calantone (1998), "The Impact of Market Knowledge Competence on New Product Advantage: Conceptualization and Empirical Examination," *Journal of Marketing*, 62 (October), 13–29.
- ▶ Lindell, Michael K. and David J. Whitney (2001), "Accounting for Common Method Variance in Cross-Sectional Research Designs," *Journal of Applied Psychology*, 86 (1), 114–21.
- ▶ Luo, Yadong (2007), "Are Joint Venture Partners More Opportunistic in a More Volatile Environment?" *Strategic Management Journal*, 28 (1), 39–60.
- ▶ Lusch, Robert F. and James R. Brown (1996), "Interdependency, Contracting, and Relational Behavior in Marketing Channels," *Journal of Marketing*, 60 (October), 19–38.
- ▶ McGrath, Rita Gunther (2001), "Exploratory Learning, Innovative Capacity, and Managerial Oversight," *Academy of Management Journal*, 44 (1), 118–31.
- ▶ McMillan, John and Christopher Woodruff (1999), "Interfirm Relationships and Informal Credit in Vietnam," *Quarterly Journal of Economics*, 114 (4), 1285–1320.
- ▶ Meyer, Klaus F., Saul Estrin, Sumon Kumar Bhaumik, and Mike W. Peng (2009), "Institutions, Resources, and Entry Strategies in Emerging Economies," *Strategic Management Journal*, 30 (1), 61–80.
- ▶ Morgan, Robert M. and Shelby D. Hunt (1994), "The Commitment–Trust Theory of Relationship Marketing," *Journal of Marketing*, 58 (October), 20–38.
- ▶ Nee, Victor and Sonja Opper (2007), "Political Connections in a Market Economy," paper presented at the Conference on the Emergence of Social Organization at University of Chicago (November 9–10).
- ▶ North, C. Douglass (1990), *Institutions, Institutional Change and Economic Performance*. Cambridge, UK: Cambridge University Press.
- ▶ ——— (2005), *Understanding the Process of Economic Change*. Princeton, NJ: Princeton University Press.
- ▶ Peng, Mike W. (2003), "Institutional Transitions and Strategic Choices," *Academy of Management Review*, 28 (2), 275–96.
- ▶ ——— and Yadong Luo (2000), "Managerial Ties and Firm Performance in a Transition Economy: The Nature of a Micro-Macro Link," *Academy of Management Journal*, 43 (3), 486–501.
- ▶ ———, Justin Tan, and Tony W. Tong (2004), "Ownership Types and Strategic Groups in an Emerging Economy," *Journal of Management Studies*, 41 (7), 1105–1129.
- ▶ Poppo, Laura and Todd R. Zenger (2002), "Do Formal Contracts and Relational Governance Function as Substitutes or Complements?" *Strategic Management Journal*, 23 (8), 707–725.
- ▶ ———, Kevin Zheng Zhou, and Sungmin Ryu (2008), "Alternative Origins to Interorganizational Trust: An Interdependence Perspective on the Shadow of the Past and the Shadow of the Future," *Organization Science*, 19 (1), 39–55.
- ▶ Rao, Alaka N., Jone L. Pearce, and Katherine Xin (2005), "Governments, Reciprocal Exchange and Trust Among Business Associates," *Journal of International Business Studies*, 36 (1), 104–118.

- ▶ Rao, Raghunath Singh, Rajesh K. Chandy, and Jaideep C. Prabhu (2008), "The Fruits of Legitimacy: Why Some New Ventures Gain More from Innovation than Others," *Journal of Marketing*, 72 (July), 58–75.
- ▶ Rindfleisch, Aric and Jan B. Heide (1997), "Transaction Cost Analysis: Past, Present, and Future Applications," *Journal of Marketing*, 61 (October), 30–54.
- and Christine Moorman (2001), "The Acquisition and Utilization of Information in New Product Alliances: A Strength-of-Ties Perspective," *Journal of Marketing*, 65 (April), 1–18.
- ▶ Rokkan, Aksel I., Jan B. Heide, and Kenneth H. Wathne (2003), "Specific Investments in Marketing Relationships: Expropriation and Bonding Effects," *Journal of Marketing Research*, 40 (May), 210–24.
- Saxenian, AnnaLee (1996), "Inside-Out: Regional Networks and Industrial Adaptation in Silicon Valley and Route 128," *Cityscape: A Journal of Policy Development and Research*, 2 (2), 41–60.
- ▶ Shleifer, Andrei and Robert W. Vishny (1994), "Politicians and Firms," *Quarterly Journal of Economics*, 109 (4), 995–1025.
- ▶ Siegel, Jordan (2007), "Contingent Political Capital and International Alliances: Evidence from South Korea," *Administrative Science Quarterly*, 52 (4), 621–66.
- ▶ Slotegraaf, Rebecca J., Christine Moorman, and J. Jeffrey Inman (2003), "The Role of Firm Resources in Returns to Market Deployment," *Journal of Marketing Research*, 40 (August), 295–309.
- ▶ Song, Michael, Barbara Dyer, and R. Jeffrey Thieme (2006), "Conflict Management and Innovation Performance: An Integrated Contingency Perspective," *Journal of the Academy of Marketing Science*, 34 (3), 341–56.
- Steenkamp, Jan-Benedict E.M. (2005), "Moving Out of the U.S. Silo: A Call to Arms for Conducting International Marketing Research," in "Marketing Renaissance: Opportunities and Imperatives for Improving Marketing Thought, Practice, and Infrastructure," *Journal of Marketing*, 69 (October), 7–8.
- ▶ Stump, Rodney L. and Jan B. Heide (1996), "Controlling Supplier Opportunism in Industrial Relationships," *Journal of Marketing Research*, 33 (November), 431–41.
- ▶ Suchman, Mark C. (1995), "Managing Legitimacy: Strategic and Institutional Approaches," *Academy of Management Review*, 20 (3), 571–610.
- ▶ Tan, Justin (2001), "Innovation and Risk-Taking in a Transitional Economy: A Comparative Study of Chinese Managers and Entrepreneurs," *Journal of Business Venturing*, 16 (4), 359–76.
- ▶ Tellis, Gerard J., Jaideep C. Prabhu, and Rajesh K. Chandy (2009), "Radical Innovation Across Nations: The Preeminence of Corporate Culture," *Journal of Marketing*, 73 (January), 3–23.
- ▶ Tushman, Michael and P. Anderson (1986), "Technological Discontinuities and Organizational Environments," *Administrative Science Quarterly*, 31 (3), 439–65.
- ▶ Uzzi, Brian (1997), "Social Structure and Competition in Interfirm Networks: The Paradox of Embeddedness," *Administrative Science Quarterly*, 42 (1), 35–67.
- ▶ Walters, Peter G.P. and Saeed Samiee (2003), "Marketing Strategy in Emerging Markets: The Case of China," *Journal of International Marketing*, 11 (1), 97–106.
- Williamson, Oliver E. (1996), *The Mechanisms of Governance*. New York: Oxford University Press.
- ▶ Xin, Katherine Rong and Jone Leigh Pearce (1996), "Guanxi: Connections as Substitutes for Formal Institutional Support," *Academy of Management Journal*, 39 (6), 1641–58.
- Xu, Haoping and Jian Zhou (2008), "The Value of Political Connections: Chinese Evidence," SSRN working paper, (September 12), (accessed September 4, 2010), [available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1267472].
- ▶ Zhou, Kevin Zheng and Laura Poppo (2010), "Exchange Hazards, Relational Reliability, and Contracts in China: The Contingent Role of Legal Enforceability," *Journal of International Business Studies*, 41 (5), 861–81.
- ▶ ———, Chi Kin Yim, and David K. Tse (2005), "The Effects of Strategic Orientations on Technology- and Market-Based Breakthrough Innovations," *Journal of Marketing*, 69 (April), 42–60.