

**SOCIAL NETWORKS, BUSINESS
STRATEGY, AND COMPETITIVE
ADVANTAGE OF PRIVATE
ENTERPRISES IN CHINA**

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ABSTRACT

This study focuses on how the social networks of entrepreneurs shape the business strategies adopted by the Chinese private enterprises and the role of social networks in sustaining competitive advantage. Using data collected from 418 surveys and 53 interviews with private entrepreneurs in Guangdong Province in 2013, this study investigates how entrepreneurs embedded in different business-to-business (B2B) networks and business-to-government (B2G) networks perceive the role of social networks in the design and implementation of business strategies. This study also explores the types of political participation private entrepreneurs use to overcome discrimination that undermines their legitimacy and constrains access to resources. The findings from logistic regression and analysis of interviews indicate that private entrepreneurs perceive that B2B networks enable their firms to access accurate information to seize business opportunities, and strengthen long-term oriented buyer-supplier relationships. B2G networks help private firms to overcome the administrative obstacles and access state controlled resources. Private entrepreneurs also employ various political strategies to advance their interests. They usually value more highly membership of the People's Congress (PC) or People's Political Consultative Conference (PPCC) over membership of the Communist Party in strengthening B2G connections and establishing firm legitimacy. Overall, this study of Guangdong entrepreneurs contributes to the business literature in seeking to integrate theories about social networks and business strategy. It provides empirical data on how the private enterprises in China use their social networks in business. The results extend the understanding of social network in business strategy and contribute to the studies on social network theory and strategic management in transition countries. A deeper understanding of the role of the social networks in the business environment in China helps managers to choose a more suitable strategy to compete in the market.

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TABLE OF CONTENTS

ABSTRACT	i
ACKNOWLEDGEMENTS	ii
TABLE OF CONTENTS.....	iv
LIST OF TABLES	viii
LIST OF FIGURES	x
LIST OF BOXES FOR CASE STUDIES	xi
ABBREVIATIONS.....	xii
CHAPTER 1 INTRODUCTION	1
1.1 BACKGROUND	1
1.2 RESEARCH OBJECTIVES	5
1.3 RESEARCH QUESTION	7
1.4 STRUCTURE OF THE THESIS.....	8
CHAPTER 2 LITERATURE ON SOCIAL NETWORK THEORY AND BUSINESS STRATEGY FOR PRIVATE ENTERPRISES	10
2.1 INTRODUCTION	10
2.2 STRATEGIC MANAGEMENT	12
2.3 BUSINESS STRATEGY OF RESOURCE, TRANSACTION AND NETWORKS	17
2.3.1 <i>Resource-Based View and Internal Capabilities</i>	17
2.3.2 <i>Transaction Cost Theory and External Uncertainties</i>	20
2.4 EMPIRICAL STUDIES – TYPES AND FUNCTIONS OF SOCIAL NETWORKS IN CHINA	24
2.5 INSTITUTIONAL THEORY AND POLITICAL PARTICIPATION	27
2.6 THE GAP OF LITERATURE.....	30
2.7 CONCLUSION	33

CHAPTER 3 RESEARCH METHOD AND DATA DESCRIPTION ...	34
3.1 INTRODUCTION	34
3.2 THE MIXED-METHOD APPROACH.....	35
3.2.1 <i>Quantitative Surveys and Qualitative Interviews</i>	35
3.2.2 <i>Definition of Private Enterprises</i>	38
3.2.3 <i>Research Design and Data Collection</i>	40
3.3 DESCRIPTION OF THE SAMPLE AND VARIABLES	43
3.3.1 <i>Descriptive Statistical Analysis of Sample Firms</i>	43
3.3.1.1 <i>The attributes of sample entrepreneurs</i>	43
3.3.1.2 <i>The attributes of sample firms</i>	47
3.3.2 <i>Factor Analysis</i>	51
3.3.2.1 <i>Data analysis</i>	51
3.3.2.2 <i>Results</i>	54
3.4 CONCLUSION	59
CHAPTER 4 BUSINESS TO BUSINESS NETWORKS	61
4.1 INTRODUCTION	61
4.2 LOGISTIC REGRESSION MODELS AND VARIABLES	
MEASUREMENT	63
4.2.1 <i>Dependent Variables</i>	63
4.2.2 <i>Independent Predictors and Controlled Variables</i>	71
4.2.3 <i>Estimation Strategy</i>	74
4.3 BUSINESS TO BUSINESS NETWORKS IN ESTABLISHING	
RELIABLE INTER-FIRMS RELATIONSHIPS	76
4.3.1 <i>Business to Business Networks in Long-Term Cooperative</i>	
<i>Projects</i>	76
4.3.2 <i>Business to Business Networks in Reducing the Risk of Breach of</i>	
<i>Contract</i>	86
4.4 BUSINESS TO BUSINESS NETWORKS IN ACCESSING	
BUSINESS INFORMATION	97
4.4.1 <i>Business to Business Networks in Acquiring Accurate</i>	
<i>Information about Suppliers</i>	98
4.4.2 <i>Business to Business Networks in Reacting to Market Change</i>	
.....	107

4.5 CONCLUSION	113
CHAPTER 5 BUSINESS TO GOVERNMENT NETWORKS	115
5.1 INTRODUCTION	115
5.2 LOGISTIC REGRESSION MODELS AND VARIABLES MEASUREMENT	116
5.2.1 <i>Dependent variables</i>	116
5.2.2 <i>Independent and control variables</i>	120
5.2.3 <i>Estimation Strategy</i>	122
5.3 BUSINESS TO GOVERNMENT NETWORKS IN REDUCING EXTERNAL UNCERTAINTY	122
5.3.1 <i>Business to Government Networks in Reacting to Change of Policy</i>	123
5.3.2 <i>Business to Government Networks in Long-Term Investment Decision</i>	130
5.4 BUSINESS TO GOVERNMENT NETWORKS IN ACCESSING RESOURCES	139
5.4.1 <i>Business to Government Networks in Accessing Financial Resources</i>	139
5.4.2 <i>Business to Government Networks in Acquiring New Technology</i>	146
5.5 CONCLUSION	152
CHAPTER 6 THE POLITICAL PARTICIPATION OF PRIVATE ENTREPRENEURS	155
6.1 INTRODUCTION	155
6.2 POLITICAL PARTICIPATION AND LEGITIMACY	157
6.2.1 <i>Dimensions of Legitimacy and Types of Political Participation</i>	157
6.2.1.1 <i>Regulatory legitimacy and business legitimacy</i>	157
6.2.1.2 <i>CCP membership versus PC and PPCC membership</i> ...	159
6.2.1.3 <i>Measurement of legitimacy</i>	161
6.2.2 <i>The Perception of Entrepreneurs about Regulatory Legitimacy</i>	167

6.2.3 <i>The Perceptions of Entrepreneurs regarding Business Legitimacy</i>	171
6.3 LOGISTIC REGRESSION MODELS AND VARIABLES	
MEASUREMENT.....	174
6.3.1 <i>Measurement of the Two Main Predictors</i>	174
6.3.2 <i>Measurement of Control Variables</i>	176
6.3.3 <i>Estimation Strategy</i>	178
6.4 POLITICAL PARTICIPATION IN ESTABLISHING LEGITIMACY	
.....	179
6.4.1 <i>Political Participation and Regulatory Legitimacy</i>	180
6.4.2 <i>Political Participation and Business Legitimacy</i>	186
6.5 CONCLUSION	196
CHAPTER 7 CONCLUSION	197
7.1 SUMMARY OF THE STUDY	197
7.2 CONTRIBUTIONS AND IMPLICATIONS	201
BIBLIOGRAPHY	205
APPENDICES.....	229
APPENDIX 1 LIST OF INTERVIEWEES.....	229
APPENDIX 2 SURVEY QUESTIONNAIRE	235
APPENDIX 3 CORE INTERVIEW QUESTIONS FOR	
SEMI-STRUCTURED INTERVIEWS.....	257

LIST OF TABLES

Table 3.1: Summary Statistics of Respondents' Attributes.....	44
Table 3.2: Summary Statistics of Firms' Attributes.....	48
Table 3.3: Distribution of Sample Firms by Locations and the GRP of Each Location.....	49
Table 3.4: Descriptive Statistics and Pearson Correlation Coefficients of Different Personal Ties Utilized by Private Entrepreneurs.....	53
Table 3.5: Summary of Exploratory Factor Analysis Results for the Frequency of Using Personal Ties for Business Purpose.....	55
Table 4.1: Descriptive Statistics of Functions of B2B Networks.....	66
Table 4.2: Descriptive Statistics of Entrepreneurs' Use of Business Connections.....	72
Table 4.3: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Long-Term Cooperative Projects.....	77
Table 4.4: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Reducing the Risk of Breach of Contract.....	87
Table 4.5: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Acquiring Accurate Information about Suppliers.....	99
Table 4.6: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Reacting to Market Change	108
Table 5.1: Descriptive Statistics of the Functions of B2G Networks.....	117

Table 5.2: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks in Reacting to Change of Government Policy	124
Table 5.3: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks in Long-term Investment Projects	130
Table 5.4: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks to Access Financial Resources	140
Table 5.5: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks to Acquire New Technology ...	147
Table 6.1: Distribution of Perceived Function of Political Participation by Private Entrepreneurs.....	164
Table 6.2: Measuring the Frequency of Utilizing Government Connections.	176
Table 6.3 : Logistic Regression Examining the Determinants of the Perception of Private Entrepreneurs about Political Participation and Regulatory Legitimacy	181
Table 6.4: Logistic Regression Examining the Determinants of the Perception of Private Entrepreneurs about Political Participation and Business Legitimacy	187

LIST OF FIGURES

Figure 4.1 Information Flow among Firms.....	67
Figure 4.2 Distribution of Agreement about the Role of B2B Networks.....	69
Figure 4.3 Information Flow among B2B Networks in Acquiring Information about Suppliers.....	104
Figure 5.1 Distribution of Agreement about the Role of B2G Networks.....	119
Figure 5.2 Distribution of the Importance of Different Personal Ties in Making Long-Term Investment Decisions.....	135
Figure 6.1 Distribution of Attitudes towards Political Participation in Increasing Regulatory Legitimacy.....	168
Figure 6.2 Distribution of Attitudes towards Political Participation in Increasing Business Legitimacy.....	172

LIST OF BOXES FOR CASE STUDIES

Box 3.1 The Perception of CCP Memberships.....	46
Box 4.1 A Lesson Learnt from Cooperation with a Stranger	89
Box 4.2 B2B Networks in Contract Enforcement Negotiation	93
Box 5.1 B2G Connections in Helping Firms to Bypass Regulations.....	128
Box 5.2 Cultural Difference in Investment Decisions.....	137
Box 5.3 What Makes <i>Guanxi</i> Work?	153
Box 6.1 Perception of Responsibility in Political Participation	189

ABBREVIATIONS

B2B	Business-to-Business
B2G	Business-to-Government
CCP	Chinese Communist Party
COEs	Collectively-Owned Enterprises
PPCC	People's Political Consultative Conference
GDP	Gross Domestic Product
NPC	National People's Congress
PC	People's Congress
R&D	Research and Development
RBV	Resource-Based View
GRP	Gross Regional Product
SOEs	State-Owned Enterprises
TCE	Transaction Cost Economics

CHAPTER 1 INTRODUCTION

Guanxi, or as you said, social networks, is not unique in China; but it is the characteristic of China. In China, *guanxi* is important for any person. It is not only for the owners of private firms, but is also important for a general factory worker or state-owned enterprises. China is a country full of *guanxi*. It is also important to consider *guanxi* when doing different things. (Interview 7¹)

1.1 BACKGROUND

Both social networks and strategic management are important managerial topics in the study of emerging economies. The importance of social networks in Chinese business has been investigated in the literature (Guthrie, 2002; Luo, Huang, & Wang, 2012; McNally, 2011; Park & Luo, 2001; Todeva, 2007; Xin & Pearce, 1996). The exploration of the role of social networks in the design and implementation of business strategies is necessary to extend our knowledge of how social networks help firms to sustain competitive advantage. However, less attention has been paid to this field in the Chinese context.

Over the past three decades' economic reform has transformed the political, economic and social environment significantly, but the institutional environment is still underdeveloped. According to the institutional theory (North, 1990), a society possesses both formal rules and informal rules. The formal rules refer to political rules, market rules and contracts. Informal rules include social norms and moral codes which are formed by the culture and ideology of a society. In emerging countries like China, in which the power of the formal rules is comparatively weak, people rely on informal rules to get things done. A social network is a type of informal institutional mechanism. Firms use social networks to secure navigate business environment, thus reducing the risk of external uncertainty (Lovett, Simmons, & Kali, 1999).

¹ A male entrepreneur who owned a company in the advertising and media industry. His firm was in Guangzhou. The age of the firm was 23 years.

Firms also access strategic resources through networks with companies or regulatory departments which control those resources. The improvement of internal capability to respond to external uncertainty helps firms to achieve competitive advantage. The social networks in which managers and firms are situated affect the capability of the firm to respond to changes and to reduce risks from the external environment. These networks have significant implications for the emergence of competitive advantage in a company.

China has a fast-changing business environment. Private enterprises in China have experienced different stages of development. Beginning from the implementation of opening up policy and economic reform, the Chinese government gradually allowed private enterprises to operate. The private sector has become an important component of the socialist market economy. In recent decade, private enterprises in China have contributed significantly to economic growth. They accounted for 32 percent of total revenue for industrial enterprises and around 16 percent of national employment in 2013, based on the definition of private enterprises used in official statistics (China Statistical Yearbook, 2014).² The private enterprises have also expanded their operations into more industries in recent years, although the majority of them are still in the manufacturing industry and wholesale and retail trades industry (All China Federation of Industry and Commerce(中华全国工商业联合会), 2007). However, these private enterprises face particular challenges and disadvantages in competition with state-owned enterprises (SOEs) and foreign-invested firms. The Chinese government is less enthusiastic in supporting the development of the private sector than the state-owned or foreign sectors.

Private enterprises have a long history of operating in China. However, they were not considered constitutionally legal until 1999, when the amendment of the constitution recognized the non-public sectors as an “important component of the socialist market economy” (Dickson, 2008). The

² The Chinese government has an official definition of private enterprises and uses that definition in official surveys and statistics. This official definition will be discussed in more detail in Section 3.2.2 in Chapter 3.

unclear status of the private sector is one of the main reasons why private enterprises were discriminated against and received unfair treatment (Tsang, 1996). After 2000, the Chinese government undertook regulatory liberalizations, including a formal commitment to provide equal treatment to private firms compared with foreign-invested firms and allowing private enterprises to enter some previously restricted sectors. These policies improved the business environment for private enterprises in China, but many private entrepreneurs still reported that their enterprises continued to face difficulty in accessing resources, which compelled them to rely on personal networks to solve economic conflicts and to spend a high proportion of their expenses on cultivating social networks (All China Federation of Industry and Commerce(中华全国工商业联合会), 2007). Private entrepreneurs expect the Chinese government can further improve the institutional environment, especially in the legal system, financial market, and the role of the government in regulating economic activities.

The Chinese government has put a lot of effort into improving the legal system. However, the legal system is not independent. It is under the administration of the Chinese Communist Party (CCP) and the government. The appointment, promotion and removal of judges are at the discretion of local government and the CCP. Local authorities can readily intervene in the enforcement of court judgements (Schramm & Taube, 2003). The legal system is subject to pervasive political influence. For these reasons, private enterprises in China seldom rely on the court to solve economic conflicts, instead seeking help from the local government or through personal relations.

The transition process has involved progressive market liberalization, where the central administration mechanism is replaced by the market mechanism. In China, however, the government still retains considerable power in resource allocation and the regulation of market activities. Resources are not equally distributed among different ownership types. For example, China's financial system is currently dominated by four huge state-owned commercial banks and they control the majority of the financial resources in the market. Sharing the same type of ownership with SOEs, the state-owned

banks are more willing to lend to government-connected firms. The SOEs consume 70 percent of bank lending (Lawrence, 2003). In the first half year of 2006, just 1 percent of loans were extended to private enterprises (Kwong, 2009). These data show the difficulty for private enterprises in acquiring financial resources. Other resources controlled by the government also tend to be allocated to the state-owned sector first. Private enterprises are disadvantaged compared with SOEs in resource acquisition.

Private firms face other pressures to improve their internal capability to compete in the market. An aging population and declining birthrate lead to reduction of labour force, which creates more competition in labour market among different forms of ownerships. The New Labour Contract Law which was implemented in 2008 have increased labour expenses and brought more challenges to the operation of the private firms (Business Monitor International, 2015). In addition to access to human and financial capital, private firms lack support from State policies and agencies to improve efficiency through innovation and technical upgrades (Zhu, Wittmann, & Peng, 2012). Private firms face more difficulties to diversify their investments and improve internal capability. These disadvantages restrict the development of private firms and lead to short life cycle of private business in China (All China Federation of Industry and Commerce(中华全国工商业联合会), 2007).

In this dynamic business environment, social networks can help firms to acquire resources and reduce the risks arising from the external environment. Although some existing literatures have claimed that as an informal institutional mechanism to manage resources and risks, social networks will become less important in the long run when formal institutions improve in China and the market mechanism matures (Guthrie, 1999; North, 1990; Peng, 2003), China is still in the transition process and the institutional framework is underdeveloped. Therefore, in the foreseeable future private companies in China will rely heavily on personal connections to seek business opportunities (Luo, 2007; Nee & Opper, 2012; Xin & Pearce, 1996). It is thus meaningful to investigate the role of social networks in the operation of private enterprises in China.

This study discusses how social networks affect business strategy. The analysis focuses on private enterprises in the Chinese context and discusses the importance of the social networks in this special business environment. My research focus on the transaction- and firm-level to identify how social networks affect the strategic behaviours of the private enterprises, and help them to reduce the risk they face from external uncertainties and difficulties in accessing resources. The discussion will demonstrate that social networks improve the capabilities of firms to respond to changes in the business environment and help private enterprises to achieve competitive advantage by acquiring strategic resources and information. This study also investigates how private entrepreneurs connect to formal political organizations and pursues political roles to increase the legitimacy of their firms.

This chapter is structured into four sections. The next section will present the research objectives of this study, followed by an explanation of the research question in section 1.3. Section 1.4 will provide the structure of the thesis.

1.2 RESEARCH OBJECTIVES

The main purpose of this research is to examine the role of social networks in business strategies and the emergence of competitive advantage in Chinese private enterprises. It uses survey and interview data from more than 400 private firms in Guangdong province. The specific aims deriving from this main purpose will be discussed below.

The first objective of this study is to explore how private enterprises work in the Chinese business environment, which favours state ownership. After three decades of economic reform, the literature shows that Chinese private enterprises still face more uncertainties and disadvantages compared to SOEs (Feng & Wang, 2010; Tsui, Bian, & Cheng, 2006b). And these uncertainties and disadvantages are the reasons why private enterprises rely on personal relationships to do business (Park & Luo, 2001; Su & He, 2010). This

study will explore how the private enterprises work within this business environment in China.

The second objective is to identify the role of social networks in the business strategies of Chinese private enterprises. The importance of social networks and research in business strategy has developed separately in the literature. Although some research tried to investigate the importance of network-based strategy, the theoretical literature focuses on firms in developed market economies. A firm's capability to sustain its competitive advantage can be affected by different factors in different markets. In China, the role of social networks in the design and implementation of business strategies is different from the western model, owing to China's transitional status, specific political-economic institutions and the relative development of the market. This study tries to investigate how the social networks work in business strategies in private enterprises in the Chinese context.

The third objective is to explore the functions of different types of social networks, and how private entrepreneurs perceive them in the operation of their businesses. Peng and Luo (2000) indicated the importance of distinguishing between business-to-business (B2B) networks and business-to-government (B2G) networks in emerging countries, in which the government still retains considerable power to intervene in market activities. In a transition country, the transformation process involves a shift from public to private ownership, liberalization of the market, establishment of market institutions, and social and political changes arising from the economic development and democratization process (Smallbone & Welter, 2001). The important role of the government, especially the local government, in the design and implementation of policies motivates private entrepreneurs to maintain close connections with regulatory agencies to reduce uncertainty arising from unexpected changes. Meanwhile, the development of the market mechanism increases information sharing among firms and enhances the function of the market. This persuades private entrepreneurs to rely more on their business partners to carry out transactions. This study explores how private entrepreneurs view the effects of B2B networks and B2G networks in

their business strategies. It further extends the current understanding of the functions of social networks in the Chinese market.

The final objective is to explore how private entrepreneurs perceive their participation in political organizations, which comprise the CCP, the People's Congress (PC) and the People's Political Consultative Conference (PPCC), and whether these formal political connections have helped to increase the legitimacy of their firms. In recent years, more and more private entrepreneurs have participated in different political roles. Political participation transforms the personal connections into a formal mechanism for influencing the state. Private entrepreneurs thereby ally with the party-state to seek protection and support, which reduce their "liability of privateness". This study aims to examine how entrepreneurs perceive the function of political participation in helping their firms to communicate with the regulatory agencies and their business partners, in turn increasing their acceptance by both parties.

Summing up, the social network is a significant element in the Chinese business environment. Embeddedness in different networks affects how the private firms react to external changes and improve internal capabilities. However, there is limited empirical research focusing on network-based strategies in Chinese private enterprises. This study tries to provide more exploration in this area.

1.3 RESEARCH QUESTION

According to my research objectives, this study aims to address the following research questions: how do the social networks of entrepreneurs affect the business strategies private enterprises adopt to achieve competitive advantage? How does the embeddedness in different types of social networks affect the attitudes of entrepreneurs towards the function of B2B networks and B2G networks? And how does political participation reinforce the function of social networks and help private firms to establish legitimacy?

1.4 STRUCTURE OF THE THESIS

The thesis is divided into seven chapters. Chapter 1 introduces the research background, the aims and the research questions of this study. Chapter 2 is the literature review. It discusses the existing theories and empirical research that frame the study. This discussion shows the gap in the exiting literature that has motivated this study: to explore the functions of social networks in the business strategies of Chinese private firms.

Chapter 3 discusses the research design and the data collection process. It emphasizes the complexity of conducting research on social networks and private firms in China, and explains the reason for using the mixed-methods approach. This chapter also provides a clear definition of private firms that is adopted in this study. The definition affects the process of sampling. Next, this chapter presents a descriptive analysis of the sample population, some important variables and the new variables generated from the results of factor analysis. These variables are used in the regression models in Chapters 4, 5 and 6.

Chapter 4 investigates the function of B2B networks. I combine the quantitative results with interviews to explore how entrepreneurs who are embedded in different business networks perceive the role of B2B networks in the design and implementation of business strategies. The results emphasize the role of B2B networks in acquiring business information, including connections with business partners from both upstream and downstream industries that strengthen the trustworthiness among networked members and thus reduce external risks.

Chapter 5 analyses the role of B2G networks. Using both survey and interview data, this chapter highlights the important role of B2G networks in maintaining a stable business environment and accessing strategic resources controlled by the government. The results show that B2G networks help private firms to avoid government intervention and secure their investments. B2G networks also enable private firms to access financial resources and new technology more easily. This motivates private entrepreneurs to maintain good

B2G networks and invest in the regions or industries where they have good B2G connections.

Chapter 6 moves on to the political participation of private entrepreneurs. It discusses how entrepreneurs perceive the influence on the legitimacy of their firms from their membership in the CCP, or in the PC and PPCC. I find that entrepreneurs who have frequent B2G connections are more likely to maintain positive attitudes towards political participation, especially those with memberships in the PC and PPCC. This reveals the role of political participation in reinforcing informal personal networks and enables private firms to be more accepted by the regulatory agencies and their business partners.

Chapter 7 is the conclusion. It summarizes the findings of this study. This chapter also discusses the contributions and significance of this research, and presents the managerial implications for managers. The bibliography lists the references. The appendices provide information about all interviewees, the questionnaire in both English and Chinese, and the core interview questions in both English and Chinese.

CHAPTER 2 LITERATURE ON SOCIAL NETWORK THEORY AND BUSINESS STRATEGY FOR PRIVATE ENTERPRISES

For all Chinese companies, they can be divided into three types. The first group purely relies on the market, such as companies based on electronic commerce. They rely on the internet network to sell their products and do not require *guanxi*. The second group relies on both *guanxi* and market. For example, the design industry belongs to this group. The third group only relies on *guanxi* to survive. This group of companies usually employs a limited staff. They concentrate on a specific area to cultivate good personal *guanxi* with important people in that area. Then they can do business in an easier way and receive higher profits. (Interview 10³)

2.1 INTRODUCTION

The purpose of this literature review is to critically analyse the current literature on business strategy, institutionalism and social network analysis. The review examines the theoretical and empirical literature regarding the role of social networks in business strategy and how these social networks help private enterprises to generate competitive advantage in China.

The theoretical objective of this study is to combine the social network perspective with transaction cost economics (TCE), the resource based view (RBV), and institutional theory to explain the importance of social networks in business strategy, as well as the incentives for private entrepreneurs to connect to regulatory agencies and business partners in the Chinese context. In China, the social networks of businesses are a kind of inimitable resources and channels for firms to acquire other valuable and rare resources (Clegg, Wang, & Berrell, 2007b; Gulati, Nohria, & Zaheer, 2000). Social networks also help firms to access important information and reduce transaction costs (Castells, 2010; Gu, Hung, & Tse, 2008). The role of the social network affects firms in terms of their choices of business strategy and helps the firms to achieve

³ A male entrepreneur who owned a firm in the architecture structure design industry. The firm was in Guangzhou. The age of the firm was 9 years.

competitive advantage. Political participation reinforces B2G networks and enables private firms to increase their acceptance by government and business partners.

Besides the TCE, RBV and the institutional theory, scholars have argued for the importance of understanding different cultures and their effects on business (Noronha, 2009). The business-system literature explores how business operation varies across societies with different institutional environment (Redding, Bond, & Witt, 2014; Whitley, 1992; Whitley & Zhang, 2016). Culture is an important dimension that influences the institutional environment (Hall & Soskica, 2001; Whitley, 1999). Entrepreneurs in different culture contexts have different opinions towards functions, roles and responsibility of the companies (Meyer, 2007; Redding & Witt, 2015). Culture is defined as the values, beliefs and behaviours that are shared by a group of people and distinguishes members of that group from another (Hofstede, 1980). According to Hofstede (1980), there are four dimensions in measuring national culture. In the indices calculated by Hofstede (1980), China is a country with high level of power distance, low level of individualism, middle level of uncertainty tolerance and relatively balance of roles between genders. Companies in this cultural context tend to be family-based. Employees, especially those who are family members, tend to follow their social and family roles in managing the firms rather than clearly defined responsibilities within the company (Schneider & Barsoux, 1997). With a high level of power distance and low level of individualism, decisions are mainly made by the father entrepreneurs in many small and medium-sized enterprises (Noronha, 2009; Wong, 1985). Social networks of the owners and top managers influence their decisions, thus affect operation of the company. The traditional values that associated with Confucianism, such as long-term orientation, ordering relationship, protection of face and reciprocation make relational behaviours and *guanxi* being emphasized in Asian business (Noronha, 2009; Shafer, Fukukawa, & Lee, 2007). Scholars argue that the logic of *guanxi* is the most important business principal that affecting entrepreneurs' decisions in Chinese society (Chung & Hamilton, 2001; Fei, 1992). This analytical perspective above was based for the most part on studies of the Chinese outside of the

People's Republic of China, in Southeast Asia, Hong Kong and Taiwan, where family firms were the rule, compared with the suppression of family-based private in mainland China until the reform period.

The cultural perspective does not conflict with the theoretical framework of this research. However, the business-system literatures mainly focus on the macro societal aspects and examine how culture and other institutional elements influence general business operation across different institutional environments. My research is more focused on the transaction- and firm-level activities of entrepreneurs. TCE argues firms are formed to reduce transaction costs that occur in market exchanges (Coase, 1937). RBV explains the resources that enable firms to generate competitive advantage (Barney, 1991). TCE and RBV provide a generalized framework to understand how firms compete in the market through reacting to the external uncertainties and organizing internal resources and capabilities. This research aims to use TCE and RBV to examine how social networks help private firms to reduce transaction costs and to access resources in the China context. The literature review identifies the gaps in the current literature and proposes the need for this study.

This chapter is structured into seven sections. The following section reviews strategic management literature and the role of business strategy in an organization. The third section integrates the social network perspective with the RBV and TCE, and discusses the extant theories. The fourth section discusses the empirical research regarding social networks in the Chinese context. The fifth section discusses the institutional theory in understanding the role of political participation in increasing the legitimacy of firms. The sixth section summarises the gaps in the current literature. Finally, the last section concludes this chapter.

2.2 STRATEGIC MANAGEMENT

Strategic management is the business activities of general managers that seek to improve the performance of a firm through the utilization of resources in a

particular external environment (Nag, Hambrick, & Chen, 2007). It focuses on the “fit” between the competences of the firm and the external environment (Grant, 2005).

Strategy can be classified into two basic levels: corporate strategy and business strategy (Grant, 2005). Corporate strategy concerns which markets or industries firms will participate in. It deals with mergers, acquisitions, diversification, and the allocation of strategic resources among subsidiaries in different industries or markets. Business strategy relates to how the firm competes in a particular industry or a market, focused on the direct relationship between the company and the environment. In this study, business strategy is the primary emphasis since it analyses how companies respond to their suppliers, customers, competitors, and the government in their markets. Business strategy affects the emergence of the competitive advantage of a company.

The traditional business strategy theories are based on the western market condition. For instance, Coase (1937) identified the role of transaction costs for firms in dealing with the “make” and “buy” strategic decision – to produce a good or service “in house” (make) or to obtain from outside the firm (buy). Coase believed a firm to be an administrative device to reduce the costs of transacting in the market place. Williamson (1988) further explained that the transaction costs are the outcomes of bounded rationality, opportunism and asset specificity. These theories called for the analysis of the strategy in producing and distributing products and services to minimize the transaction costs. Porter (1980) proposed a five-forces model to evaluate the attractiveness of an industry and the competitiveness of a firm within this industry. The model explained that the threat of substituted products or services, the threat of new entrants, the intensity of competition among existing competitors, and the bargaining power of the focal firms over their suppliers and buyers determine the competitive positions and profitability of the focal firms (Porter, 1980). Understanding the micro business environment helps the focal firms to design business strategies that take advantage of their strengths and respond to threats. However, the five-forces model was criticized as it assumes that firms all

operate independently and do not connect to their suppliers, customers and competitors (Coyne & Subramaniam, 1996). Existing business models, such as strategic alliances among competitors and network-based strategy, challenge the credibility of the five-forces model. In addition to the collusion among firms, another scholar suggested that the government and the public can influence the strategic position of firms, and as such this influence should be included as the sixth force (O'Shaughnessy, 1997). Porter (2008) argued that government policies influence the profitability of the industry through their influence over the five forces, but this argument still ignores the direct connections between the focal firms and regulatory departments that may help firms to access resources and bypass industrial regulations.

The above theories focused attention on the external environment of a firm and did not discuss the internal variances within firms that affected their competitiveness. The RBV (Barney, 1991) approach shifted the attention to internal qualities of firms: sustained competitive advantage is generated by a firm's possession of valuable, rare, inimitable and non-substitutable resources that allow it to outperform others. The RBV not only emphasizes the characteristics of the resources that can generate competitive advantage, but also considers the capability of firms to access and use these resources. Capability refers to the capacity of a firm to organize its resources, including physical and intangible resources, in production activities (Grant, 2005). The design of business strategies should be based on an evaluation of the resource portfolio and the capability of firms to access and use these resources to "fit" in the external environment. The distinctive competence of a firm to use its capability to access and possess valuable, rare, inimitable and non-substitutable resources in a more efficient method compared to competitors are sources of competitive advantage (Barney, 1991; Lado, Boyd, & Wright, 1992; Selznick, 1997).

Competitive advantage is defined as an advantage a firm has in generating higher profit or performing better in terms of market share, annual sales, and so on, compared to its competitors (Porter, 1980). In a dynamic business environment, an external change may have different influences on the

performance of different firms, since they vary in their capabilities to possess different resources (Grant, 2005). The competence of a firm to respond to external change might differentiate the focal firm from its competitors and create competitive advantage or disadvantage. This competence includes the capability to forecast external changes and adjust the resource portfolio to fit the new external environment. Higher capability in forecasting changes, for example having more channels to access more accurate information, and more flexible in resource acquisition enable firms to seize business opportunities arising from external changes and to generate competitive advantage.

TCE and RBV provide a generalized framework to assess external and internal factors which influence firm's strategic decisions in achieving competitive advantage. The underlying principles of TCE and RBV can be applied to the origins of firms in different institutional and cultural environments, since all firms operating in market seek to lower transaction costs and to access more and cheaper strategic resources to achieve better performance (Meyer, 2007; Peng, 2001). Chinese firms are not exclusive in their operation (Wang, 2007). However, transaction costs may differ in different institutional environments due to the levels of legal protection, information asymmetry, and the levels of trust among business people (Redding & Witt, 2015). For example, firms in a market with limited information available for public access may experience higher transaction costs arising from information asymmetries, compared to their counterparts who operated in a more developed market (Keister, 2001; Krug & Hendriscke, 2008). The same type of resources is also likely to have different levels of importance for firms' survival and operation. For example, access to bank loans is more important for firms to secure financial capital in a bank dominated financial system (Allen, Qian, Zhang, & Zhao, 2012), compared to firms in a market where access to the stock market and other formal financial resources is easier. The variance in different institutional contexts leads firms to adopt different strategies to reduce transaction costs and access resources.

In China, the market environment changes quickly. The institutional environment and market mechanisms are underdeveloped. Policy

implementation and law enforcement are subject to personal interpretation and influence, which may increase transaction costs. Companies face more uncertainties as well as more opportunities. Chinese entrepreneurs have thus designed their own strategies to overcome external uncertainties and improve their internal capability to possess resources based on this unique context, which includes multifaceted institutional and cultural differences from those found in the West. The social network is an important element of Chinese business philosophy and practice.

A social network is the social structure comprising actors and the ties between these actors (Todeva, 2006). It is a distinct research perspective as it emphasizes the importance of relationships and analyses their effects rather than simply focused on the attributes of the actors. In China, *guanxi* is constantly being emphasized in business and society (Fei, 1992; Luo et al., 2012). Without *guanxi*, the common belief is that doing business is all but impossible (Chung & Hamilton, 2001). *Guanxi* is a deeply cultural embedded practice and originated from the hierarchical structure of Chinese society (Chung & Hamilton, 2001; King, 1991). It emphasizes reciprocal relations between individuals and a mutual commitment from both parties to the future development of relationship (Chua, Morris, & Ingram, 2009; Lee & Dawes, 2005). The *guanxi* relationship is the social networks in the Chinese context. These ties are personal and particularistic, but have significant influence over business decisions of Chinese firms. Chung and Hamilton (2001) mention that *guanxi* is the 'logic of business' in Chinese society. Chinese entrepreneurs rely on *guanxi* relationships to respond to changes in the external environment (Parnell, Lester, Long, & Köseoglu, 2012; Schoonhoven, 2006). Social networks help Chinese firms to access information to forecast external changes (Guthrie, 2002; Tsang, 1998), and to provide more channels to access resources (Sheng, Zhou, & Li, 2011; Wu, Wu, Zhou, & Wu, 2012; Zhou, 2009). Embeddedness in a well-functioning and distinctive network is a kind of inimitable resource, while the ability to manage the complex network relationship is a necessary competency for Chinese firms to achieve competitive advantage (Gulati et al., 2000).

Therefore, a business strategy that ignores the important role of social networks in generating competitive advantage is not applicable in the Chinese business environment. Combining the social network approach and business strategy theories helps us to analyse the behaviours of the Chinese firms. Adopting the theories and techniques established in the social network perspective also provides a theoretical foundation for understanding the importance of *guanxi* in the Chinese business environment. In this study, the social networks we focus on are the personal relationships between individual entrepreneurs or between entrepreneurs and officials in regulatory departments. These personalized networks are influential in Chinese society. The next section will discuss how to understand the importance of personal networks in Chinese business from the TCE and RBV perspectives on the firm.

2.3 BUSINESS STRATEGY OF RESOURCE, TRANSACTION AND NETWORKS

This study focuses on the role of social networks in business strategy and how social networks help private enterprises to compete in the Chinese market. As discussed in the previous section, competitive advantage emerges from the capability of a firm to make use of its resources in the presence of a specific external environment (Grant, 2005; Porter, 1980). This section reviews the theoretical literature involving internal capabilities of resource acquisition by RBV and the external uncertainties by TCE. Combining these theories with the social network perspective, the discussion highlights how social networks can enable firms to achieve competitive advantage in Chinese context.

2.3.1 Resource-Based View and Internal Capabilities

The discussion of the business strategy in this study begins with the RBV and analysis of the internal capabilities in resources acquisition. The RBV argues a firm's sustained competitive advantage is based on its ownership of valuable resources, which should be heterogeneous and not perfectly mobile (Rumelt, 1997). As discussed in the previous section, a firm's sustained competitive advantage is generated by the possession of valuable, rare, inimitable and

non-substitutable resources, which distinguishes it from other firms and provides the potential to out-compete rivals (Barney, 1991).

A resource can take many forms and contribute in various ways to the profit of a firm. Resources can be physical, for instance land and machinery, and intangible, for example information and experience. The RBV emphasizes the capability of firms to possess strategic resources, which create higher profit. However, in different markets, there may be different criteria in evaluating what types of resources contribute most to competitive advantage. Hoskisson, Eden, Lau, and Wright (2000) explain that in emerging economies, a scarce resource is more valuable than an inimitable resource due to government control over resource distribution and limited access to these resources. Lands and financial capital are specific examples of such resources in China (Allen et al., 2012; Zhou, 2009). These two types of resources are scarce for private firms because of the extreme difficulty in acquisition. Firms therefore should choose their strategies based on a sound understanding of their capability in acquiring strategic resources in a specific context (Barney, 1991). However, the market and external environment is not stable. The changes in the external environment mean that firms also require the capability to adjust their internal resource portfolio, for example investing in new technology to realign with the external environment, which involves more intensive competition from international competitors. The business strategy should enable the firms to forecast changes and improve internal capability to identify and acquire strategic resources, thus sustaining competitive advantage in the future (Chaharbaghi & Lynch, 1999). Consequently, a firm's capability to organize its resource and respond to external changes affects the emergence of competitive advantage (Pfeffer, 2005). In a market that is rapidly changing, a flexible and efficient strategy allows firms to take advantage of more opportunities and reduce losses. The design and implementation of efficient business strategies heavily depends on the managerial capability of the firm to respond to change.

Social networks can be treated as strategic resources in their own right since they are idiosyncratic to an individual firm and thus create inimitable and

non-substitutable value for the firm (Gulati et al., 2000; Luo, 2007). The personal networks of an entrepreneur can affect how the firm acquires other resources and generates value during this process. The social network is specific to the firm and its staff. The process of network establishment depends on the characteristics of actors within the network (Gulati & Gargiulo, 1999). This process and the features of the specific network are difficult for others to imitate and substitute. The importance of trust among networked members in Chinese context make it difficult for strangers to enter an existing network (Chua et al., 2009). Thus resources that are available among network members are scarce for externals. The characteristics of social networks help firms to generate competitive advantage.

Social networks also have implications for the managerial capability of a firm. As an informal institutional mechanism, social networks provide a channel for the firm to access key resources such as information (Sanders, Autry, & Gligor, 2011), technology (Wei, Hou, Wang, & Wang, 2011), and capital (Chow & Fung, 2012; Hom & Xiao, 2011). These networks can be viewed as inimitable capabilities that can help the firm to generate competitive advantage. But such networks are not cost-free for managers. They can increase operational costs for firms and may also expose firms to negative aspects of a culture of personal and particularistic relations, such as corruption (Luo, 2007). *Guanxi* also put outsiders in disadvantageous position compared with network insiders in accessing resources and information, which may create unfair competition in the market. These aspects are discussed later in this section.

Within a network, firms benefit from sharing resources with one another. Research suggests that the social network between and within the firm(s) enable the sharing and accumulation of experience and knowledge (Zeng, Cui, & Yu, 2011), which may increase the overall capability of these firms. A network with entrepreneurs in the same industry also enables the firm to gain knowledge from others (Chin-Chun, Kannan, Tan, & Leong, 2008; Kogut, 2000). Connections with the government may help firms to access human resources, technology, land, information, and other scarce resources controlled

by the government (Li, 2005; Wu et al., 2012). These links can also help firms to forecast and interpret regulations and policies and receive more institutional support (Li, Zhou, & Shao, 2009; Potter, 2002). Relationships with SOEs such as the state-owned commercial banks provide a useful channel for firms to acquire financial capital and other resources controlled by these companies (Gu et al., 2008). All of these resources are essential for the operation of firms and increase their capabilities to respond to external environmental challenges.

In a business environment with an underdeveloped institutional framework, such as China, firms rely on informal mechanisms for resource acquisition. Social networks provide an efficient way to access rare resources. The resources acquired by firms through a unique network are inimitable and non-substitutable, and scarce for externals. In summary, the social network of a firm can be treated as an important source for sustainable competitive advantage and has an important effect on the formation of business strategy.

2.3.2 Transaction Cost Theory and External Uncertainties

Since the external environment is not stable, even more so in emerging countries, firms need to adjust their structure of resources and strategies in accordance with changes in the market. Transaction costs are costs that occur during economic exchanges, which means the purchase or sale of a good or service in the market place (Coase, 1937). In transition economies, the allocation of resources is not based on the market mechanism alone, with state entities often having control over certain scarce and valuable resources. The transaction costs for private enterprises in acquiring these resources are typically higher than for the state-connected enterprises. In addition to resource acquisition, firms need more information to identify and anticipate changes in the market and external environment. The cost incurred attempting to gain this information is usually higher in transition countries. Information is less transparent and often monopolized by the state, while imperfections in regulations and the legal system also increase the cost of acquiring accurate information. The circumstances outlined above mean that transaction costs are typically higher in transition countries than in developed market economies.

Williamson (1988) argued that bounded rationality, opportunism, and asset specificity are the three causes of transaction costs. Bounded rationality is the concept that the capacity for people to understand the world is limited. The world is complex and uncertain. More interactions with other parties in the world lead to more uncertainties. Accurate information becomes important for business activities to mitigate risks in business. Firms also need to increase their capabilities to process information. In emerging economies, unstable macroeconomic environments and inconsistent policy enforcement means firms experience more external shocks and are less able to forecast external changes (Hoskisson et al., 2000; Peng & Heath, 1996). This further increases transactions costs arising from information asymmetries and increases the value of accurate information. Social networks, which are based on the trust between the entrepreneurs, enable firms to collect more information on each other and share information about the market (Castells, 2010; Gulati, 1995). Connections with government officials also provide useful information about market opportunities and forecasting policy changes (Chow & Fung, 2012; Li et al., 2009; Luo, 2003). This can help the firm to lessen risks when facing market changes and can increase the capability of a firm to adjust its business strategy. Building social networks therefore reduces transaction costs arising from the problem of bounded rationality that confronts all entrepreneurs.

Opportunism, in Williamson's framework, is the assumption that the human being is overwhelmingly self-interest seeking. The TCE assumes that actors are unable to identify opportunists and opportunistic behaviours before transactions (Williamson, 1993). Some scholars argue the levels of opportunism change depending on different culture and institutional environments across different countries (Ghoshal & Moran, 1996). Therefore, it is inappropriate to rely on the opportunism assumption when applying TCE in countries with high levels of trust and collectivism. China is a country with high level of collectivism (Hofstede, 1980), but also with low levels of trust in the society (Qin, 2011). This leads to high-trust within the networks and low-trust towards outsiders. Opportunism can be reduced among networked people but still can be high in transaction with outsiders. Existing research suggests that opportunism is greater in collective society when there is conflict

of interests between groups or between internals and externals due to lack of trust among unconnected people (Chen, Peng, & Saporito, 2002). Other scholars show that opportunistic behaviours are more likely to happen in emerging economies due to the weaker legal environment to ensure law enforcement (Hoskisson et al., 2000; Peng & Luo, 2000). These all increase costs in managing transactions. Firms thus adopt different strategies in reducing transaction cost arising from opportunism.

In a developed market, firms use contracts to protect their interests and reduce the costs arising from operational conflicts. Since the legal system is not well established in China, the negotiation and enforcement of contracts heavily depends on the bargaining power of the parties involved and how they are connected (Arias, 1998; Dixit, 2009; Gulati, 1995; Ling & Li, 2012; Potter, 2002). A significant amount of research indicates that social network ties with government officials have a positive effect on contract enforcement and property right protection (Park & Luo, 2001; Puffer, McCarthy, & Boisot, 2010). Gulati et al. (2000) argued that social networks can reduce the transaction costs arising from opportunistic activities. Opportunistic actions such as cheating are more easily observed by members inside a network than those outside. The information about opportunistic behaviours will be communicated to other members, thus affecting the reputation of the company within the network. This mechanism makes opportunism more costly and reduces the probability of experiencing unethical behaviours while trading with connected partners. The information available within the network helps a firm to better understand others and choose a strategy to protect itself. Access to more reliable information also increases the trustworthiness among networked members and sustains relationships and cooperation.

The third cause of transaction cost is asset specificity. Asset specificity relates to the redeployment of investment for a particular transaction, which renders its value to zero or negligible outside of that transaction (Williamson, 1988). A party to a transaction could be opportunistic by not following the agreement of a contract. In this case, asset specificity such as the investment in a highly specific asset to facilitate the contract becomes a sunk cost that cannot

be recovered if the other party pulls out. In China, the legal system is inadequate in terms of protection for private property and investment. Companies may try to internalize an operation to avoid losses from investment in a highly specific asset involving a partner or client. But mergers and acquisitions can be very expensive in transition countries because of the underdevelopment of the capital market and the legal framework (Dougherty, Herd, & He, 2007; Peng & Heath, 1996). Social networks between entrepreneurs build trust, which helps firms to secure their investments in relation to contracting parties. Research shows that social networks act as the safeguard for a long-term contract and help to prevent opportunistic activities in contract enforcement (Li et al., 2009). A mature understanding of each party and knowledge sharing within networks reduce the transaction costs arising from changes in their relationship and contract termination (Gulati et al., 2000). This may reduce the risk that arises from an investment in highly specific assets.

Social networks have a cost, however, both in their formation and in their maintenance. In the Chinese context, networks imply the exchange of favours (Chung & Hamilton, 2001; Luo, 2003; Walder, 1995). The cost of establishing and maintaining social networks can be expensive. Some scholars have argued that social networks increase firm performance in raising market share and total sales, but not profits (Park & Luo, 2001). In addition to the cost, networks with government officials may involve bribery and legal repercussions (Li et al., 2009). The practice of network-pursuing activities might lower ethical standards and damage the profitability of firms. Members in existing networks may collude to oppose institutional changes which may damage their interests (Hoskisson et al., 2000). The collusion among networked firms can create negative impact on innovation and creativity, due to the monopoly power of the colluded firms. Existing literature shows that networking effect on firms' innovation only appear on small firms (Rogers, 2004). Emphasis of networks in business operation also disadvantage unconnected people. When entrepreneurs who have good personal networks use their *guanxi* to access resources and information, they can outperform their competitors by participating in an unfair competition environment. Existing

literature shows that using social networks in human resources management may potentially damage firm performance (Gu & Nolan, 2015; Horak, 2015). Although social networks have some drawbacks, such as these negative aspects of costs and potential damages, the role of social networks in the Chinese business environment on balance increases the ability of firms to react to market changes. In a fast-changing market like China, social networks are important for the emergence of competitive advantage.

Summing up, this section reviews the theoretical literature involving business strategy combined with the social network perspective. The discussion explains that social networks work strategically to tap into resources and to reduce transaction costs arising from external uncertainties. Social networks can help a company to be more competitive in emerging market.

2.4 EMPIRICAL STUDIES – TYPES AND FUNCTIONS OF SOCIAL NETWORKS IN CHINA

Empirical studies of social networks and their roles in business strategy in transition countries are a developing area of study. Literature on business strategy and social network analysis was developed in Western society, though more attention has been paid in the past decade to the emerging countries.

The social network of an entrepreneur plays an important role as a complement to the formal institutional mechanism for coordinating exchanges in emerging economies (Potter, 2002). Entrepreneurs use their personal networks to obtain and sustain the competitive advantage of their firms. For these individuals, different networks have different functions: B2B networks refer to the networks with individuals in other firms, such as suppliers, customers, and competitors (Dubini & Aldrich, 1991), whereas B2G networks are connections with government officials in government agencies and public institutions (Li et al., 2009). Firms rely on both types of network to improve their performance when doing business in China. However, B2B networks and B2G networks differ in their functions and roles and how they affect the business strategies of private firms.

A B2B network helps firms to access market resources. First, managers can acquire important information that is not available on the open market through personal networks (Castells, 2010; Sanders et al., 2011). The role of information in a company is to support decisions of resource allocation in a more efficient way. Since the cost of acquiring information is more expensive than most other resources, a firm's competitive advantage emerges from its ability to handle information (Casson, 2001). The quality of the information available is uncertain. The capability of a firm to collect, assimilate, filter, and use information to coordinate its resources affects the probability of the firm achieving competitive advantage. Networks with entrepreneurs in other companies enable firms to access more accurate and useful information, which improves the capability of the focal firm in strategic decision making. For example, connections with suppliers may provide better information about their products and services, thus reducing uncertainty of purchasing based on general description (Chin-Chun et al., 2008; Heide & John, 1992). Close interaction with customers helps the firm to acquire customer feedback and information about market changes (Buvik, Andersen, & Gronhaug, 2014). The relationship with competitors enables a firm to acquire information about the industry, the reputations of its partners, and also increases the probability of inter-firm collaboration (Peng & Luo, 2000; Poppo & Zenger, 2002; Todeva, 2007). Information is essential for the capability of a firm to respond to change. Social networks provide an effective and efficient channel for accessing information.

Second, the B2B networks act as a complement to the legal framework and have an important role in securing the enforcement of contracts in China. In western countries, business networks are generally formed between companies. In contrast, Chinese culture emphasizes the trust between persons and the quality of personal relationships change hierarchically (Chung & Hamilton, 2001). Research shows that in a business environment with a high level of uncertainty, entrepreneurs prefer to turn to a person they trust and are familiar with to reduce the risk of opportunistic activities (Powell, 1990). Trust is usually defined as the belief that the business partners will be honest and will perform or will intend to perform according to the agreement (Ganesan,

1994). The development of trust among business partners might strengthen a relationship based on business transactions (Anderson & Narus, 1990; Ganesan, 1994). Trust between people is viewed as the complement to the complex and explicit contracts and coordinate exchanges (Gulati, 1995; Poppo & Zenger, 2002; Potter, 2002). Therefore, B2B networks operate as a self-enforcing safeguard, reducing the transaction costs arising from the breach of contracts and the costs of negotiating transactions and finding potential collaborators.

By way of contrast, B2G networks provide access to resources regulated by the government. In China, the government still has a significant influence over resource allocation. For some scarce resources such as land, subsidies and so on, the government controls them directly. Connections with government officials help firms to access these resources. For example, connections with government officials enable private enterprises to acquire financial resources. Government leaders still maintain influence over the lending decisions of state-owned banks (Du, Guariglia, & Newman, 2013; Feng, Jing, & Wang, 2010). Relationships with government agencies and public institutions may enable firms to cooperate with them in innovations and access to new technologies (Chen, 2010a; Wei et al., 2011). The government officials can also act as an important bridge between a firm and universities and colleges to provide access to human resources and know how (Qiao, Ju, & Fung, 2014; Zhu et al., 2012). In addition to the above strategic resources, the government controls administrative-related resources, which refer to the power of the regulatory departments in administrative approvals. Firms need to seek administrative approval from different regulatory agencies for business activities and investment projects. Since the interpretation and implementation of rules and policies depend heavily on local government officials in China, the influence of the government in market activities is increased (Potter, 2002). Access to administrative-related resources affects the survival and competitiveness of private firms. B2G networks help firms to gain trust from government officials, thus bypassing administrative procedures in a shorter period (Wank, 2002). This reduces the opportunity costs interred by waiting for administrative approval.

Second, the interaction between the institutional environment and organizations shapes the economic activities in the market (North, 1990). During the transition period, the policies made by the government tend to protect and support SOEs first. As the Chinese government favours state ownership and gives preferential treatment to SOEs (Chen, Lu, & He, 2008; Haggard & Huang, 2008; Nee & Opper, 2012). Private enterprises thus face more uncertainty, which compels them to rely on networks with government officials to forecast and interpret policy changes (Peng & Heath, 1996; Wang, Feng, Liu, & Zhang, 2011). This close relationship with the government may also result in preferential treatment, such as lighter taxation and relaxed regulatory oversight (Faccio, 2006). B2G networks provide a more stable environment for firms (Peng & Luo, 2000; Su & He, 2010).

Summing up, B2B and B2G networks exhibit different roles and functions in the operations of private enterprises in China. B2B networks are more market oriented. They are a reliable and efficient channel for acquiring market information and reducing the transaction costs arising from information acquisition. B2B networks also act as informal institutional mechanisms used to secure contract enforcement and initiate cooperation. The B2G networks are more politically oriented. Connections with government officials help firms to obtain resources controlled by the government, and increase the political legitimacy of these private enterprises. Private enterprises therefore have a fairer foundation to compete with SOEs and firms of other forms of ownership. Despite the private sector contributing significantly to economic development, direct government support is limited. Private entrepreneurs seek closer ties with the party-state through political participation. The next section will discuss how to understand the political participation of private entrepreneurs from the perspective of institutional theory.

2.5 INSTITUTIONAL THEORY AND POLITICAL PARTICIPATION

Firms operate in a specific environment with specific social rules and institutional mechanisms. When firms determine their business strategies, they

not only need to consider the market, but also need to deal with the institutional framework (Scott, 2014). Institutional theory discusses the social and cultural aspects of organizational behaviours. It tries to explain why certain institutions emerge in a certain environment and why organizations need to conform to the social rules and regulations of that environment (Orru, Biggart, & Hamilton, 1991). Understanding the influence of the institutional dimension on business strategy can help us to explain the diversity of firm behaviours in resource acquisition and in responding to external uncertainties.

Institutions are a set of rules that govern the behaviours of people and organizations in a society (North, 1990). Institutions include formal rules, such as laws, policies, regulations and contracts, and informal rules, such as norms of conduct and ethical standards (North, 1990). Existing researches in China show both formal and informal institutions influence organizational behaviours. Zang and Chen (2015) argue that rural collective enterprises tend to cooperate with local rural elites to access resources and labour force under the influence of economic development and institutional change in the past three decades. Rowe and Guthrie (2010) analyse policies change and development of legal framework in regulating corporate social responsibility in China and how it affects organizational environmental performance. Puffer et al. (2010) compare development of protection over private property, and use of social networks in business in China and in Russia to conclude different strategies adopted by Chinese and Russian entrepreneurs. These researches show that firms in emerging economies modified their business strategies according to formal and informal institutional changes.

Social networks are a kind of informal rule which is deeply embedded in the Chinese culture (Boisot & Child, 1996; Chung & Hamilton, 2001). Informal institutions act as a supplement to support business activities when there is lack of well-developed formal institutional mechanism (North, 1990). The interaction between the formal and informal institutions affects how firms design their business strategies.

DiMaggio and Powell (1991) concluded that firm structure and behaviour are less motivated by market competitions today than in the past.

They identify three types of isomorphism to explain how the institutional environment affects organizational structure and behaviour. They are coercive isomorphism, mimetic isomorphism, and normative isomorphism (DiMaggio & Powell, 1991). Coercive isomorphism follows from formal legal and policy pressure, and social expectations about the behaviour of the organization. Firms are forced to comply to survive in such a perspective. Mimetic isomorphism describes a situation where a firm that is experiencing uncertainty seeks to mimic the structure and behaviours of existing successful examples – copying the leader, in short. Normative isomorphism comes from the pressure of professions to force the organization to adopt a socially defined norm of behaviours. DiMaggio and Powell (1991) use these three types of isomorphism to illustrate why the business strategies and structures of firms in the same or similar institutional environment tend to become identical. Although the similar structure and activities cannot guarantee efficient practice, firms that fail to follow along – conform in one way or another – risk failure. The process of establishing the above isomorphism are the activities adopted by the firm to achieve legitimacy and to be accepted by other participants (Scott, 2014).

In China, the party-state has a profound effect on the development of the institutional environment. Laws and policies require entrepreneurs to comply with the expectations of the party and the state, and to avoid any aggressive action towards the state (Dickson, 2008, 2010). A strong state sector also weakens the attractiveness of the private sector in the consumer and labour market, with evidence showing that workers in state-owned firms enjoy more social benefits and wage premiums (Cai, Park, & Zhao, 2008; Tsui et al., 2006b). Thus, private entrepreneurs in the earlier reform period adopted a “red hat” strategy to attach themselves to the state to access resources, to gain preferential treatments, and to reduce the risk of arbitrary harassment from local government (Che & Qian, 1998; Haggard & Huang, 2008; Pearson, 1997). Nonetheless, the “red hat” strategy adopted by private entrepreneurs in 1980s and 1990s was not costless. These mixed property firms faced the risk of government expropriation of private assets (Chen, 2007; Haggard & Huang, 2008; Nee & Opper, 2012). With further reform of the market mechanism in the early 2000s, private firms were supposed to receive more equal treatments

under the law, although local government implementation of these laws can be problematic (Gold, 2006). The improved institutional environment had reduced the pressure on private entrepreneurs to register their firms as state-connected. But since the state retains the power to allocate strategic resources and intervene in market operation, private entrepreneurs have sought another powerful “red hat” like solution. In other words, private entrepreneurs attach their firms to the party-state through political participation.

Political participation is one strategy for building business-state alliances in China. The existing research has explored how political participation affects firm profitability (Chen et al., 2008; Li, Meng, Wang, & Zhou, 2008), helps firm to access financial resources (Chen & Touve, 2011; Faccio, 2006), and influences the attitudes of private entrepreneurs towards the political system (Chen & Dickson, 2008; Dickson, 2008; Guiheux, 2006). Through political participation, private entrepreneurs have been able to establish a more formal relationship with the state analogous to the state-owned firms. This is a way for private entrepreneurs to gain the trust of the party and retain their prosperity. In addition, entrepreneurs who participate in political roles are perceived as local elites because of their business achievements (Dickson, 2008). Their involvement in policy making empowers them to comment on industrial development and policy implementation, which enhances their influence on local issues. Through political participation, private entrepreneurs show their compliance with the rules set by the party-state, and mimic the formal connection between SOEs and the state. From the perspective of coercive isomorphism and mimetic isomorphism, political participation enables private firms to increase their acceptance in the Chinese institutional environment. Thus they experience less uncertainty and enjoy access to more resources.

2.6 THE GAP OF LITERATURE

The preceding review discussed the existing literature on the social network approach and strategic management theories and how they are applied in transition economies in general. The literature review has revealed several

limitations in the existing literature. This study provides empirical research for the purpose of building the theory to expand the current studies on social network approach and business strategy in the Chinese context. A number of concerns in the extent literature will be address in this study.

First, the theories of business strategy and social network analysis are well developed. Recent developments in the business performance analysis have attempted to combine these two perspectives and discuss how social networks affect firms' performance (Gulati et al., 2000; Luo et al., 2012; Peng & Luo, 2000; Sheng et al., 2011). This study provides an empirical understanding of how social networks affect the business strategies of Chinese private firms and helps them to compete in the market. The discussion based on the TCE, the RBV and the institutional theory to investigate the strategic behaviours of Chinese firms. It helps to better understand the role of social networks in reducing transaction costs and access strategic resources from the perspective of TCE and RBV.

Second, the understandings of the theories related to business strategy and the social network approach are derived from studies involving firms in well-developed market economies. Although the importance of social networks in conducting business in China has produced a huge number of studies on *guanxi* (Chung & Hamilton, 2001; Gold, Guthrie, & Wank, 2002; Lee & Dawes, 2005; Lin & Si, 2010; Luo, 2007; Luo et al., 2012; McNally, 2011; Park & Luo, 2001; Tsang, 1998; Xin & Pearce, 1996), the literature on network-based strategies is limited in the Chinese context, especially in terms of an explicit focus on private firms (Sheng et al., 2011). Some of the research focuses on foreign invested firms or joint ventures (Li, 2005; Li et al., 2009). But seldom do they specifically investigate the role of social networks in private enterprises. Despite more than three decades of market reform, the business environment in China still privileges firms connected to the state. The distinctive external environment in China poses different constraints for the development of private enterprises. These characteristics challenge the direct application of western theories in the Chinese context. My research further explores the role of social networks plays in framing business strategies of

private firms in this specific institutional environment. It extends the current understanding of the *guanxi* phenomena in China.

Third, past studies have explored the impact of the political participation of private entrepreneurs and the importance of political strategies for private firms (Hillman, 2003; Jacomet, 2005; Sawant, 2012). Despite this, the research in transition countries is still limited. Chinese entrepreneurs were not that eager to participate in political roles until the party changed its attitude towards the private sector at the 15th Party Congress in 1997, and they were finally allowed to seek CCP membership in 2001 (Li & Fung Research Centre, 2011). Research investigating how private entrepreneurs perceive the role of political participation in helping their firms to compete in the market is necessary. This study explores how political participation helps firms to increase their acceptance among other private entrepreneurs as well as government officials.

Fourth, with regards to the methodology, the current research on social network and business strategy in China has mainly used a quantitative approach. Some of the empirical literature also uses interviews, though quantitative methods dominate. Qualitative analysis is theory producing oriented, which aims to provide insight into a problem to understand the underlying reasons and motivation, and helps to generate ideas and hypotheses (Bryman, 2012). Quantitative analysis is theory testing. It quantifies the problem by using measurable quantitative data to formulate facts and test hypotheses (Bryman, 2012). In the absence of a clear theoretical understanding of how private entrepreneurs behave and think, the qualitative approach provides more valuable and in-depth understandings. As a consequence, further research that uses a mixed-method approach is needed to explore the role of social networks in business strategy in China.

The gaps in the literature suggest the need for further research on the social networks and business strategies of private firms in China. My research aims to do so through addressing the research question of how social networks affect the design and implementation of the business strategies of Chinese private firms, as well as the role of political participation in strengthening the function of social networks by increasing the legitimacy of private firms. The

theoretical framework adopted lends itself to an empirical strategy, the collection of survey data and its analysis, to directly measure how Chinese private entrepreneurs think they use networks to manage their firms, and better compete in the market by reducing transaction cost and access strategic resources. In doing so the thesis focuses on transaction and firm level analysis. The thesis does not dwell on cultural aspects of social networks that are not amenable to analysis through this empirical strategy. The cultural perspectives are not entirely neglected; they have been noted above, and are noted where appropriate in the empirical chapters below.

2.7 CONCLUSION

This chapter has critically reviewed the theoretical and empirical literature on the social network approach and theories of business strategy. Strategic management emphasizes the fit between the resources and competencies of firms and the external environment. The capability of a firm to possess resources and to react to changes in the external environment in an efficient and effective way increases its competitiveness. Both B2B and B2G networks improve the capability of firms to forecast changes in the external environment through access to information, whilst also improving the capability of firms to acquire resources. As an informal institutional mechanism, social networks provide supplementary support to business activities. Simultaneously, private entrepreneurs seek formal connections with the state through political participation. This literature review shows how we can combine business strategy and institutional theory with the social network perspective to develop a framework for the analysis of the business strategies of Chinese entrepreneurs. It recognises the role of culture in shaping the macro-institutional environment, though the focus of the study is on the transaction- and firm-level behaviour of entrepreneurs. The discussion presents the background and theoretical context for this study and its empirical strategy. The literature review has established the research questions. Based on the aims of the research, the next chapter will discuss the research design and the data collection process.

CHAPTER 3 RESEARCH METHOD AND DATA DESCRIPTION

The average age of Chinese private firms is eight to 10 years. The average age of firms in the media industry is much shorter than that. Many firms invested in the sub-sectors of the media industry tend to establish *guanxi* before making investments. Then they rely on the *guanxi* to survive and generate profit. However, the majority of *guanxi* established in this way only last for three to five years. When the *guanxi* changes, many firms cannot survive and need to establish *guanxi* with other people and move to another sub-sector. (Interview 7⁴)

3.1 INTRODUCTION

The theory for this study is based on the literature review in relation to the role of social networks in business strategy. Social networks and their role in Chinese private enterprises is the focus of the study, which adopts a mixed methods approach. Data was collected from questionnaire surveys and semi-structured interviews. The research aims to generate a broader and deeper understanding regarding the usage of social networks, and how private entrepreneurs perceive the importance of social networks in making strategic decisions.

This chapter outlines the research method and data collection process in detail. The next section will discuss the mixed-method approach to show the reasons for combining quantitative surveys and qualitative semi-structured interviews in my research, and also outline the data collection process. Section three will provide a descriptive analysis of the sample firms and variables. It will also include the results of factor analysis, which has been used to identify the independent variables for regression analysis in Chapters 4 and 5. The last section will conclude this chapter.

⁴ A male entrepreneur who owned a company in the advertising and media industry. His firm was in Guangzhou. The age of the firm was 23 years.

3.2 THE MIXED-METHOD APPROACH

Both quantitative research and qualitative research have different limitations. Mixed-method research aims to collect different kinds of information to provide a broader view of the research questions, thus strengthening the argument of the study. This section discusses the reasons for choosing quantitative surveys and qualitative interviews in this research, and presents the data collections process. It begins with a discussion of the mixed-method approach.

3.2.1 Quantitative Surveys and Qualitative Interviews

Quantitative methods and qualitative methods are different in terms of philosophical assumptions. In general, quantitative methods focus on to what extent there is a causation relationship between variables (Maxwell, 2005). Qualitative methods emphasize the content of the causation relationship, which means why and how the causation relationship is established (Maxwell, 2005). The mixed-method approach presumes that information collected from different methods is meaningful and legitimate to study the whole picture of the research question (Greene & Caracelli, 1997). Quantitative methods and qualitative methods are complementary to each other. Combining both methods helps to redress some of the biases of each approach, such as generality in qualitative research with a small number of cases, and enables us to understand the results of quantitative analysis. The following two views help to support the reasons for adopting the mixed-method approach.

First, pragmatism suggests that the philosophical assumptions of different research methods are independent and do not conflict with each other (Greene & Caracelli, 1997). There is no absolute connection between research methods and the understanding about knowledge and social reality (Bryman, 2012). Researchers should choose the method which is most suitable for examining the research questions without any restrictions (Bryman, 2012; Patton, 1988).

Second, existing research proposes that the mixed-method approach enhances understandings of existing theories and provides new perspectives,

although it is necessary to admit that the difference between philosophical assumptions of quantitative methods and qualitative methods is important (Krantz, 1995). Each approach has specific epistemological and ontological foundations. Quantitative research is deductive and theory testing oriented. It assumes that social phenomena and their meanings exist independently from actors (Bryman, 2012). Researchers can assume a priori relationship and seek to test it through the responses from a survey instrument, that either confirm or reject the theory. However, the deductive approach in quantitative research makes it relies on the interpretation of the respondents to measure the questions, which may not accurately reflect the phenomenon that the researchers are interested in measuring (Bryman, 2012). The inaccuracy of measuring might reduce the reliability and validity of research (Wood & Williams, 2007). For qualitative research, it is an inductive approach that emphasizes on the generation of ideas and theories. Qualitative methods assert social phenomena and their meanings are accomplished by social actors, thus requires researchers to accept the persistent revision of social phenomena and explore the subjective meanings of social actions (Bryman, 2012). However, qualitative approach was criticized as the problem of generalization. Qualitative research often relies on intense study, which includes small samples or limited number of cases. The results that are generalized from small sample are difficult to be applied to the population or other samples (Bryman, 2012). Researchers also consider the result of qualitative research is objective compared to quantitative research, since it mainly based on researchers' interpretation (Bryman, 2012). Research on social issues is complex. Combining both quantitative methods and qualitative methods provides both "analytic" and "systemic" approach to explore the research questions (Salomon, 1991). Mixed methods approach improve validity of research, since it enables researchers to identify potential threats to validity or gain a more complete picture about the research question from both inductive and deductive approaches (Erzberger & Kelle, 2003; Hurmerinta-Peltomäki & Nummela, 2006). The mixed-method research also provides both objective and subjective data in understanding the research questions, enabling the researcher to check the validity of both types of data (Abusabha & Woelfel, 2003). The

mixed-method approach provides a more comprehensive understanding of the research objective (Erzberger & Kelle, 2003).

However, existing research questions the credibility, trustworthiness and validity of mixed methods (Johnson, Onwuegbuzie, & Turner, 2007). Onwuegbuzie and Johnson (2006) indicate that the problem of legitimation still exists in mixed methods, since both quantitative and qualitative methods bring their original problems into this setting, and create another potential problem – the problem of integration. The mixed methods cannot fully guarantee credibility and validity of a research (Tashakkori & Teddlie, 2006 (April)). By adopting the mixed methods approach, I am not indicating that this is an ideal method without any limitations. Pragmatically, researchers search for the suitable and workable research solution in helping to answer the research questions, no matter they are quantitative or qualitative or mixed methods (Onwuegbuzie & Johnson, 2006).

This study explores the perception of Chinese private entrepreneurs regarding the role of social networks in their business strategies. Although the field of research is undeveloped for the study of Chinese firms, the business strategy literature and analysis of *guanxi* in China have provided the foundation to generate hypotheses and research questions. Quantitative methods focus on the systematic collection of data from respondents and their statistical analysis. The quantitative results show how private entrepreneurs perceive their use of social networks in their business, providing metrics to compare the strengths or importance of a particular factor of interest (e.g. The role of a particular type of network tie) with another. On the other hand, the qualitative data based on interviews is more explorative in nature. Interviews provide the opportunity to understand in a more nuance way the relationship between social networks and business strategies in private enterprises from the different viewpoints or experiences of the informants. Qualitative results help to explain the meaning of using social networks in different ways for different purposes. In addition, the business environment in China differs across industries and cities. The qualitative approach is useful for exploring the hidden dimensions and avoids unilateral interpretations of the quantitative data

from the researcher. Interviews also help to acquire important local knowledge and establish long-term relationships with the informants during the research process. It is therefore valuable to combine quantitative surveys and qualitative interviews to collect complementary information. Using both quantitative and qualitative data in analysis better illustrates the role of networks from different perspectives.

The above discussion explains the advantages of adopting the mixed-method approach in this research. In the next section will discuss how I define private enterprises in China, the population of firms I am interested in.

3.2.2 Definition of Private Enterprises

Defining the private sector in China is a complex task since there are combinations of various types of ownership structure. On the one hand, private firms may register as collectively-owned enterprises (COEs) or township and village enterprises (TVEs) to seek support and protection from the local government, while they are owned and managed by private entrepreneurs (Tsui et al., 2006b). this was very common in the past. On the other hand, some subsidiaries of state-owned firms are actually privately controlled, but their strategic decisions are significantly affected by the state-owned parent companies in practice (Yang & Morgan, 2011). It is difficult to distinguish clearly between the private sector and the state-owned sector.

Past scholars have generally adopted two types of definitions of private enterprise in China. The first one is the broader definition, which refers to the non-state sector (Li & Fung Research Centre, 2011). It includes domestic funded companies that are not owned by the state. This broader definition also includes the household enterprises (*getihu*, 个体户) which employ fewer than eight people. The Tsui, Bian, and Cheng (2006a) study of Chinese private firms adopted this broader definition to provide a more general picture of the private sector in their edited book.

In this research, I have adopted a narrow definition of private enterprises, which is provided by the Chinese government and adopted by officials research to represent the private sector (All China Federation of Industry and

Commerce(中华全国工商业联合会), 2007). A private enterprise in this study is defined as a business entity with private ownership and has eight or more employees. It includes enterprises registered in the following forms: private-funded enterprises (*siying duzi qiye*, 私营独资企业), private partnership enterprises (*siying hehuo qiye*, 私营合伙企业), private limited liability corporations (*siying youxian zeren gongsi*, 私营有限责任公司), and private share-holding corporate limited companies (*siying gufen youxian gongsi*, 私营股份有限公司). The Company Law in China states that companies registered in these four forms should have at least 51 percent of shares in the hands of private entrepreneurs. Although private limited liability corporations and private share-holding corporate limited companies may include minority government shares, the majority private ownership exercises control in most situations (Yang and Morgan, 2011). This definition also excludes firms with major shareholders who come from Hong Kong, Macau, Taiwan and overseas.

This research aims to explore how private entrepreneurs perceive the role of their personal social networks in affecting the business strategies of their companies. Private entrepreneurs who participate in this research should have controlling power over the operation and actively determine the design and implementation of the company's business strategy. Their personal networks have significant influential effects on the operation of the company. In addition to the internal management, firms already attached to the government by being registered as COEs or TVEs may enjoy more preferential treatments, such as access to subsidiaries and resources (Du et al., 2013; Zhou, 2009). Private firms have no political affiliation and therefore rely on personal social networks to access these resources. Including firms attached to the government officially might undermine the importance of social networks in the business strategies of private firms.

The narrow definition of private enterprises measures firms and thus defines firms that are owned and managed by private entrepreneurs, and that have limited official connections with the government. This population of firms provides a good foundation for studying the strategic behaviour of using

personal social networks in shaping competition among domestic private firms. With a clear target population and research method established, the next section will present the data collection process.

3.2.3 Research Design and Data Collection

The data for this study was collected from questionnaire surveys and semi-structured interviews that focused on private enterprises in Guangdong Province. Guangdong is one of the most open and developed provinces in China. According to the China Statistical Yearbook (2014), the Gross Regional Product⁵ (GRP) and per capita GRP of Guangdong were 6,216 billion *yuan* and 58,540 *yuan* respectively in 2013. The GRP of Guangdong accounts for 10.93 percent of national Gross Domestic Product and ranks number one among all of the provinces and municipalities. Guangdong is more developed economically compared to most provinces and municipalities. Guangdong was also one of the first provinces to be opened to foreign investment at the end of the 1970s and historically had close connections with Hong Kong and Macau. Firms in Guangdong benefited from preferential policies, such as lower tax rates and government subsidiaries at the beginning of the opening up stage, attracting investment from Hong Kong, Macau and overseas countries. They maintained obvious competitive advantages in manufacturing industries and foreign trades compared to firms from other regions until the end of the 1990s (Lin & Lin, 1997). The market institutions and mechanisms, for instance the enforcement of contracts in protecting transactions and the operation of financial institutions in providing financial resources, have become better established in Guangdong than many other provinces. Private entrepreneurs in Guangdong thus may have advanced experience in designing business strategies and market competition. This is the reason why I have chosen Guangdong as the focal area for this research.

⁵ Gross Regional Product (GRP) is the Standard National Accounting format data reported by the Chinese government in the Statistical Yearbook to measure regional economic output. It is the regional (provincial) equivalent of Gross Domestic Product at the national level.

The primary data comes from 418 private firms that responded to a survey, which was supplemented with 53 interviews with entrepreneurs who had completed the survey. Appendix 1 provides a list with brief information about the 53 interviewees. The use of a subset of sample to conduct interviews potentially creates the problem of sample integration legitimation (Onwuegbuzie & Johnson, 2006). This means the inferences that is made from the qualitative analysis of the smaller subset may not be able to be generalized to the larger sample and population, especially when the subset of the sample is small. The problem of sample integration legitimation can be reduced when the subset of sample is similar to the random sample. Compared with the subset used for interviews and the full sample in this research, the interviewed firms are older (average age: interviewed firms: 15.02 years; overall sample: 11.95 years), bigger in firm size (average annual sales: interview firms: 271.30 million yuan; overall sample: 144.37 million yuan) and involved a lower proportion of manufacturing firms (proportion of manufacturing firms: interviewed firms: 45.30%; overall sample: 60.00%). The diversity of firm attributes between the subset and the random sample reduce the generalizability of the qualitative result. This is one limitation of this study.

The data was collected between March and August 2013. The survey instrument was first developed in English, translated into Chinese and back-translated to ensure validity. The people who did the blind back-translation was a PhD student in Chinese culture. She has comprehensive knowledge about the Chinese culture and language. The back-translation process ensures the translation equivalence, conceptual equivalence and functional equivalence of the survey instrument between English and Chinese (Cascio, 2012). Before I distributed the survey, a pilot study was conducted with five Guangdong entrepreneurs at the beginning of February 2013. I accessed these five entrepreneurs using my personal connections. These five entrepreneurs have their firms operated in different industries. This helped to ensure the perceptions of concepts in the survey instrument are consistent in different industrial background. According to the feedback received in the pilot study, I made some minor revisions of the survey instrument which further ensure the functional equivalence (Cascio, 2012), and determined the core

questions to be used in the semi-structured interviews. The final version of the survey instrument and the list of core interview questions in both English and Chinese are shown in Appendix 2 and Appendix 3 respectively.

I used three channels to distribute the survey: an online survey, physical questionnaires distributed to respondents, and questionnaires completed during the conduct of the interviews. The online survey and distribution of the physical questionnaires were done with the assistance of seven cooperative business chambers and four trade fairs focused on manufacturing industries held in Guangzhou. Of the cooperative business chambers, five are provincial level chambers located in Guangzhou. Three chambers have multi-industry membership and two are for manufacturing industries. I only accessed two local area business chambers in Shenzhen and Jiangmen respectively. The business chambers selected the sample companies on my behalf for the distribution of the surveys according to my definition of private enterprises. It was difficult to control the total number of distributed questionnaires, since the cooperative business chambers were not willing to allow me direct access to potential respondents. Thus, I do not know the total number of questionnaires distributed and cannot calculate the response rates. However, the criteria in selecting target respondents were clearly discussed with the staff responsible for selecting firms in the business chambers. The population of this research is the private firms as defined in the previous section. The cooperative business chambers were requested to randomly select member firms based on the definition and distribute the questionnaire. The initial respondents who participated in the interviews were either accessed through these business chambers, or introduced through my personal connections. Other interviewees were obtained based on snowball sampling from recommendations of previous interviewees. All interviews were conducted face to face and in private. Most of the interviews took around one hour and 15 minutes. The shortest interview lasted for around 40 minutes and the longest was two hours.

In summary, this section discussed the advantages of using both quantitative surveys and qualitative interviews to examine the views of private entrepreneurs about social networks and business strategy. It has also

discussed the process of data collection. The following section will move on to the analysis of data and provide a holistic picture of the sample companies.

3.3 DESCRIPTION OF THE SAMPLE AND VARIABLES

This section will illustrate the characteristics of the firms that participated in the research and the groups of social networks these private entrepreneurs are embedded in. The attributes of the respondent firms and entrepreneurs enable us to understand the business environment in which they operate. The section begins with a descriptive statistical analysis of the sample entrepreneurs.

3.3.1 Descriptive Statistical Analysis of Sample Firms

3.3.1.1 The attributes of sample entrepreneurs

The total number of questionnaires collected was 418. Among these collected questionnaires, 188 were from the online survey using Survey Monkey;⁶ 177 hardcopy questionnaires were collected by the business chambers or were directly administrated at the trade fairs; and the remaining 53 were completed simultaneously with the interviews of the respondents. Some of the surveys were incomplete, leading to a reduced sample size in the statistical analysis and regression models in the later chapters.

Table 3.1 shows the summary statistics of the attributes of respondents. More than two-thirds of the sample entrepreneurs were male. They were relatively young, with more than 80 percent under 49 years old. And they were well educated with 80 percent of them possessing a college or higher degree. A national survey conducted by the China Federation of Industry and Commerce in 2006 shows the average age of private entrepreneurs was 44.4 years, and 49.3 percent of sample entrepreneurs had received college or higher degrees

⁶ Survey Monkey is an online survey platform. It allows the researcher to create online survey questionnaires and invite respondents to participate in the survey anonymously. The web page of the online survey and a password to access the survey were distributed with a plain language statement to the selected members of the cooperative business chambers. The deadline for the online survey was set as the end of August 2013.

Table 3.1: Summary Statistics of Respondents' Attributes

Variables	Percentage	Observations
Gender		
Male	68.00	418
Female	32.00	418
Age		
Under 30	6.00	417
30-39	40.00	417
40-49	39.00	417
50-59	12.00	417
Above 60	3.00	417
Highest qualification		
Primary school	1.00	416
Middle school	5.00	416
High school	14.00	416
College or Bachelor degree	74.00	416
Postgraduate degree	6.00	416
Experience in current job (years)	7.17	418
Former cadre	5.00	409
Former state-owned firm manager	22.00	409
CCP membership	23.00	416

Source: survey data

(All China Federation of Industry and Commerce(中华全国工商业联合会), 2007). Compared to the result of this national survey, the private entrepreneurs in my sample are younger and better educated. The Pearson correlation coefficient between the age of respondents and their highest qualification shows that these two attributes are negatively correlated at $p < 0.01$. The younger the respondent, the more likely he/she is to have received a higher degree. This reflects that the new generations of younger entrepreneurs who compete in the private sector have a different educational background compared to the older generation. Since the design and implementation of a business strategy are affected by the personal managerial style of the entrepreneurs, it is important to explore whether the age and educational background of entrepreneurs affect how they perceive the role of social networks in business operation.

The bottom four rows in Table 3.1 show the working experiences and political affiliations of the sample entrepreneurs. On average, the sample entrepreneurs had been in their current job for more than seven years, 23 percent of them were CCP members, 22 percent of them were former managers in SOEs, and five percent were former cadres in government agencies. For respondents who have previous working experience in the government or SOEs, 40 percent reported that they have CCP memberships. However, this percentage could vary depending on the criteria used to determine whether the entrepreneurs are CCP members. In the interviews, when the entrepreneurs were asked whether they were CCP members, several interviewees who had previously worked in government or SOEs reported that they were not sure about the answer. Some of them thought they were not, however others thought they might still be regarded as CCP members. The reason behind this apparent uncertainty is that there is a formal reporting and approval procedure to dismiss CCP members or for them to quit. But many local CCP organizations do not report the change in CCP memberships to the high-level CCP organizations. The Nanjing Daily reported conversations among the government officials and CCP members in considering how to deal with the CCP members who neither pay party fees nor participate in party activity (*Nanjing Daily (南京日报)* 02 July 2014: A02). Box 3.1 also provides a case which studies the perception of private entrepreneurs regarding their CCP memberships. The discussion of the perceptions of entrepreneurs shows that CCP membership depends on whether the private entrepreneurs consider themselves as CCP members rather than whether their names are actually on the official list of CCP members.

The discussion of the attributes of respondent entrepreneurs shows that the sample firms were owned and managed by relatively younger and better-educated entrepreneurs. The next section will discuss other characteristics of the respondent firms.

Box 3.1 The Perception of CCP Memberships

Several entrepreneurs interviewed reported they had previously worked for government agencies, SOEs, or COEs and they were not sure about their current status as CCP members or non-CCP members. One entrepreneur who used to work in a state-owned medicine manufacturing company illustrated his case.

He was a CCP member when he worked in the SOEs. When he left the SOEs to start his own business, he did not apply to quit his CCP membership. And he did not pay his CCP membership fees for more than 10 years. However, he was not informed by the local CCP organizations that he was no longer a member of the CCP. According to the “Constitution of the Communist Party of China”, if a member does not pay the membership fee continuously for six months, he/she will be regarded as having withdrawn from the CCP. The local CCP branch still needs to inform all the other CCP branch members and submit a report to the superior CCP organization for approval. Usually, the local CCP branch does not organize this procedure. When the above entrepreneur was asked that whether he thought he was a CCP member at the time of conducting the survey, he said:

I think my name might still be on the list of local CCP members. But I have not been involved in any activities for a very long time. In general, I do not think I am still a CCP member. But if other private entrepreneurs or government officials still consider that I am a CCP member, I never contradict them. (Interview 29¹)

In the end, when this entrepreneur was asked to make a decision about his answer to the question about CCP membership, he thought for a while and said “Yes”, with the reason being that other people may still consider him as a CCP member.

However, some entrepreneurs provided a different answer in the same situation. Another entrepreneur joined CCP membership when he worked in the government. He also did not apply to quit the CCP membership

formally when he left government service to set up a business. However, when he answered the questionnaire, he chose to declare that he was not a CCP member with the explanation that “no one cares whether I am a CCP member or not” (Interview 3²).

The above cases show that the survey item for CCP membership is not straightforward. It not only measures the political affiliation of the entrepreneurs, but might also partly measure the attitudes of entrepreneurs towards their perceived CCP membership, even when they are seemingly inactive and non-financial members, and thus in fact not legal members at all.

Note:

¹ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a CCP member and a member in a business chamber.

² A male entrepreneur who owned a firm in the transport, storage and postal service industry in Guangzhou. The age of the firm was 11 years.

3.3.1.2 The attributes of sample firms

Table 3.2 summarizes the characteristics of the sample companies, which ranged in size from very small enterprises to large-scale firms that employed more than 5000 people. The sample includes firms established in the 2013 survey year as well as firms that started their business soon after the Chinese government implemented economic reforms in 1978. The average firm age of my sample is 11.93 years, which is relatively old compared to the average of seven years for private firms reported in a 2004 national survey (All China Federation of Industry and Commerce(中华全国工商业联合会), 2007). The older average age of the sample firms suggests that they are survivors in the Chinese market environment and probably more successful on average than

Table 3.2: Summary Statistics of Firms' Attributes

Variables	Mean	SD	Min	Max	Observations
Firm age (years)	11.93	6.54	0	35	418
Annual sales (million yuan)	146.96	408.31	0.02	6200	413
Employment (persons)	278.24	534.95	2	5400	417
Net profit (million yuan)	14.57	70.93	-225	1300	410
Total assets (million yuan)	203.09	1438.90	0.05	27594	406
Total debts (million yuan)	58.14	248.51	0	3000	405
Percentage of bank loans to total debts	42.50	40.31	0	100	405
Industry ¹					
Primary industry (%)	7.00				418
Manufacturing industry (%)	60.00				418
Construction (%)	1.00				418
Service industry (%)	31.00				418

Source: survey data

¹ The distribution of industries is defined according to the China Statistical Yearbook that issued by the National Bureau of Statistic of China.

many private firms. This might be caused by using business chambers to distribute the survey questionnaires. Firms that the big provincial business chambers invite to join are usually bigger in size and with a longer history, and they contribute more to local economic development (Dickson, 2008). The characteristics of members in these provincial business chambers also reflect that the sample firms of this research are more successful in general.

For the distribution of industries shown in Table 3.2, the manufacturing firms accounts for 60 percent of the sampled firms, which is much higher than the 33 percent reported in the Guangdong Statistical Yearbook (2014). This result implies that my sample is overwhelmingly biased to manufacturing firms, possibly due to the fact that respondents were accessed at trade fairs for manufacturing industries, and two of the seven cooperative business chambers drew their membership from manufacturing industries alone.

Table 3.3 shows the distribution of sample companies according to their locations and the economic development of these cities. The respondent firms were located in the two deputy-provincial level cities of Guangzhou and

Table 3.3: Distribution of Sample Firms by Locations and the GRP of Each Location

	City	GRP in 2013 (million yuan)	Per Capita GRP in 2013 (yuan)	Percentage of sample firms
Two deputy-provincial level cities	Guangzhou	1,542,014	119,695	12.9
	Shenzhen	1,450,023	136,948	8.9
Pearl River Delta prefecture-level cities	Foshan	701,017	96,310	7.2
	Dongguan	549,002	66,109	6.0
	Huizhou	267,835	57,144	3.1
	Zhongshan	263,893	83,393	12.7
	Jiangmen	200,018	44,546	30.4
	Zhuhai	166,238	104,798	7.9
Peripheral prefecture-level cities	Maoming	216,017	36,063	2.4
	Zhanjiang	206,001	28,859	1.7
	Shantou	156,590	28,661	1.7
	Qingyuan	109,304	28,928	5.3

Source: The GRP and Per Capita GRP data are from the Guangdong Statistical yearbook 2014

Shenzhen, and 10 prefecture-level cities.⁷ The sub-provincial city of Guangzhou is the provincial capital of Guangdong, and Shenzhen is the Special Economic Zone, which was formally created in August 1980. These are the most developed cities in the province. Both had a GRP above one trillion yuan and per capita GRP higher than 100,000 yuan in 2013. The remaining cities are classified into two groups. Group one is the Pearl River Delta prefecture-level cities. Compared to the remaining cities and many inland cities, the cities located in the Pearl River Delta enjoyed various policy benefits at the start of economic reform (Lin & Lin, 1997). This region is one of the most developed areas in China. In addition to economic development,

⁷ Deputy-provincial level cities are half a rank higher than prefecture-level cities. They have independent authority in planning social and economic development. Their governments possess province-style power to decide policies related to local production, distribution of energy and materials, development of local transportation and postal services, import and export, investment in fixed assets, local wages, and other aspects of economic and social development. In terms of political hierarchy, the mayor, the secretary of the municipal party committee, the deputy to the city PC and the chairman of the local CPPCC are appointed directly by the Party's central organization department. However, the general functions of PC, CPPCC and other regulatory authorities not related to local economic development remain under the leadership of their provincial government.

many firms located in the Pearl River Delta have close connections – as subcontracting manufacturers, joint-venture partners, or suppliers – with firms based in Hong Kong, Macau or overseas. According to the Guangdong Statistical Yearbook (2014), the amount of contracted foreign capital invested in the Pearl River Delta cities, excluding Guangzhou and Shenzhen, was more than US\$18 billion, compared to the US\$14 billion and US\$0.4 billion invested in the two sub-provincial level cities and other cities respectively. All of the above data highlights that the Pearl River Delta cities are extremely attractive for foreign investors. Firms located in this region have more opportunities to cooperate with foreign firms, thus may be easily influenced by the managerial culture of their foreign partners. This is another reason why I separate the Pearl River Delta cities and the remaining cities. The last group is the peripheral cities. They are less developed and distant from the provincial economic centre. Firms located in these cities concentrate more on local markets. Firms that operate in the markets with different economic, institutional and cultural environment may have different attitudes towards how to use social networks in their business. Thus it is meaningful to explore the regional differences in the perception of social networks by private entrepreneurs in the later chapters.

In my sample, 22 percent of respondent firms are located in the two deputy-provincial level cities, 67 percent are located in the Pearl River Delta prefecture-level cities and the remaining 11 percent are in the peripheral prefecture-level cities. The sample is biased to the Pearl River Delta. The over representation of firms in Jiangmen has arisen from the distribution of survey questionnaires by the local business chambers.

In conclusion, this section presents the characteristics of the sample firms and respondent entrepreneurs. The sample of this research includes firms that are relatively successful. Simultaneously, they are owned and managed by younger and better educated entrepreneurs. The sample is biased to the manufacturing industry and the Pearl River Delta cities. The characteristics of the sample firms suggest that they operate in a competitive environment with developed economic conditions. The market mechanism is relatively

well-established. It is imperative to explore whether entrepreneurs perceive the role of social networks differently compared to the existing studies, some of which were conducted in inland or less developed cities (Hsueh, Lin, & Li, 2010; Wang et al., 2011; Zhang, Lin, & Li, 2012). However, besides the attributes of the sample firms and entrepreneurs, the existing networks in which the entrepreneurs are embedded may also affect their perceptions regarding the function of social networks since they have different experiences of using them. The next section will present the results of factor analysis in assessing the attitudes of entrepreneurs towards different types of social networks.

3.3.2 Factor Analysis

This section investigates the factor analysis of the relationship embeddedness of the sample entrepreneurs. It provides a basic understanding of the utilization of different personal ties for business purposes by private entrepreneurs. It begins with an analysis of the primary data, followed by a discussion of the factor analysis results.

3.3.2.1 Data analysis

When exploring the social networks of entrepreneurs, the existing literatures distinguishes between B2G networks and B2B networks (Li et al., 2009; Luo et al., 2012; Park & Luo, 2001; Peng & Luo, 2000; Sheng et al., 2011). However, the relative importance of each of these network arrangements and how they vary between firms is unclear. For example, connections with central government leaders might have completely different meanings for private entrepreneurs compared to ties with local government. On the one hand, local government connections could not guarantee private firms access to strategic resources controlled by the central government. On the other hand, ties with local government officials protect the private firms from government intervention (Xin & Pearce, 1996). Furthermore, relationships between the state and managers in state-owned companies are also different from the state's ties with managers in private firms. It is therefore essential to investigate how entrepreneurs use personal ties with people in different levels of government and organizations. In the subsequent chapters, I will examine whether

entrepreneurs who are embedded in different types of networks maintain different views of the function of social networks in different business strategies. For this purpose, I use factor analysis to examine the frequency of different personal ties utilized by private entrepreneurs for business purposes.

The aim of factor analysis is to extract ‘clusters variables’ that are highly correlated (Field, 2013). These ‘clusters variables’ are unobserved latent factors and were not grouped together in the survey instrument. They capture most of the shared variances in the pattern of correlations among the original variables (Pallant, 2013). In my research, the factors extracted reveal that private entrepreneurs use groups of different personal ties with different frequencies. From the extracted factors, it is possible to obtain a measure of the importance of the contribution of different variables to each factor and calculate the factor scores for each case. This means the scores for each respondent measuring how he/she use different groups of personal ties in different frequency. These factor scores will be used in the regression models in Chapter 5.

The factor analysis is based on the respondents’ answers to items about the extent to which they used different personal ties for business purposes. There are 13 variables in total measuring B2B and B2G networks. Each variable uses a five-point scale from 1 for ‘no relation’ to 5 for ‘very intensive’ use of that kind of personal tie. Before carrying out the factor analysis, Table 3.4 reviews the descriptive statistics and Pearson correlation coefficients for the 13 variables. Field (2013) suggested that variables with “lots of correlations below 0.3” should be excluded since they are not measuring the underlying factors. To avoid the problem of multicollinearity, variables with correlations higher than 0.9 are also eliminated. In Table 3.4, the majority of the correlations between variables are above 0.3 and none exceed 0.9. Thus I included all of the 13 variables in the factor analysis.

In terms of the Kaiser-Meyer-Olkin (KMO) and Bartlett’s test, the KMO measures the sampling adequacy to use factor analysis. The value of the KMO test is 0.87. It exceeds the recommended value of 0.6, which Kaiser (1974)

Table 3.4: Descriptive Statistics and Pearson Correlation Coefficients of Different Personal Ties Utilized by Private Entrepreneurs

Types of Personal Ties	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. With Buyer Firms Managers	3.19	1.16												
2. With Supplier Firms Managers	3.00	1.14	0.67***											
3. With Competitors Firms Managers	2.49	1.05	0.50***	0.55***										
4. With SOEs Managers in the Same Sector	2.28	1.10	0.33***	0.43***	0.64***									
5. With State-Owned Banks Managers	2.70	1.11	0.36***	0.40***	0.46***	0.42***								
6. With State-Owned Utility Companies Managers	2.45	1.10	0.29***	0.35***	0.48***	0.53***	0.56***							
7. With Business Chambers Members	2.55	1.15	0.34***	0.34***	0.37***	0.36***	0.33***	0.47***						
8. With Central Government Leaders	1.68	0.96	0.05	0.12**	0.31***	0.46***	0.30***	0.40***	0.40***					
9. With Provincial Government Leaders	1.82	1.03	0.07	0.14***	0.32***	0.43***	0.35***	0.44***	0.38***	0.82***				
10. With Local Government Leaders	2.74	1.24	0.26***	0.20***	0.30***	0.29***	0.39***	0.40***	0.42***	0.42***	0.56***			
11. With Regulatory Organizations Officials	2.80	1.18	0.36***	0.34***	0.38***	0.32***	0.55***	0.49***	0.37***	0.30***	0.39***	0.63***		
12. With Supporting Organizations Officials	2.73	1.13	0.36***	0.33***	0.41***	0.39***	0.54***	0.51***	0.42***	0.32***	0.39***	0.59***	0.75***	
13. With Public-Sector Organizations Staffs	2.15	1.04	0.24***	0.28***	0.48***	0.48***	0.38***	0.49***	0.39***	0.46***	0.46***	0.28***	0.31***	0.41***

n = 412

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

suggested is “meritorious”. The KMO values for individual variables are all much higher than the suggested minimum value of 0.5. This implies that all of the variables are suitable for inclusion in factor analysis. Moreover, Bartlett’s test of Sphericity is significant (χ^2 2886.73, df 78, p value 0.000). All of these figures show that it is appropriate to use factor analysis with this sample.

3.3.2.2 Results

A principal component analysis was conducted on the 13 variables with varimax rotation. Since the sample size exceeds 250 and the average communality for all variables is 0.67, it is suitable and accurate to use Kaiser’s criterion for factor extraction; this recommends the retention of all factors with eigenvalues greater than 1. Table 3.5 shows the results after rotation for the factor analysis. Using Kaiser (1960) criterion, three factors were extracted from the data. They explain 67.43 percent of the variance in combination. The first factor includes personal ties with leaders in central and provincial governments, staffs in public-sector organizations, managers in SOEs in the same sector and state-owned utility companies, and members in business chambers. All of these organizations are government agencies or companies/organizations owned by the state. But they are less related to the daily operation of private firms and can be classed as ‘distant government connections’. The second factor includes personal ties with officials in regulatory and supporting organizations, local government leaders and managers in state-owned banks. This factor is named ‘local government connections’: it measures the relationships with local authorities or banks managers. In addition to their proximate location, these connections more easily affect the daily operations of firms. One entrepreneur stated that “a lack of connections with leaders in central or provincial government will not make my firm suffer too much, but bad relations with local authorities will make my firm face difficulty immediately” (Interview 2⁸). Private entrepreneurs perceive connections with local authorities to be closer and more important to the

⁸ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 34 years. This entrepreneur used to be a representative in local PC. He was a member in local business chamber when interview conducted.

Table 3.5: Summary of Exploratory Factor Analysis Results for the Frequency of Using Personal Ties for Business Purpose

Types of personal ties	Rotated Factor Loadings		
	Distant Government Connections	Local government Connections	Business Connections
With Central Government Leaders	0.868		
With Provincial Government Leaders	0.817		
With Public-Sector Organizations Staffs	0.644		
With SOEs Managers in the Same Sector	0.614		0.540
With State-Owned Utility Companies Managers	0.490	0.407	0.396
With Business Chambers Members	0.416	0.371	
With Regulatory Organizations Officials		0.861	
With Supporting Organizations Officials		0.805	
With Local Government Leaders		0.788	
With State-Owned Banks Managers		0.532	0.426
With Supplier Firms Managers			0.834
With Buyer Firms Managers			0.795
With Competitors Firms Managers	0.404		0.720
Eigenvalues	5.839	1.688	1.239
% of variance	44.914	12.982	9.535
α	0.836	0.844	0.799

Note: Highest factor loading for each variable appears in bold.

Source: Survey data

n = 412

survival of their firms. Entrepreneurs are compelled to connect with local authorities in different ways than they do with distant government agencies. The third factor includes personal connections with managers in supplier, buyer and competitor firms. These are purely ‘business connections’, or market-oriented connections.

Among the variables, some contribute to more than one factor. For example, connections with managers in SOEs in the same sector have high factor loadings in both distant government connections and business connections (0.614 for distant government connections; 0.540 for business connections). Personal ties with state-owned bank managers contribute significantly to both local government connections and business connections (0.532 for local government connections; 0.426 for business connections). The ways in which private entrepreneurs use personal ties with managers in SOEs and state-owned banks possess a composite characteristic of government and

business connections. Essentially the characteristics of the management in SOEs and the private sector are different. The management in SOEs is more influenced by government decision and has similar characteristics to the operation in government agencies (Hassard, Morris, Sheehan, & Xiao, 2010; Lin, 2010; Warner & Rowley, 2010). For example, research shows SOEs are more hierarchical in their managerial culture, which implies that there are more formal rules and procedures to follow (Ralston, Terpstra-Tong, Terpstra, Wang, & Egri, 2006) and means they take longer to make decisions. These characteristics differentiate them from pure business connections. This is also supported by the interviews. Interviewees mentioned that the hierarchical structure and decision-making process in SOEs are more similar to government agencies (Interviews 15⁹, 16¹⁰, 19¹¹). However, SOEs are simultaneously also firms. They also consider profitability for their strategic behaviours (Interviews 10¹², 23¹³, 25¹⁴, 35¹⁵). Thus, connections with managers in SOEs and state-owned banks contribute to both government and business connections.

⁹ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

¹⁰ A male entrepreneur who owned a firm in manufacturing industry in Guangzhou, and was vice-chairman of a business chamber. The age of his firm was 24 years.

¹¹ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC when interview was conducted.

¹² A male entrepreneur who owned a firm in the architecture structure design industry. The firm was in Guangzhou. The age of the firm was 9 years.

¹³ A male entrepreneur who owned a firm in manufacturing industry in a Pearl River Delta city. The age of his firm was 9 years. This entrepreneur was a CCP member.

¹⁴ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta City. The age of his firm was 11 years. This entrepreneur was a CCP member. He was also a member of standing committee in local PPCC, a representative in local PC, and vice-chairman of a business chamber.

¹⁵ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of the firm was 16 years. This entrepreneur was a representative in local PPCC, and chairman of a business chamber when interview was conducted.

Connections with managers in state-owned utility companies and members in business chambers contribute significantly to both distant and local government connections (managers in state-owned utility companies: 0.490 for distant government connections, 0.407 for local government connections; business chamber members: 0.416 for distant government connections, 0.371 for local government connections). There are many different levels of business chambers in China. In this project, survey questionnaires were distributed through both provincial and local level business chambers. This partly explains why connections with members in business chambers contribute to both distant government connections and local government connections. Another reason given by the interviewees is the necessity to establish and maintain connections with business chambers for the daily operation of private firms. Although some entrepreneurs mentioned the function of certain business chambers as agency guarantor to help their members access bank loans (interviews 16¹⁶, 17¹⁷), the majority of the interviewees stated that connections with business chambers are useless in general. Private entrepreneurs are not anxious to join business chambers, since they view the only “function (*zuoyong*, 作用)” of these memberships as networking with other entrepreneurs (interviews 4¹⁸, 24¹⁹, 40²⁰). This purpose can be achieved better by participating in other political organizations (this will be explored further in Chapter 6). Therefore, entrepreneurs are less motivated

¹⁶ A male entrepreneur who owned a firm in manufacturing industry in Guangzhou, and was vice-chairman of a business chamber. The age of his firm was 24 years.

¹⁷ A male entrepreneur who owned a manufacturing firm in Guangzhou, and was chairman of a business chamber, and the vice-chairman of local Federation of Industry and Commerce, and a representative in local PC and provincial PPCC. The age of the firm was 17 years.

¹⁸ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 3 years. This entrepreneur was a CCP member.

¹⁹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 25 years. This entrepreneur was a CCP member.

²⁰ A male entrepreneur who owned a firm in the manufacturing industry in Shenzhen. The age of the firm was 10 years.

to keep frequent connections with members in business chambers as local authorities.

Compared to business chambers, state-owned utility companies have greater power in affecting the daily operation of private firms. Chinese private firms are not as well protected by the enforcement of law and regulations as their counterparts owned by the state or foreign investors (Ma, Lin, & Liang, 2012; Zhu et al., 2012). This provides more opportunities for local authorities who control strategic resources, for example electricity and the water supply, to charge fees that might not be applicable for SOEs (Chen, Li, & Su, 2005). In the interviews, one entrepreneur highlighted the importance in maintaining good connections with state-owned utility companies in helping his firm to access electricity and other strategic resources to better compete in the market (Interview 36²¹).²² In addition to the competitive advantage, entrepreneurs also explained that the power of the state-owned utility companies is different from other business partners, as illustrated by the following statement:

My company does not have the right to choose to buy electricity or water supplied by other firms. The state-owned utility companies have the monopoly power in their industry. This is similar to the government agencies. My company has to follow all the rules set by them. (Interview 53²³)

The above explanation implies entrepreneurs perceive that the function of state-owned utility companies is more similar to government agencies than pure business firms. This explains why connections with managers in state-owned utility companies have the highest factor loading in distant government connections, but also contributes to local government connections and business connections simultaneously.

²¹ A male entrepreneur who was the chief executive officers of a manufacturing firm in a Pearl River Delta city. The age of this firm was 15 years. This entrepreneur was a CCP member. He was also the chairman of a business chamber.

²² Please also see the mini case study in Box 5.2 in Chapter 5.

²³ A male entrepreneur who owned a firm in the real estate industry in Guangzhou. The age of his firm was 10 years. This entrepreneur was a member of a business chamber.

These three new dimensions show that entrepreneurs use different social networks for different purposes and at different frequencies. It is valuable to examine whether the embeddedness in these three groups of connections affects the perception of entrepreneurs regarding the functions of social networks in strategic decisions. For business connections, Chapter 4 will investigate how the networks involving different suppliers, buyers and competitors affect the attitude of entrepreneurs towards B2B networks in terms of reducing risk and processing business information. For distant government connections and local government connections, I used the Anderson-Rubin method to calculate the composite score for all cases on these two factors. The two new variables measure the frequency of utilization of distant government connections and local government connections. They are the main predictors for the regression models in Chapter 5, which will explore the role of B2G networks in minimizing government intervention and access to strategic resources.

This section has discussed the characteristics of the sample and shows the new variables that has been extracted from the factor analysis and will be used for further statistical analysis. It provides a basic understanding of the research and the background for the discussions in the following chapters. The statistical analysis of the data aims to investigate the role of social networks as perceived by Chinese private entrepreneurs.

3.4 CONCLUSION

This chapter has examined how the mixed-method approach has been applied to this research. The use of surveys and interviews collected both quantitative and qualitative data, which complement each other in analysis. The quantitative data shows a picture of how private entrepreneurs perceive the role of social networks in business strategy. The qualitative data helps to investigate the reason why private entrepreneurs maintain these perceptions. The descriptive analysis of the quantitative data shows that the sample includes firms that are relatively successful and respondent entrepreneurs who are

relatively young and well educated. The factor analysis then investigated how the sample firms respond to business connections, distant government connections, and local government connections differently. The new variables which were produced in the factor analysis will be used in the regression models in the following chapters. The next chapter will discuss the results exploring how entrepreneurs who are embedded in different personal business connections use B2B networks to design and implement business strategies.

CHAPTER 4 BUSINESS TO BUSINESS NETWORKS

Companies are indeed more likely to cooperate with other familiar companies. A greater understanding of the owner of the partner firm leads to a more trustworthy B2B relationship. In the absence of any specific conflict, I am inclined to cooperate with existing partners continuously. More importantly, if I am well-informed about the reputation and character (*renpin*, 人品) of my business partners, the contract will be simpler. In that situation, I am still less worried about the risk of breach of contract...Cooperating with familiar firms increases trust among partners. This can reduce the operating risk, and help the firms to establish long-term cooperation. (Interview 19²⁴)

4.1 INTRODUCTION

The role of social networks in business strategic behaviours in transition economies has been explored by some scholars (Luo, 2003; Luo et al., 2012; Peng & Luo, 2000; Qiao et al., 2014). Social networking is a tool adopted by entrepreneurs to react to the complex and uncertain business environment (Luo, 2003; Park & Luo, 2001; Poppo & Zenger, 2002), and to access strategic resources to establish and maintain competitive advantage (Le & Nguyen, 2009; Li et al., 2009; Ling & Li, 2012). When measuring the networking activities of entrepreneurs, there are two different kinds of ties that facilitate access to different resources. They are B2G networks, which are connections with executives and officials in different levels of government and regulatory agencies (Li et al., 2009; Peng & Luo, 2000), and B2B networks, which are connections between executives and managers in different firms (Dubini & Aldrich, 1991; Peng & Luo, 2000). The subject of this is the latter.

Firms are not isolated in their operation. Entrepreneurs and managers are embedded in various types of relationships with other stakeholders in the

²⁴ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC when interview was conducted.

business environment. B2B networks are the connections between focal firms and their buyers, suppliers, and competitors. They comprise the ties among entrepreneurs and managers in different firms that allow cooperation between firms and enable various forms of transactions. These have been explored extensively in developed countries (Gulati, Lavie, & Madhavan, 2011; Gulati et al., 2000) and developing countries (Chen, 2010a; Chen, 2010b; Li, 2011), with a focus on the role of B2B networks in firm performance (Lu, 2012; Park & Luo, 2001), firm value creation (Swaminathan & Moorman, 2009) and competitive advantages (Dahles, 2007; Gulati et al., 2000; Hom & Xiao, 2011; Li & Atuahene-Gima, 2007; Li et al., 2009). These past researches distinguish B2B networks from B2G networks, the subject of the next chapter, and consistently indicate the important role these networks play in helping firms to improve performance (Luo et al., 2012; Park & Luo, 2001), especially in an underdeveloped legal environment (Sheng et al., 2011). B2B networks reduce opportunistic behaviours among business partners, improve contract enforcement and increase the flow of information among the connected parties. In transition economies such as China, they reduce the relatively high transaction costs associated with the poorly developed market and institutional environment.

During the past three decades, the legal system and market mechanism in China have developed significantly, primarily pushed by the requirement for domestic economic growth and the integration into the global economy (Naughton, 2008). Facing more intense competition in the domestic and international market Chinese firms have had to adopt more formal organizational and market behaviours (Guthrie, 2012), including the use of contracts and access to resources through transactions on the market (McNally, 2011). Some research efforts demonstrate that the legal system became increasingly important in solving business disputes and ensuring contract enforcement (Clarke, Murrell, & Whiting, 2008). Other research focused on the interpretation and enforcement of law (Tang & Ward, 2003) and explains that *guanxi* – broadly defined as personal connections – still plays particularly important role in helping Chinese firms to communicate with their business partners (Tong & Yong, 2014). This chapter focuses on B2B networks. It

examines how private entrepreneurs embedded in different sorts of business connections perceive the function of B2B networks in reducing transaction costs and accessing accurate information. The results show that in a market with higher information searching and processing costs, B2B networks help firms to evaluate the credibility of their cooperative partners and forecast market change. This enables smoother cooperation among cooperative partners and reduces external risks and transaction costs in transition countries.

The remainder of this chapter is organized as follows. The next section explains the characteristics of the variables and the logistic regression models. Sections two and three discuss the results of the logistic regression, which are combined with the information gathered from interviews with entrepreneurs. Section two focuses on the role of B2B networks in establishing inter-firm relationships and how these networks facilitate long-term cooperation and lower the risk of contract breaches. Section three discusses how private firms use B2B networks to access business information and respond to market change. This is followed by some summarizing remarks to conclude this chapter.

4.2 LOGISTIC REGRESSION MODELS AND VARIABLES MEASUREMENT

This section discusses the variables and regression models. Referring to the factor analysis results in Chapter 3, Section 3.3.2, this chapter mainly focuses on the components of the third factor, which is the form of business connection. This includes personal connections with managers in buyer, supplier, and competitor firms. I use the logistic regression model to examine how private entrepreneurs embedded in different types of business connections perceive the functions of B2B networks. It begins with the description of the survey items and an explanation of the dependent variable, which try to investigate the different functions of B2B networks.

4.2.1 Dependent Variables

In TCE, opportunism and bounded rationality are the two main causes of

transaction costs (Williamson, 1988). Opportunism means people try to maximize their advantages by not obeying rules or moral principles. In transactions, the preference for self-interest might lead to unfair competition in profit seeking or unequal distributions among trading partners. According to TCE, uncertainty in transactions motivates firms to use contracts to protect their interests and reduce the cost of opportunistic behaviours. Bounded rationality implies that the capacity for human beings to understand the world is limited. More interaction with other parties creates more uncertainties, which increases the time and effort spent on collecting and processing information. The capability to access accurate information is more valuable in predicting external changes and reducing the risk of uncertainties, especially if the legal environment makes it difficult to enforce contracts and obligations.

However, the legal framework and market mechanism in China is underdeveloped. The lack of formal institutional mechanisms and support from the legal system means that firms face more uncertainties in contract enforcement, as the cost for breach of contract is relatively low. Private firms are also reluctant to disclose their information to the public without strong protection of their property rights. It is difficult to access accurate firm information through the open market. In addition, the rapid economic growth and institutional transformation has led to frequent implementation of new industrial laws and policies (Haggard & Huang, 2008). There are more opportunities available in the market, but also more unpredictable changes. In these circumstances, a trustworthy relationship becomes the prerequisite for business transactions (Jansson, 2008; Park & Luo, 2001). A good business connection helps firms to access information easier (Miles & Snow, 1984), enables the firm to collect accurate information about the products and services another firm offers (Heide & John, 1992), and helps the firm to share market information and predict market change (Gulati, 1995). Opportunistic behaviours can be detected more easily and are thus more costly for transgressors because of the impact on their reputation for cooperating firms within a same network (Gulati et al., 2000). This long-term trust between entrepreneurs provides incentives for the firms to cooperate with each other.

B2B networks help firms to reduce transaction costs arising from opportunism and bounded rationality (Gulati et al., 2000).

In my survey questionnaire, I used six statements to examine how private entrepreneurs perceive the different functions of B2B networks. They are displayed in Table 4.1. The two statements in the upper section investigate the importance of B2B networks in initiating long-term cooperation, and reducing the risk of breach of contract. For both statements, entrepreneurs have a positive view (long-term cooperation: mean = 3.71, reduce the risk of breach of contract: mean = 3.37; in a 5-point scale). This implies that entrepreneurs agree that B2B networks increase their willingness to cooperate in long-term projects with their business partners and reduce the risk of breach of contract.

The bottom section in Table 4.1 includes four statements, which examine how entrepreneurs perceive the roles of B2B networks in helping firms to access business information. Statements 3 and 4 measure the importance of B2B networks in acquiring information about suppliers. And statements 5 and 6 measure access to market information to react to market change, which is more unpredictable in transition economies because of the level of government intervention in the market and the rapid economic growth (Haggard & Huang, 2008).

However, firms can not only access information through direct connections with their suppliers and buyers, but can also acquire information through indirect connections. Figure 4.1 describes the connections between the focal firm and buyers, suppliers and competitors. The focal firm has existing direct connections with its buyers and suppliers. Good personal connections with managers in supplier firms provide more accurate information about the quality of materials or products, and guarantee delivery on time (Heide & John, 1992; Luo et al., 2012; Peng & Luo, 2000). Good connections with managers in buyer-firms guarantee timely payment, and customer loyalty, which leads to future transactions and increased sales volume (Luo et al., 2012; Sheng et al., 2011). Through these connections, firms can access information about products or services from their suppliers or predict market changes from what

Table 4.1: Descriptive Statistics of Functions of B2B Networks

	Mean	SD	No.	Positive Responses ^b (%)	Negative Responses ^b (%)
Establishing Inter-Firms Relationship					
1. My company is more willing to invest in long-term projects with the firms in which I have a personal connection with its owner or manager (1-5) ^a	3.71	0.98	405	58.0	9.6
2. Cooperating with the firms in which I have a personal connection with its owner or manager can reduce the risk of breach of contract (1-5) ^a	3.37	1.09	405	43.5	19.0
Accessing Business Information					
3. Good connections with managers in supplier firms enable my company to acquire more accurate information about the suppliers (1-5) ^a	3.73	0.98	405	59.8	8.6
4. Good connections with managers in competitor firms enable my company to acquire more accurate information about the suppliers (1-5) ^a	3.35	0.97	405	44.2	16.5
5. Good connections with managers in buyer firms enable my company to respond to change of the market more quickly (1-5) ^a	3.69	1.01	405	57.5	11.1
6. Good connections with managers in competitor firms enable my company to respond to change of the market more quickly (1-5) ^a	3.40	1.00	405	46.9	17.3

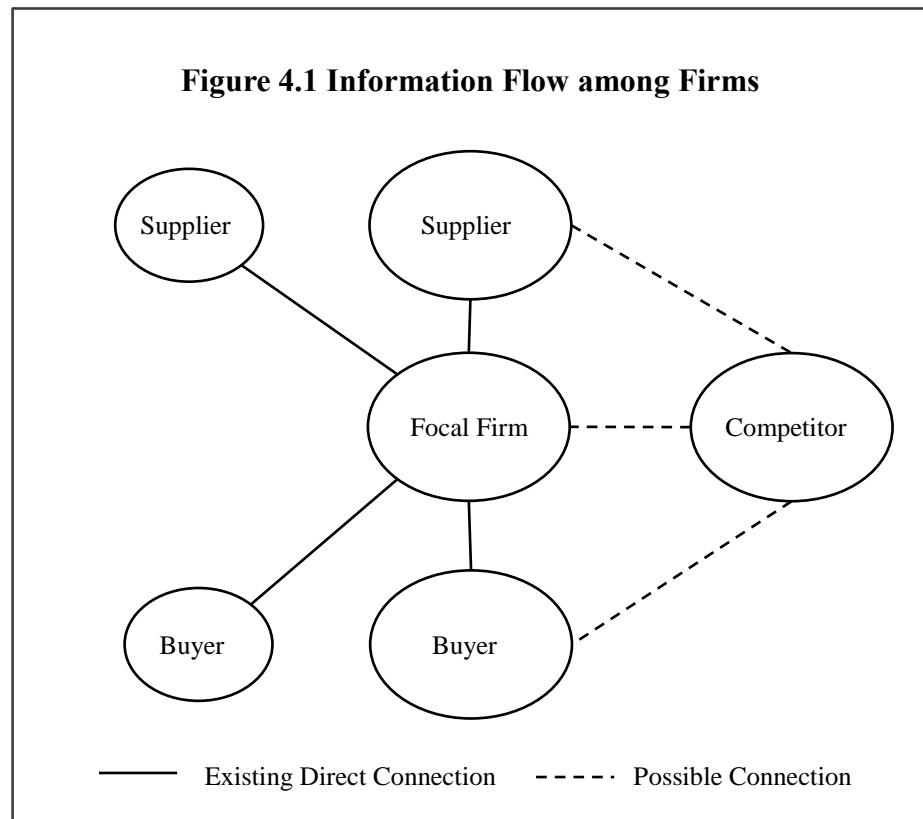
Notes:

^a Respondents were asked to access each of these six statements on a 5-point scale, from 1 (strongly disagree) to 5 (strongly agree).

^b The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statement. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statements.

their buyers know directly. Besides these two types of connections, their competitors may use the same suppliers or serve the same consumers as the focal firms. Connections with competitors provide another channel for the focal firm to acquire information about suppliers or buyers through these indirect connections.

In the questionnaire, I examined the role of both direct connections and indirect connections in helping firms to access business information. In Table 4.1, statement 3 measures the role of direct connections with suppliers in accessing information about suppliers. Compared to statement 3, statement 4



measures the role of indirect connections through competitors in acquiring information about suppliers. Both statements received more positive attitudes than non-positive attitudes from private entrepreneurs (connections with suppliers: mean = 3.73; connections with competitors: mean = 3.35; in a 5-point scale). This highlights that entrepreneurs believe that connections with both suppliers and competitors help their firms to acquire more information about suppliers. Similar to the previous two statements, statement 5 examines the role of direct connections with buyers in helping the focal firm react to market changes. Statement 6 examines the indirect connections with competitors to access market information and enable them to react to market changes. The information provided by buyers enables the focal firms to better understand the change in demand and adjust their products or services to better serve their buyers. Both statements 5 and 6 received more positive attitudes than non-positive attitudes (connections with buyers: mean = 3.69; connections with competitors: mean = 3.40; in a 5-point scale). These results indicate that entrepreneurs also perceive that connections with both buyers and competitors enable their firms to respond to market changes more promptly.

Figure 4.2 summarizes the explicit positive or negative views the entrepreneurs had regarding the above six statements in Table 4.1. Many more entrepreneurs have a positive view than a negative view, which affirms the positive role of B2B networks in initiating long-term cooperation, reducing the risk of breach of contract in transaction, and access to business information. However, by comparing the direct and indirect connections examined by statements 3 to 6, direct connections with suppliers or buyers were perceived more positively than indirect connections with competitors. Entrepreneurs are more likely to agree on the importance of direct connections both in acquiring information about suppliers and responding to market changes. This implies that entrepreneurs rely less on information from their competitors than directly from their suppliers or buyers. Among the 53 interviewees, six of them mentioned the same phrase: “those of the same trade are like enemies” (*tonghang ru diguo*, 同行如敌国) (Interviews 2²⁵, 6²⁶, 9²⁷, 22²⁸, 31²⁹, 38³⁰). This describes the generally negative view some business people hold regarding their competitors in the Chinese business environment. Entrepreneurs generally have less trust regarding information provided by their competitors, which explains why connections with competitors received less positive responses than direct connections with suppliers and buyers.

²⁵ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 34 years. This entrepreneur used to be a representative in local PC. He was a member in local business chamber when interview conducted.

²⁶ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 19 years.

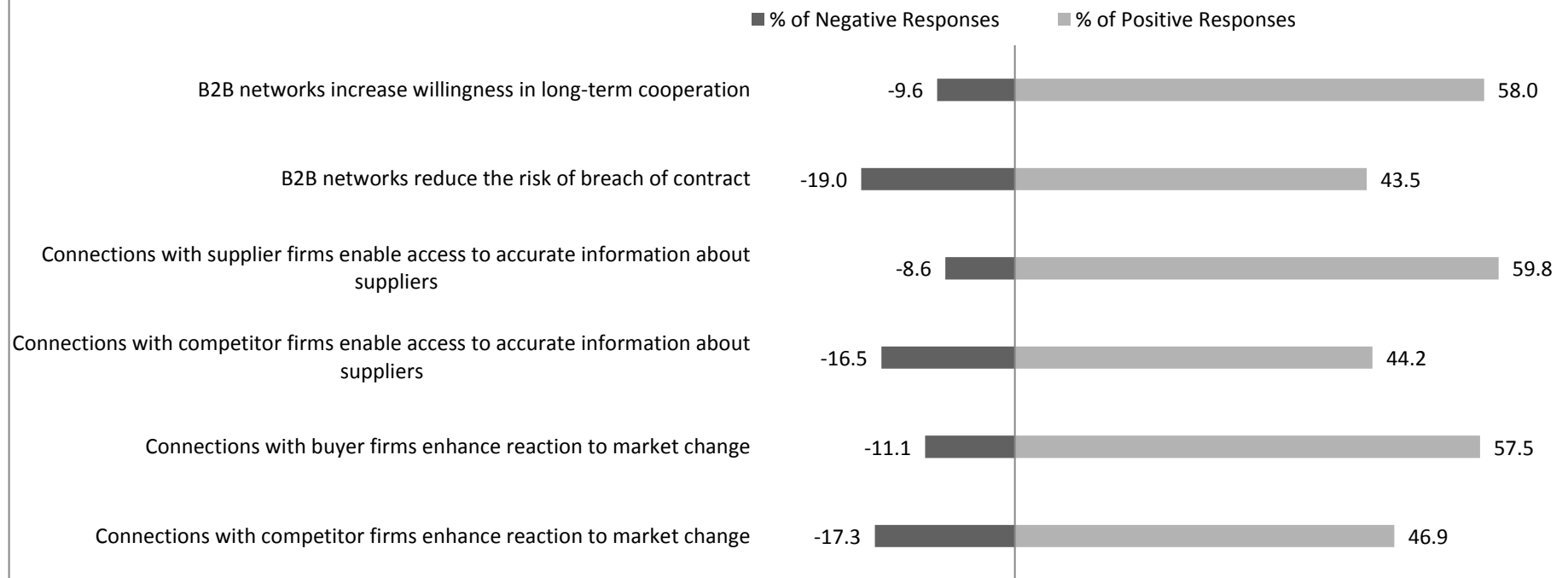
²⁷ A male entrepreneur who owned a real estate firm in Guangzhou. The age of the firm was 17 years.

²⁸ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

²⁹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 22 years. This entrepreneur was a CCP member. He was a representative in local PPCC and a member of a business chamber.

³⁰ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of this firm was 8 years.

Figure 4.2 Distribution of Agreement about the Role of B2B Networks



Note: The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statement. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statement.
 Source: Survey data

Although the percentage of positive responses for indirect connections is lower than the direct connections, still nearly half of the respondents agreed that indirect connections were important for accessing information. A paired-sample t-test has been conducted to evaluate the difference in the means for receiving positive responses between statements 3 and 4, and between statements 5 and 6 in Table 4.1. The results show that there were statistically significant differences in the perceptions of entrepreneurs regarding direct and indirect connections ($p < 0.001$ (two-tailed) for both tests). The probability of receiving positive view on indirect connections is lower, compared to direct connections. However, the mean for receiving positive view about indirect connections shows that entrepreneurs still perceive connections with competitors as useful. In the interviews, several entrepreneurs mentioned that competitors can also be friends. Thus it is possible to achieve a win-win situation though cooperating with competitors (Interviews 15³¹, 19³², 20³³).

In this chapter, I would like to further investigate how the entrepreneurs embedded in different business connections may change their views of the functions of direct and indirect connections in accessing information. This increases the understanding of the information entrepreneurs are seeking through their involvement in different networks. A further area of examination is how the embeddedness in different business connections affects the view of entrepreneurs in terms of the role of B2B networks in initiating long-term cooperation and reducing the risk of breach of contract. The six statements outlined in Table 4.1 were recoded into dummy variables and used as the dependent variables in the regression models. Those scoring higher than 3,

³¹ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

³² A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC when interview was conducted.

³³ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of the firm was 33 years.

which include “agree” and “strongly agree” with the statement, were recoded as 1 and represent a positive response. Scores lower or equal to 3, which include “neutral”, “disagree” and “strongly disagree”, were recoded as 0 represents non-positive responses.

4.2.2 Independent Predictors and Controlled Variables

Entrepreneurs embedded in different business connections may have different views of the functions of B2B networks. In section 3.3.2 in Chapter 3, I conducted the factor analysis to examine the variances in 13 different connections maintained by the private entrepreneurs. The results indicate that connections with buyers, suppliers and competitors are grouped together, representing the business connections. Table 4.2 shows the descriptive statistic for these three variables. Comparing the mean of these three variables, entrepreneurs have the most frequent connections with buyer firms and the least connections with competitors for business purpose (buyers: mean = 3.20; suppliers: mean = 3.01; competitors: mean = 2.48; 5-point scale). Nearly a fifth (18.2 percent) of the survey entrepreneurs reported that they had not used any connections with competitors for business purposes in the past three years, which is almost twice the number of entrepreneurs who indicated they had not used connections with buyer firms (9.4 percent) or supplier firms (10.7 percent). By comparing entrepreneurs who reported they used business connections frequently, only 17.2 percent of entrepreneurs indicated they had frequent connections with their competitors. This percentage is less than those who reported they did not use connections with competitors at all. Private entrepreneurs were not enthusiastic about connections with their competitors. Meanwhile, nearly half (43.1 percent) of the entrepreneurs indicated that they frequently use connections with buyer firms for business purposes. Since entrepreneurs connect to buyers, suppliers and competitors with a different degree of intensity, examining whether their embeddedness in these different business networks affects their perception of the function of B2B networks in business strategy is important. Thus, the above three variables, which measure the frequency or intensity of connections to buyers, suppliers and competitors, will be included as the main predictors in the regression models to examine

Table 4.2: Descriptive Statistics of Entrepreneurs' Use of Business Connections

	Mean	SD	No.	No Relation ^b (%)	Frequent Connections ^b (%)
1. Connections with managers in buyer firms (1-5) ^a	3.20	1.16	413	9.4	43.1
2. Connections with managers in supplier firms (1-5) ^a	3.01	1.14	413	10.7	37.8
3. Connections with managers in competitor firms (1-5) ^a	2.48	1.05	413	18.2	17.2

Notes:

^a Respondents were asked to assess the extent they used these three connections for business purpose on a 5-point scale, where 1 for no relation, 2 for very little use of it, and 5 stands for very extensive use of it.

^b The percentage of frequent connections is the combination of the percentages of those who consider the extent they use this type of connection "extensive" and "very extensive".

their effect on how entrepreneurs perceive the roles of B2B networks, which are the dependent variables established by statements 1 to 6 in Table 4.1. The three predicted variables were recoded into dummy variables. Those scores higher than 3, which mean “extensive” and “very extensive” use of connections, were recoded into 1 to represent frequent connections. Scores lower or equal to 3 were recoded into 0 to represent non-frequent connections.

Two organizational attributes, the location and size of the firms, were used as controls in the regression models. In emerging markets, the underdeveloped institutional environment and market mechanism increase the levels of uncertainty in the business environment (Guthrie, 1999; Keister, 2002; Naughton, 2007). In the absence of strong institutions and laws, entrepreneurs rely on informal institutional mechanisms to counter opportunistic, illegal or unethical behaviours (Peng, 2003). In China, the level of economic and social development varies significantly between different regions and cities. New laws and regulations are more likely to be applied in big cities and then extend to other areas. In addition, cities near to provincial administrative centres are more likely to be under stricter supervision of the central or provincial government. Companies in these cities may rely more on formal rules and contracts to do business and access business information through the open market (Gu et al., 2008). Therefore, I control for the regional effect (city level) in the regression models using the same three groups explained in Chapter 3,

Section 3.3.1, which are two deputy-provincial level cities (Guangzhou and Shenzhen), the Pearl River Delta prefecture-level cities, and the peripheral prefecture-level cities. The two deputy-provincial level cities were used as the reference category in the regression models.

The second control variable is firm size. The styles of management differ in firms of different size. With power concentrated in the hands of the owner or the top managers, small firms usually make decision more quickly (Wong, 1985). When the size increases, firms develop bureaucratic structures and rely less on the entrepreneurs' personal style of management. As a result, large firms are less inclined to use the personal networks of entrepreneurs to seek external support and access resources (Park & Luo, 2001). In cooperation with other companies, business connections may have a stronger effect on small firms' performance. Small firms lack bargaining power (Perkins, 1994) and legitimacy (Carlisle & Flynn, 2005) when entering into transactions. Through business connections, small firms establish legitimacy to survive and better compete in the market (Yeung & Tung, 1996). So they are more likely to use informal institutional mechanism, such as B2B networks, to protect their interests and maintain a stable external environment (Xin & Pearce, 1996). In the regression model, I control for the size of the firm using the natural log of annual sales. Scholars use different measures to measure firm size. Some popular used measures include annual sales, annual profit, number of employees, and total assets. Annual profit can be positive and negative. It is not ideal for statistical testing. Total assets of company vary across different industries. In my sample, some companies in service industries generate high annual sales with low investment in assets. This is also the case for the primary industry. Using total asset to measure firm size is not appropriate for comparing firms in different industries. In China, the phenomenon of migrant workers and part-time workers make number of employees may vary significantly during different time in a year. Thus using number of employees at the end of the year might not be accurate to measure the actual labour force of a particular firm. Annual sales measure product market competition (Dang & Li, 2015). This study examines business strategy and competitive advantage. Annual sales is a more suitable measure compared to other measures. Annual

sales is widely used to measure firm size in other empirical literature that includes firms from different industries in China (Chen & Dickson, 2008; Du et al., 2013; Wang et al., 2011; Wang & You, 2012).

4.2.3 Estimation Strategy

Since all of the dependent variables shown in Table 4.1 are recoded into dummy variables with 1 as positive responses and 0 as non-positive responses, I use binary logistic regression models to examine how entrepreneurs embedded in different business connections perceive the role of B2B networks in affecting their business strategies. The general logistic regression equation is as follows:

$$P(Y) = \frac{1}{1+e^{-Z_n}} \quad (1)$$

$$\text{where } Z_n = b_0+b_1X_1+b_2X_2+\dots+b_nX_n \quad (2)$$

For estimation purposes I rewrite the above equations into equation (3). This takes the natural log of the odds ratio, the probability of Y, P(Y), divided by the probability of not-Y and (1-P(Y)), which is known as the logit and which has a linear relationship with the right-hand independent variables (Field, 2013; Gujarati, 1995:554-63).

$$\ln [P(Y)/(1-P(Y))] = b_0+b_1X_1+b_2X_2+\dots+b_nX_n \quad (3)$$

The logistic regression predicts the probability of Y occurring for predictors of Xs, where b_0 is the constant, X_1, X_2, \dots, X_n are predictor variables and $b_1, b_2 \dots b_n$ are their coefficients. In this chapter, Y is the probability that the private entrepreneurs have a positive view of the statements shown in Table 4.1. In other words, this is the probability that private entrepreneurs agree that B2B networks increase their willingness to invest in long-term projects, reduce the risk of breach of contract, and help firms to access accurate information about suppliers and the market to make strategic decisions. The three main predictors are BC, which is the intensity of connections with buyer firms; SC, which is the intensity of connections with supplier firms; and CC, which is the intensity of connections with competitor firms. Model 1 only

includes these three main predictors. It explores whether entrepreneurs who are embedded in different networks have different attitudes toward the role of B2B networks in their business strategies. In Section 4.4, I will further examine the interaction among connections with buyers, suppliers, and competitors. This helps to investigate whether different combinations of connections with buyers, suppliers and competitors affect entrepreneurs' views regarding the functions of B2B networks. Thus I add the interaction effect in model 2. For the two dependent variables which examine the perceptions of entrepreneurs about long-term project investment and the risk of breach of contract, the interaction effect was tested in advance and the results show that it does not have a significant effect. However, the interaction terms have a significant effect on how entrepreneurs perceive B2B networks in acquiring business information. For this reason model 2 will only be used in Section 4.4, which explores the perception of entrepreneurs about different types of B2B networks in accessing information about their suppliers and responding to market change. Finally, in model 3, I added the control variables include LO for firm location and SI for firm size. I have added other control variables, includes industry, age of entrepreneurs, in model 3. Since these variables did not increase the significance of the model, I remove them from model 3 and keep firm location and firm size as the control variables.

$$\ln [P(Y)/(1-P(Y))] = b_0 + b_1BC + b_2SC + b_3CC \quad (\text{model 1})$$

$$\ln [P(Y)/(1-P(Y))] = b_0 + b_1BC + b_2SC + b_3CC + b_4(BC*SC) + b_5(SC*CC) + b_6(BC*CC) \quad (\text{model 2})$$

$$\ln [P(Y)/(1-P(Y))] = b_0 + b_1BC + b_2SC + b_3CC + b_4(BC*SC) + b_5(SC*CC) + b_6(BC*CC) + b_7LO_1 + b_8LO_2 + b_9SI \quad (\text{model 3})$$

4.3 BUSINESS TO BUSINESS NETWORKS IN ESTABLISHING RELIABLE INTER-FIRMS RELATIONSHIPS

Firms are all connected. They need to enter into transactions and cooperate with other firms. A trustworthy and reliable inter-firm relationship enables better communication and information sharing among firms (Blomqvist, 2002; Seppanen, Blomqvist, & Sundqvist, 2007), which reduces the transaction costs and external risk faced by the focal firms in competition. This section discusses the role of B2B networks in establishing reliable inter-firm relationships. It begins with how B2B networks affect the willingness of entrepreneurs to enter into long-term cooperation.

4.3.1 Business to Business Networks in Long-Term Cooperative Projects

Table 4.3 shows the regression results for how the predicted variables affect entrepreneurs' perception of B2B networks in their decisions to participate in long-term cooperation. Model χ^2 indicates that both model 1 and model 2 are significant at $p < 0.01$. In a logistic regression, the odds ratio is the change in odds of the dependent variable resulting from a unit change of the independent variables (Field, 2013). Both models 1 and 2 show that connections with buyer firms are a significant factor in how entrepreneurs perceive the role of B2B networks in deciding to participate in long-term cooperation ($p < 0.01$). The odds ratio for connections with buyer firms in model 1 indicates that entrepreneurs who use buyer firm connections frequently are 2.86 times more likely to agree that B2B networks increase their willingness to invest in long-term cooperation compared to those who do not have frequent connections with their buyers. Furthermore, this ratio increases to 3.13 in model 2 after controlling for the location and size of the focal firm. Neither the connections to suppliers nor connections to competitors are significant factors in both models. Summing up, for the three main predictors, only connections with buyers increase the willingness of private entrepreneurs to invest in long-term cooperative projects.

For the control variables, part of the regional effect is significant ($p < 0.10$). Compared to firms located in Guangzhou and Shenzhen, firms located in the peripheral cities are 2.32 times more likely to believe that B2B networks

Table 4.3: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Long-Term Cooperative Projects

	Model 1	Model 2
	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Connections with Buyer Firms	1.05 (2.86)***	1.14 (3.13)***
Connections with Supplier Firms	0.03 (1.03)	-0.06 (0.94)
Connections with Competitor Firms	0.94 (1.04)	0.01 (1.01)
<i>Location^b</i>		
Pearl River Delta Cities		-0.33 (0.72)
Peripheral Cities		0.84 (2.32)*
<i>Firm characteristics</i>		
Size		-0.11 (0.90)*
Constant	-0.11 (0.90)	0.43 (1.54)
Model χ^2	26.12***	41.76***
Cox & Snell R ²	0.06	0.10

n=404

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

affect their decisions regarding long-term cooperation. Firm size is also a significant factor in model 2 (p <0.10). The odds ratio of firm size (0.90) indicates that the larger the firm, the less likely its owner is to perceive that B2B networks affect their willingness to participate in long-term cooperative projects.

The regression results reveal the important role of connections with buyer firms for entrepreneurs in establishing long-term cooperation. When interviewees were asked to compare the importance of connections with buyers, suppliers and competitors, the majority of them indicated that connections with buyer firms were the most important connections. The reason mentioned by many interviewees was that for many industries in China today, the market is a buyer's market (interviews 11³⁴, 14³⁵, 15³⁶, 19³⁷, 27³⁸, 38³⁹). A buyer's market

³⁴ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

³⁵ A male entrepreneur who owned a wholesale and retail company in Guangzhou. The age of the firm was 14 years.

for them means that there are many sources of supply. Firms have more power to choose their suppliers based on their standards and requirements since there are numerous suppliers in the market (Besanko, Dranove, Shanley, & Schaefer, 2010). With more advertising agencies entering Chinese market and information available on internet, firms in consumer market are less likely to rely on the same suppliers (Hung, Gu, & Tse, 2005). Buyer firms have more bargaining power in price negotiation and occupy an advantageous position in the value chain, which affects the behaviour of suppliers (Johnsen & Ford, 2001). Therefore, connections with buyers are more crucial for the focal supplier firms to maintain or increase the utilization of their production capacity (Luo, 2003). Firms tend to concentrate on relationships with firms that bring direct profits and can facilitate their future development (Keister, 2007), motivating them to cultivate connections with their buyers. This is consistent with existing empirical research, which indicates that Chinese entrepreneurs rely more on relational trading with their buyers compared to suppliers (Todeva, 2007). This shows a closer relationship between the focal firms and their buyers. One entrepreneur further explained that:

Whether connections with buyers are more important than connections with suppliers depends on different industries and which side controls the strategic resources. In other words, it depends on who controls the essential factor in making profit. But in general, since many industries are in a buyer's market, connections with buyers are more important. (Interview 11⁴⁰)

³⁶ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

³⁷ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC.

³⁸ A male entrepreneur who owned a wholesale and retail firm in a Pearl River Delta city. The age of the firm was 35 years.

³⁹ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of this firm was 8 years.

⁴⁰ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

The above quotation shows that resources are the “essential factor” forcing the firms to cultivate relationships differently. The ability for a focal firm to acquire and maintain rare and valuable resources influence its competitiveness in the market (Barney, 1991). Firms therefore need to choose a suitable business strategy based on the understanding of the external environment and their own resources. In a market with numerous firms supplying standard products, the cost of switching suppliers is relatively low. More uncertainties arise from the demands of their buyers, which motivates firms to spend more effort and time on maintaining a stable, long-term orientated relationship with their buyers in order to reduce uncertainties in their future operation and development. Connections with buyers are decisive for long-term cooperation.

In addition to the strong role of buyers in the buyer’s market mentioned by the entrepreneurs, from the viewpoint of determining investment in a long-term cooperative project. Comparing to a short-term contract, long-term cooperation requires a more trustworthy and reliable relationship among the cooperative partners (Ganesan, 1994). This was explained by one entrepreneur as follows:

In long-term cooperation, it is not only about making profit in the short-term, but a future-oriented development for all of the cooperative partners. In this circumstance, deeper understanding about the culture and value (*wenhua he jiazhi guan*, 文化和价值观) of your partner companies, and the character (*renpin*, 人品) of the owners is required. These characteristics might affect whether we can have a smooth operation in the long-term. (Interview 53⁴¹)

For companies signing a spot contract or a short-term contract, it is easier and usually less costly to switch to another partner after the contract expires. However, for investment in a long-term project, there are more negotiations involving governance, profit distribution and further expansion following the initial investment. In this ongoing process, many problems which cannot be anticipated at the beginning might arise. This requires cooperative partners to

⁴¹ A male entrepreneur who owned a firm in the real estate industry in Guangzhou. The age of his firm was 10 years. This entrepreneur was a member of a business chamber.

reach a new agreement beyond their initial expectations, which will increase the likelihood for opportunistic behaviours (Grant, 2005) and increase uncertainties in long-term operation. B2B networks are the channels entrepreneurs use to access information and evaluate their business partners before they invest in long-term projects. As one entrepreneur said:

After we become familiar (*shuxide*, 熟悉的) with our business partners, we are able to know more information about their companies, and the capability and character (*renpin*, 人品) of the owners. This increases the confidence of my firms to cooperate with those firms in the long-term and reduces the risk for our operation. (Interview 23⁴²)

The above entrepreneur indicated that B2B networks enable firms to access more information about their partner companies and ensure a deeper understanding of their partners, which is an important factor in the decision in long-term projects. In terms of information the company can acquire through B2B networks, many entrepreneurs emphasized the capability of the firm (Interviews 11⁴³, 23⁴⁴, 34⁴⁵, 36⁴⁶, 42⁴⁷) and the character of their cooperative partners (Interviews 5⁴⁸, 11⁴⁹, 19⁵⁰, 23⁵¹, 28⁵²). For Chinese private firms, the

⁴² A male entrepreneur who owned a firm in manufacturing industry in a Pearl River Delta city. The age of his firm was 9 years. This entrepreneur was a CCP member.

⁴³ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

⁴⁴ A male entrepreneur who owned a firm in manufacturing industry in a Pearl River Delta city. The age of his firm was 9 years. This entrepreneur was a CCP member.

⁴⁵ A male entrepreneur who was the chief executive officer of a manufacturing firm in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a representative in local PPCC.

⁴⁶ A male entrepreneur who was the chief executive officers of a manufacturing firm in a Pearl River Delta city. The age of this firm was 15 years. This entrepreneur was a CCP member. He was also the chairman of a business chamber.

⁴⁷ A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

⁴⁸ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of his firm was 10 years.

owners are usually the most important decision makers (Gregory, Tenev, & Wagle, 2000; Li & Fung Research Centre, 2011). Their managerial skills have a significant influence on firm performance (Park & Luo, 2001). The interviewees linked the character of entrepreneurs to “reputation” (Interview 23⁵³), “ethical standard” (Interview 11⁵⁴), or being “less troublesome” (Interview 28⁵⁵). All of these terms reflect the perception of trust and reliability. Trust is the foundation for business partners to enter transactions and maintain future interactions (Armstrong & Yee, 2001; Parkhe, 1998). The perception of trust and reliability shapes the entrepreneurs’ views about whether their partners can perform well in the long-run and achieve the joint goal of cooperation with the focal firms.

Concluding the viewpoints of the entrepreneurs, the notion of a buyer’s market environment encourages many Chinese entrepreneurs to hold the view that a stable relationship with buyers is essential for the future development of their firms. Entrepreneurs thus pay more attention to and have closer relationships with their buyers. B2B networks are an important channel for

⁴⁹ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

⁵⁰ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC.

⁵¹ A male entrepreneur who owned a firm in manufacturing industry in a Pearl River Delta city. The age of his firm was 9 years. This entrepreneur was a CCP member.

⁵² A male entrepreneur who owned a real estate firm in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a representative in local PPCC and PC, and the chairman of a business chamber.

⁵³ A male entrepreneur who owned a firm in manufacturing industry in a Pearl River Delta city. The age of his firm was 9 years. This entrepreneur was a CCP member.

⁵⁴ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

⁵⁵ A male entrepreneur who owned a real estate firm in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a representative in local PPCC and PC, and the chairman of a business chamber.

entrepreneurs to evaluate the ability and credibility of their cooperative partners. Entrepreneurs then can choose different business strategies towards cooperative firms with different degrees of reliability. For example, as shown in the quotation at the beginning of this chapter, the interviewee was more willing to use simpler contracts to manage transactions with familiar firms. This reduces the length of preliminary negotiations. In long-term projects, which require more conversations and negotiations among cooperative partners during the project life cycle, entrepreneurs may choose a partner whom they trust more to reduce uncertainties. However, there is existing literature shows that the benefit of *guanxi* is short-term oriented (Fan, 2002), since maintaining long-term *guanxi* require skilful management in balancing resources dependency among members in the networks (Su, Mitchell, & Sirgy, 2007). In a highly competitive market, lower profit margin requires firms to devote their ability to maintain profitable sales. This may create conflicts within the value chain and undermine the commitment towards the networks (Gu et al., 2008; Skarneas, Katsikeas, & Schlegelmilch, 2002). The conflicts bring uncertainty for long-term cooperation. This further encourage entrepreneurs to assess their potential partner before entering long-term cooperation or choose familiar people to work together. Chinese entrepreneurs are more willing to tolerance uncertainties and risk comes from friends and familiar people. It also more likely for them to sacrifice profit in helping friend compared to strangers. A pre-existing B2B networks before cooperation also help entrepreneurs to maintain their commitment towards their connected partner when facing conflicts. B2B networks helps firms to reduce risk in managing long-term projects and maintain a stable cooperative relationship.

For the control variables, firms located in the peripheral cities are more likely to agree that B2B networks increase their willingness to invest in long-term projects. This is consistent with some existing studies that have suggested that firms located in less developed regions are more likely to rely on social networks in their business (Luo et al., 2012; Park & Luo, 2001). As mentioned above, firms that invest in long-term cooperative projects are concerned about their future development. However, in the interviews, almost all of the entrepreneurs who come from the peripheral cities mentioned the

problem of weak legal protection (Interview 41⁵⁶, 42⁵⁷, 44⁵⁸, 46⁵⁹, 47⁶⁰). They commented that it is particularly difficult to enforce court judgements in China. As a result, contracts and agreements signed by cooperative partners do not guarantee a successful cooperation. This forces them to rely on personal connections to avoid opportunistic behaviours in the long-run. In peripheral cities, the local government has more power to influence the implementation of policy and the local court judgements. Firms located in these areas face difficulties in using legal mechanisms to protect their interests. Thus cooperating with reliable partners becomes more significant for the firms in less developed regions as a means to reduce uncertainty because of the diminished legal protection (Guthrie, 2012). This also encourages firms to seek stable business partners (Keister, 2007), which explains the reason why firms located in peripheral cities hold more positive views regarding the role of B2B networks in long-term business strategies.

For firm size, the regression results show that the larger the firm, the less likely it is that the entrepreneurs will believe B2B networks affect their willingness to participate in long-term cooperative projects. This suggests that firms of different size have different degrees of reliance on B2B networks when making business decisions. When firms expand, the management becomes more hierarchical and possesses more managerial resources. Personal connections of owners become less influential in the making of strategic

⁵⁶ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

⁵⁷ A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

⁵⁸ A male entrepreneur who owned a real estate firm in a peripheral city. The age of his firm was 12 years. This entrepreneur was a representative in local PPCC, and the chairman of a business chamber.

⁵⁹ A female entrepreneur who owned a manufacturing firm in a peripheral city. The age of her firm was 11 years.

⁶⁰ A male entrepreneur who owned a firm in the hotel and catering service industry in a peripheral city. The age of his firm was 9 years. This entrepreneur was a representative in local PC.

decisions (Wong, 1985). The strategic behaviours are more likely to be based on formal rules and norms rather than informal social connections (All China Federation of Industry and Commerce(中华全国工商业联合会), 2007; Park & Luo, 2001). In addition, two interviewees described that larger firms are usually important tax contributors to local cities and as such, they receive more protection and support from the local government (Interview 19⁶¹, 42⁶²). This is consistent with the existing literature which indicates that larger firms receive more preferential treatment from the local government (Zhu et al., 2012). With stronger bargaining power among government officials and business partners, the bigger focal firms have more control power over their operations. With this advantage, firms can rely less on social networks to reduce the risk they might face in long-term projects. This can partly explain why entrepreneurs owning larger firms are less likely to agree that B2B networks are a significant factor in their long-term investment decisions.

However, the regression results might also suggest that larger firms have different perceptions of risk in long-term cooperation compared to smaller firms. One entrepreneur mentioned that as they have smaller profit margins, owners of smaller firms are more careful and more conservative in investments (Interview 19⁶³). For larger firms, there is probably a greater appetite for risk and a higher capability to balance risk in different projects. Another entrepreneur explained that larger firms are more likely to cooperate with larger firms. And both parties are more concerned about their reputation and

⁶¹ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC.

⁶² A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

⁶³ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC.

image, making them less likely to be opportunistic (Interview 22⁶⁴). The different capabilities in risk tolerance also mean smaller firms are more likely to rely on social networks to assess and lower risk in their operations.

In addition to the institutional environment, one entrepreneur from a peripheral city linked regions and firm size together, mentioning the business atmosphere and strategic behaviours adopted by smaller firms in smaller cities:

Compared to big cities like Guangzhou and Shenzhen, the majority of private firms located in small cities are relatively small and new. Many of them are more concerned about short-term profit rather than the long-term development of the company. For these firms, the owners just want to make quick money (*kuaiqian*, 快钱). So if I don't know the owner of a firm well and make sure that the firm has the capability to cooperate with my firm in the long-run, I am reluctant to invest in this kind of high risk investment. (Interview 42⁶⁵)

This quote shows again the importance of the future orientation in the consideration of long-term investments. The short-term quick-profit business culture mentioned above makes investment in long-term projects more risky because of the probability of opportunistic behaviours. Entrepreneurs tend to cooperate with people whom they trust more to reduce risk in investment. Members within the same network share more information through their stronger ties and perceive other “insiders” as more trustworthy (Boorman, 1975). This forces the entrepreneurs who do business with smaller firms and located in less developed region to emphasize the role of B2B networks in evaluating their cooperative partners to reduce the risk they might face in long-term cooperative projects.

This section has examined the perception of entrepreneurs regarding the role of B2B networks in determining long-term investment. Investing in a long-term project requires a more reliable relationship among the cooperative

⁶⁴ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

⁶⁵ A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

partners to avoid conflict in the ongoing cooperative process. B2B networks help entrepreneurs to assess the reliability of their potential cooperative partners and avoid losses in long-term investment. However, predicting risk in cooperation is not enough. With the underdeveloped institutional and legal framework, firms have difficulty in using the law to protect their own interests. Firms face the risk of breach of contract even in short-term cooperation. The next section will explore how entrepreneurs embedded in different connections using B2B networks to reduce the risk of breach of contract.

4.3.2 Business to Business Networks in Reducing the Risk of Breach of Contract

Table 4.4 reports the regression results for determinants of the perception of entrepreneurs about B2B networks in reducing the risk of breach of contract. Model χ^2 shows that both models 1 and 2 are significant ($p < 0.01$). For the three types of B2B networks, both connections with buyers and competitors are significant factors at $p < 0.01$. In model 1, the odds ratio of connections with buyers is 2.81. This indicates that entrepreneurs who use connections with buyer firms frequently are more likely to agree B2B networks reduce the risk of breach of contract. For connections with competitor firms, the odds ratio shows that entrepreneurs who have frequent ties are 2.24 times more likely to perceive that B2B networks reduce the risk of breach of contract compared to those who do not use connections with competitors frequently. In model 2, which includes the control variables, both connections with buyers (odds ratio = 2.77) and competitors (odds ratio = 2.22) are still significant ($p < 0.01$). For the control variables, neither location nor firm size has a significant effect on the level of agreement.

The regression results imply that both connections with buyers and competitors have a positive role in reducing the risk of breach of contract. Entrepreneurs who use these two types of connections more frequently are more likely to have a positive attitude towards the role of B2B networks in helping firms to secure contract enforcement. The existing literature argues that transition economies have an underdeveloped legal environment, which make it is

Table 4.4: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Reducing the Risk of Breach of Contract

	Model 1	Model 2
	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Connections with Buyer Firms	1.03 (2.81)***	1.02 (2.77)***
Connections with Supplier Firms	-0.17 (0.85)	-0.17 (0.84)
Connections with Competitor Firms	0.81 (2.24)***	0.80 (2.22)***
<i>Location^b</i>		
Pearl River Delta Cities		-0.32 (0.73)
Peripheral Cities		0.08 (1.08)
<i>Firm characteristics</i>		
Size		-0.04 (0.96)
Constant	-0.79 (0.45)***	-0.43 (0.65)
Model χ^2	34.84***	37.93***
Cox & Snell R ²	0.08	0.09

n=404

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

difficult to ensure contract enforcement in general (Hsu, 2005; Poppo & Zenger, 2002; Zhou, Li, Zhao, & Cai, 2003). In the interviews, one entrepreneur explained how he feels about the role of the contract:

When cooperating with Chinese firms, Chinese entrepreneurs are less concern about the spirit of contract (*heyue jingshen*, 合约精神). Companies spend limited time on preliminary negotiation before signing a contract, since people are aware that many things can be changed in practice. (Interview 30⁶⁶)

From the above quotation, it is evident that Chinese entrepreneurs make decisions based on the presupposition that a breach of the formal contract is a common practice. Entrepreneurs are aware it is difficult to manage transactions through enforceable formal contracts and feel less obligated to follow the laws (Tao & Zhu, 2001). When facing difficulty in using the law to protect their interests, entrepreneurs are more careful in selecting business partners to mitigate losses. A good relationship with potential cooperative firms is important before entering into transactions (Gamble, 2007). Accessing

⁶⁶ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

accurate information about their business partners helps entrepreneurs to predict the probability of illegal and unethical behaviours in cooperation. Chinese entrepreneurs use networking activities to assess the credibility of their business partners and the risk of involvement in a transaction in order to reduce potential losses in future cooperation (Hsu, 2005; Yang, 2002). This is why Chinese entrepreneurs prefer to conduct business with familiar people and are likely to question the credibility of strangers. One entrepreneur even linked the quality of the product and the character of the owner together:

My perception is that the quality of the product supplied by a firm is positively linked to the character (*renpin*, 人品) of the owner. If the owner of the company is a good man, the quality of product can be guaranteed compared to a company owned by an immoral person (*bu daode de*, 不道德的), since the base line of morality (*daode dixian*, 道德底线) of these people is different. Thus I trust this type of firm (owned by a good man) more. (Interview 42⁶⁷)

The assumption made by this entrepreneur about the positive linkage between organizational behaviours and the morality of the owner illustrates the perceived weakness of the law in facilitating contract enforcement. However, the focus on the owner's character reflects the ethical standard and trustworthiness of a business person, which is difficult to evaluate when there have been few or no interactions in the past. B2B networks are the way in which entrepreneurs obtain information about their potential cooperative partners, not only through direct connections, but also through other firms involved in the networks. This enables the focal firms to collect information about their potential partners through different actors in the networks. Firms can thus choose a more credible and reliable partner that will enable enforcement of contract, which is more difficult with a stranger. Box 4.1 is a real case study highlighting the importance of accessing information about business partners in advance.

In addition to evaluating the trustworthiness of a business partner, several entrepreneurs also mentioned "human sentiment" (*renqing*, 人情) (Interviews

⁶⁷ A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

Box 4.1 A Lesson Learnt from Cooperation with a Stranger

Company A had supplied material to a large state-owned enterprise B several years earlier. The owner of Company A considered that Company B was really famous and had a good reputation in the market. He was willing to trust Company B and did not consider that there would be any big problems for this transaction. Therefore, he did not use any personal connections to acquire more detailed information about Company B. However, since the owner of Company A perceived that Company B was a new business partner, they signed a contract with many detailed terms for the transaction. At the end of the transaction, Company A had fulfilled all of its responsibilities, but Company B failed to pay the full amount due. Company A suffered several hundred thousand *yuan* losses in this transaction. The owner of Company A commented:

I did not sue for breach of contract by Company B in this case. Company B is really a large firm and has very good connections with the local and central government. I felt it would be very difficult for my firm to win the case and receive compensation.

However, after this transaction, the owner of Company A casually heard from a friend of his friend about other unethical behaviours of Company B towards other firms. He thought this was a good lesson and it made him more aware of the importance of *guanxi* in business:

If I knew in advance what Company B did before, I would never have cooperated with this company no matter how big and how famous it is. What is more, Chinese people are really concerned about their face. Cooperating with familiar people or entrepreneurs in the same networks reduce their opportunistic behaviors, since they might be afraid that it will affect their reputation among other business partners. As my friend told me, Company B never cheated the firms it worked with in the long-term, no matter whether they were private firms, foreign firms or state-owned firms. That is why it could maintain a good business reputation in the market.

This case not only shows the importance of using B2B networks to evaluate the credibility of potential business partners in advance, but also

reveals the function of social networks and *guanxi* building in restricting unethical behaviours.

Interview 30¹

¹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

30⁶⁸, 41⁶⁹, 42⁷⁰, 43⁷¹, 44⁷²) or “face” (*mianzi*, 面子) (Interviews 30⁷³, 32⁷⁴, 39⁷⁵, 41⁷⁶) when they explained how B2B networks reduce the risk of breach of contract. One entrepreneur described the importance of “*renqing*” as follows:

⁶⁸ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

⁶⁹ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

⁷⁰ A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

⁷¹ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

⁷² A male entrepreneur who owned a real estate firm in a peripheral city. The age of his firm was 12 years. This entrepreneur was a representative in local PPCC, and the chairman of a business chamber.

⁷³ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

⁷⁴ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 7 years. This entrepreneur was a representative of local PPCC and a member of a business chamber.

⁷⁵ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

⁷⁶ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

There is a saying in Chinese: “*Renqing* is more important than a testimonial” (*renqing daguo zhengming*, 人情大过证明). In most cases, testimonials mean nothing. When cooperating with a familiar individual (*shuren*, 熟人), it does not matter whether the other party has a testimonial or whether they agree to sign a contract, since I know that he (she) will not cheat me. On the contrary, when cooperating with strangers (*mosheng ren*, 陌生人), no matter how detailed the terms in the contract, it still can be violated. (Interview 30⁷⁷)

Renqing refers to the reciprocated obligation for both parties embedded in a *guanxi* relationship (Chung & Hamilton, 2001). People who fail to follow the rule of reciprocity will be regarded as untrustworthy and lose face (Luo, 2007). In Chinese culture, face is important in people’s lives. It represents the respectability received from others and the position of the person within the network (Ho, 1976). It is fundamentally one’s reputation. Protecting your own face and giving face to familiar people is an important logic in people’s daily behaviour (Bond, 1991). In business, Chinese managers also suggested that face and *renqing* are important elements in their business considerations (Lu, 2012; Redding & Ng, 1983). They need to protect their own face and not prevent others from losing face by fulfilling the rules of reciprocity, especially for members within the same networks.

B2B networks enable entrepreneurs embedded in the same network to have more interactions with other members and access more information. Simultaneously, all of the members are locked into this network and need to obey the implicit rules. Since there are more interactions among members, opportunistic or improper behaviours from individuals within these networks are easily detected by other members. This provides the opportunity for honest members to attract further transactions within the network without expending effort searching for customers (Schramm & Taube, 2003). On the contrary, unethical or illegal behaviours and the subsequent loss of reputation among networked firms might force focal firms to settle transactions by cash to reduce the risk perceived by their business partners (Landa, 1994). If other connected members perceive that the behaviours of the focal firms damage the profit of

⁷⁷ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

other members within networks or damage the image or reputation of the whole network, they may reduce the opportunity for future cooperation with the focal firms or even exclude the focal firms from their transaction networks (Lo & Otis, 2003). A focal firm in this instance loses its original investment in the social capital that comes with network membership, further increasing the firm's costs in future transactions. This is how networks reduce the probability of opportunistic behaviours among network members.

In the interviews, the majority of the interviewees believed that people are less likely to cheat people within the same network. Two entrepreneurs emphasized this using the phrase “if they want to cheat (others), they will not cheat internal persons (*pian ye buhui pian zijiren*, 骗也不会骗自己人)” (Interview 30⁷⁸, 32⁷⁹). Doing business with network members is regarded as less risky. When people take actions which are considered as harmful for others and which violate the rule of reciprocal favour, people lose face and are perceived by others as undesirable (Chung & Hamilton, 2001; Yeung & Tung, 1996). This affects how others perceive the respectability and trustworthiness of entrepreneurs. As discussed above, people bound within the same network access information about other members easier, which encourages honest behaviour among members. As a result, entrepreneurs perceive that cooperating with familiar people reduces the risk of breach of contract. Box 4.2 is a case study involving the concerns of entrepreneurs regarding negotiation and contract enforcement.

The rules of reciprocity and protecting face lead to different behaviours being adopted by entrepreneurs towards strangers and familiar business partners. As mentioned by the majority of interviewees, they mainly follow the terms indicated in the contract to fulfil their obligations and protect their rights in cooperation with unfamiliar firms. They are more cautious about everything

⁷⁸ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

⁷⁹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 7 years. This entrepreneur was a representative of local PPCC and a member of a business chamber.

listed in the contract, although there is no guarantee that their rights are fully protected in some cases. However, when cooperating with familiar entrepreneurs, their attitudes are different as illustrated below:

Box 4.2 B2B Networks in Contract Enforcement Negotiation

Company A is a main supplier for Company B. The material supplied by Company A is an important and major intermediate input used by Company B. Company B thus signed a long-term contract with company A for supply of that material at a fixed price. After several years, the price of the material increased significantly. Company A requested a higher price for the material they supplied. Since the owners of Company A and Company B were already friends with a long-term cooperation, Company B agreed to renegotiate with Company A for a slightly higher price to avoid settling the conflict in court. The owner of Company B explained that:

In developed countries, entrepreneurs might consider my decision as stupid, since I spend more for the materials than I should according to the contract. But in China, it is another case. If I can settle the conflict by myself or through *guanxi*, I will never go to court. Regardless of whether I win the case or lose the case, I will become the loser since enforcing a judgment decided by the court is really difficult. I might even need to spend more to win the case without a guarantee of enforcing the contract.

In addition to the consideration of the court judgment, the owner of Company B also talked about the reciprocal rules in doing business:

In this case, the request by Company A is also understandable. Since we are friends and doing business in the same network (*quanzi*, 圈子), both of us need to consider our face and reputation. If I do him a favour and take care of his business this time, when I have a difficulty in the future, he also needs to take care of my firm and return the favour to me.

After these negotiations, both companies agreed to a price that was higher than the original contract but still lower than the market price for the

material for the remaining term of the contract. Both companies suffered a loss in this case. But in practice, it maintained a long-term relationship and stable operation for both parties.

Interview 39¹

Note:

¹ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

For companies owned by entrepreneurs who have close connections with me and where I know the owner is credible, I am happy to deliver products to buyer firms by request without a formal signed contract and even before my company receives the payment... In cases where the buyer firms owned by my friends have difficulty in short-term cash flow, I am also happy to provide more time for them to make the payment if I consider this person to be reliable. In the reverse situation, it is also possible for me to ask them to make full payment in advance when my company faces a short-term liquidity shortage. (Interview 28⁸⁰)

In this quotation, when analysing the reasons behind persuading the entrepreneur to enter into a transaction without a formal contract, the logic of a reciprocal favour (*renqing*, 人情) is at work. Entrepreneurs believe that giving others a favour means they are entitled to receive a reciprocal favour in the future. This is the implicit norm in *guanxi* though which people are bound together (Bond, 1991; Chung & Hamilton, 2001; Hwang, 1987). And in most cases, the favours will be returned by the other party are not necessarily equivalent. This is highlighted below:

...when I owed favours to other people, I can return them in different situations. For example, I have helped several people to arrange their

⁸⁰ A male entrepreneur who owned a real estate firm in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a representative in local PPCC and PC, and the chairman of a business chamber.

children to enrol in good schools in Guangzhou recently. They are the owners or senior managers of different connected firms (*guanxi hu*, 关系户). There are different ways of returning favours and maintaining *guanxi*. It is very common in Chinese society. (Interview 17⁸¹)

The above quote demonstrates how the principle of reciprocity works. The principle of reciprocity encourages people to show their commitment to the networks they are embedded in to strengthen their ties with other members. This might put them in a more centralized position in the network and enjoy more information and resources circulate among the connected members (Gulati et al., 2000). In addition, the cost of entering into a new network is usually higher than the cost of maintaining current memberships (Landa, 1994). People tend to act more honestly towards “insiders” in the same network (Lee & Dawes, 2005). The trust among connected firms provides more confidence for entrepreneurs to trade using credit to reduce the opportunity costs arising from using cash in settling transactions, which further reduces transaction costs (Landa, 1994). For entrepreneurs, sustaining continued relationships with their business partners to maintain a stable business environment is a top priority in their decisions making. In the buyer’s market, as discussed in the Section 4.3.1, firms face more uncertainties arising from the downstream business chain. Buyer firms have stronger bargaining power, which forces the focal firms to concentrate on maintaining stable relationships with their buyers to reduce the cost of seeking a new buyer (Keister, 2007). From the view point of the focal firm, the logic of reciprocal favour is more obvious and more valuable in their connections with buyer firms. This might explain why entrepreneurs who have more frequent connections with buyers are more likely to agree that B2B networks reduce the risk of breach of contract.

Entrepreneurs who have close connections with competitors can access information about their shared suppliers or buyers. Nonetheless, this is not a common situation in China since many entrepreneurs retain a cautious attitude towards their competitors. The entrepreneurs reported that they share some

⁸¹ A male entrepreneur who owned a manufacturing firm in Guangzhou, and was chairman of a business chamber, and the vice-chairman of local Federation of Industry and Commerce, and a representative in local PC and provincial PPCC. The age of the firm was 17 years.

basic information about their suppliers and buyers with other like firms in the same industry (Interviews 6⁸², 10⁸³, 38⁸⁴), but they never disclose important information that could be beneficial for their competitors (Interviews 2⁸⁵, 22⁸⁶). Connections with competitors seemingly do not help firms to access information used for making strategic decisions. However, connected firms are embedded in a network which motivates all of its members to behave honestly since dishonest activities will affect future transactions with actors in the same industry. Entrepreneurs within the same networks try to avoid behaviours that result in losses for other members. Some entrepreneurs mentioned that they do not request or share information about product/service prices from their buyers or suppliers to their competitors. But they sometimes share information with close competitors about unethical behaviours by their business partners (Interview 15⁸⁷, 20⁸⁸). One entrepreneur explained that:

I do not have the responsibility to help my competitors to make profit. But this does not mean that I want them to suffer losses caused by the unethical conduct of other companies, especially when I know that in advance. And if my competitors become aware that I keep this

⁸² A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 19 years.

⁸³ A male entrepreneur who owned a firm in the architecture structure design industry. The firm was in Guangzhou. The age of the firm was 9 years.

⁸⁴ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of this firm was 8 years.

⁸⁵ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 34 years. This entrepreneur used to be a representative in local PC. He was a member in local business chamber.

⁸⁶ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

⁸⁷ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

⁸⁸ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of the firm was 33 years.

information secret, it will also hurt my reputation and trustworthiness in my network (*quanzi*, 圈子). (Interview 53⁸⁹)

Once again, this entrepreneur emphasizes the rule of honesty within a network. It motivates entrepreneurs to disclose unethical and illegal behaviours among connected members and helps others to avoid risk. It does not guarantee a win-win situation with connections to competitors. But it does help firms to lower the risk of cooperating with unethical firms.

In summary, this section has investigated how private entrepreneurs perceive the role of B2B networks in reducing external uncertainties. People who are bound to a network are forced to act honestly with other members in order to enjoy the associated benefits as an internal actor. Therefore, cooperation with members within the same network reduces the risk of experiencing opportunistic behaviour, reduces the costs arising from breach of contract, and reduces the time spent on negotiations for long-term project investments. In addition, a network firm is bound to the rule of reciprocal favours and is interlocked with other actors within the network. This provides a long-term orientated relationship between the focal firm and other members. It reduces the costs of searching for potential business partners and facilitates more cooperative opportunities. All of these factors help the focal firms to maintain a more stable business environment. However, in order to better compete in the market, firms also need to increase their own capability to forecast market change. The next section explores the role of B2B networks in accessing information for strategic decisions.

4.4 BUSINESS TO BUSINESS NETWORKS IN ACCESSING BUSINESS INFORMATION

Information is an important strategic resource in modern management. Valuable information supports firms in making strategic decisions and enables firms to react to external changes quickly. However, in transition economies,

⁸⁹ A male entrepreneur who owned a firm in the real estate industry in Guangzhou. The age of his firm was 10 years. This entrepreneur was a member of a business chamber.

the lack of legal protection and the undeveloped market mechanisms leads to a higher cost of acquiring information in these markets. Asymmetric information increases both ex-ante costs in choosing the right business partner and ex-post costs in managing on-going transactions (Coase, 1937; Nayyar, 1990; Williamson, 1988). Thus, the capability for firms to handle information becomes an important competitive advantage (Casson, 2001). This section investigates how B2B networks help private firms to acquire accurate information about suppliers and buyers to predict changes in the external environment, and how entrepreneurs' perceptions regarding the role of B2B networks in acquiring information are affected by the different B2B networks they are embedded in. It begins with a discussion of how information about suppliers is acquired.

4.4.1 Business to Business Networks in Acquiring Accurate Information about Suppliers

Table 4.5 presents the regression results for determinants of the agreement of entrepreneurs about the role of connections with suppliers and competitors in acquiring accurate information about suppliers. Models 1a to 3a examine the agreement of entrepreneurs regarding connections with suppliers in acquiring information about suppliers. Model 1b to 3b examines the perceptions of connections with competitors in access information about suppliers. The three main predictors are connections with buyers (BC), connections with suppliers (SC) and connections with competitors (CC), which are used to examine whether entrepreneurs who are embedded in different B2B networks have different perceptions about the dependent variables. Model χ^2 shows that all models are significant at $p < 0.01$. In model 1a, connections with buyer firms is the only significant factor ($p < 0.01$) and the odds ratio is 3.14. Entrepreneurs who have frequent connections with buyers firms are 3.14 times more likely to agree that connections with suppliers are useful in acquiring information about suppliers compared to those who do not have frequent connections with their buyers.

Table 4.5: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Acquiring Accurate Information about Suppliers

	Connections with Supplier Firms in Acquiring Information about Suppliers			Connection with Competitor Firms in Acquiring Information about Suppliers		
	Model 1a	Model 2a	Model 3a	Model 1b	Model 2b	Model 3b
	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Connections with buyers (BC)	1.14 (3.14)***	2.17(8.76)***	2.17 (8.82)***	1.12 (3.01)***	1.47(4.34)***	1.59 (4.90)***
Connections with suppliers (SC)	0.10 (1.11)	0.69(1.98)	0.64 (1.90)	-0.43 (0.65)	-0.58(0.56)	-0.71 (0.49)
Connections with competitors (CC)	-0.29 (0.75)	-1.08(0.34)*	-1.41 (0.24)**	0.86 (2.37)***	0.14(1.15)	0.04 (1.04)
BC * SC		-1.90(0.15)***	-1.94(0.14)***		-0.36(0.70)	-0.35(0.70)
SC * CC		1.89(6.63)**	2.22(9.18)***		2.20(9.05)***	2.36(10.60)***
BC * CC		-0.78(0.46)	-0.68(0.51)		-1.23(0.29)	-1.20(0.30)
<i>Location^b</i>						
Pearl River Delta Cities			-0.52 (0.60)*			-0.06 (0.94)
Peripheral Cities			0.61 (1.84)			0.31 (1.36)
<i>Firm characteristics</i>						
Size			-0.05 (0.95)			-0.14 (0.87)**
Constant	-0.04 (0.96)	-0.11(0.90)	0.40 (1.50)	-0.71 (0.49)***	-0.71(0.49)***	-0.23 (0.80)
Model χ^2	29.70***	45.51***	57.56***	33.60***	43.03***	49.95***
Cox & Snell R ²	0.07	0.11	0.13	0.08	0.10	0.12

n=404

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

In model 2a, I control for three groups of interactions. They are interactions between BC and SC, between SC and CC, and between BC and CC. In the logistic regression model which includes an interaction term, the explanation of the main effect is different from other regression models. In the logistic regression model which contains three dummy independent variables BC, SC and CC, and three interaction term BC*SC, SC*CC, and BC*CC, the odds ratio of the main effect of BC measures the effect of BC₁ compared to its reference group BC₀, conditioned on the reference group of the other two variables, which are SC₀ and CC₀ (Jaccard, 2001). The interaction term measures the change in the effect of the focal predictor and depends on the moderator. For example, interaction term BC*SC shows that the change in the effect of BC on the entrepreneurs' perceptions depends on the connections with suppliers when connections with suppliers has been chosen as the moderator. The odds ratio of the interaction term is the ratio of the odds ratios. In the above case, the odds ratio of the interaction term BC*SC is the ratio of the BC odds ratio when SC is equal to one divided by the odds ratio of BC when SC equals to zero.

In model 2a, the odds ratio of connections with buyers increases to 8.76 and is significant at $p < 0.01$. According to the discussion above, entrepreneurs who have frequent connections with buyers are 8.76 times more likely to agree that connections with supplier are useful in acquiring accurate information about suppliers compared to entrepreneurs who do not have frequent connections with their buyers, with the condition that entrepreneurs do not have frequent connections with suppliers and competitors. The coefficient of the interaction term between BC and SC is negative (-1.90) and is significant at < 0.01 . This shows that the effect of connections with buyers on the perceptions of entrepreneurs is negatively moderated by the effect of connections with suppliers. Entrepreneurs who have frequent connections with both buyers and suppliers are less likely to agree that connections with suppliers help firms to access information about suppliers compared to entrepreneurs who only have frequent connections with their buyers.

The odds ratio of connections with competitors is less than one (0.34), which means entrepreneurs who have frequent connections with competitors are less likely to agree that connections with suppliers are useful in acquiring information about suppliers, compared to entrepreneurs who do not have frequent connections with competitors, conditioned for entrepreneurs who do not have frequent connections with both buyers and suppliers. The coefficient of the interaction term between SC and CC is positive (1.89) and the odds ratio is higher than one (6.63). This indicates that entrepreneurs who have frequent connections with both suppliers and competitors are more likely to feel that connections with suppliers help private firms to access information about suppliers.

In model 3a, which controls for firm location and size, the results of the main effects and interaction terms are similar to those uncovered by model 2a. For the control variables, location has a partial effect on model 3a. Compared to Guangzhou and Shenzhen, entrepreneurs whose firms are located in other Pearl River Delta cities are less likely to agree that connections with supplier firms are supportive in acquiring information about suppliers.

Models 1b to 3b in Table 4.5 examine the perceptions of entrepreneurs regarding the role of connections with competitors in acquiring accurate information about suppliers. In model 1b, both BC and CC are positively correlated to agreement ($p < 0.01$). The odds ratios are 3.01 and 2.37 respectively. In model 2b, which includes the interactions, CC becomes insignificant. The interaction between SC and CC is significant at $p < 0.01$ and the odds ratio is 9.05. This indicates that the change in the effect of connections with competitors on the perceptions of entrepreneurs differs significantly based on the connections with suppliers. Entrepreneurs who have frequent connections with both suppliers and competitors are much more likely to agree that connections with competitors help their firms to access information about suppliers compared to entrepreneurs who only have frequent connections with competitors but have less frequent connections with suppliers. The odds ratio of the interaction term of SC*CC increases to 10.60 in model 3b, which controls for firm location and size. The main effect of connections

with buyers also increases from 3.01 (odds ratio) in model 1b to 4.90 (odds ratio) in model 3b. Entrepreneurs who connect with buyers frequently are 4.90 times more likely to agree that connections with competitors help firms to access information about suppliers compared to entrepreneurs who do not have frequent connections with buyer, with the condition that entrepreneurs connect to both suppliers and competitors less frequently. For the control variables, firm size is negatively correlated with entrepreneurs' perceptions (odds ratio 0.87). The larger the firm, the less likely its owner is to agree that connections with competitors are useful in acquiring accurate supplier information.

Asymmetric information will increase transaction costs. According to Nayyar (1990), asymmetric information means that entrepreneurs are unable to predict the behaviours of suppliers and evaluate their competence, which causes uncertainty in managing transactions. Connections with suppliers are important channels for firms to acquire accurate information to reduce costs arising from asymmetric information (Baiman & Rajan, 2002). However, the regression results show that the main effect of connections with suppliers is not significant. Connections with suppliers show significant moderated effects on the effect of connections with buyers and competitors on the perceptions of entrepreneurs about B2B networks in helping firms to acquire information about suppliers. Connections with suppliers decrease the likelihood of entrepreneurs who connect with buyers frequently believing that connections with suppliers help firms to access information about suppliers. On the contrary, connections with suppliers increase the probability of entrepreneurs who connect to competitors frequently agreeing that connections with suppliers and competitors help firms to acquire information about suppliers.

In the interviews, entrepreneurs who connect to their competitors frequently tend to have a friendlier attitude towards competitors in the same industry. They acquire information about suppliers through connections with their competitors or acquire information about competitors through their

connections with suppliers (Interviews 31⁹⁰, 33⁹¹, 36⁹²). Information shared among competitors mainly concerns the performance of their suppliers, for instance product quality or delivery time (Interview 41⁹³). In terms of the reliability of the information shared among competitors, one entrepreneur stated:

The accuracy of information provided by competitors needs to be evaluated by the entrepreneurs themselves. In my view, I feel it still helps me to make decisions since I can compare it to information I have acquired from other channels. (Interview 15⁹⁴)

As shown in Figure 4.3, the attitude of entrepreneurs towards information which is shared among competitors shows that connections with competitors provide an extra channel for firms to access information about suppliers and evaluate the accuracy of information provided by their suppliers. Accessing more information reduces the perceptions of relational risk, which is defined as the probability of experiencing opportunistic behaviours. According to Parkhe (1998), withholding and distorting information is an important cause of relational risk. Asymmetric information increases the ex-post costs in managing transactions and reduces the competitiveness of the focal firms. Connections with both competitors and suppliers establish a network which allows information to flow among connected actors. It reduces the opportunity for connected firms to disclose misleading information to other insiders since it is easier to identify the accuracy of information through their connections with

⁹⁰ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 22 years. This entrepreneur was a CCP member. He was a representative in local PPCC and a member of a business chamber.

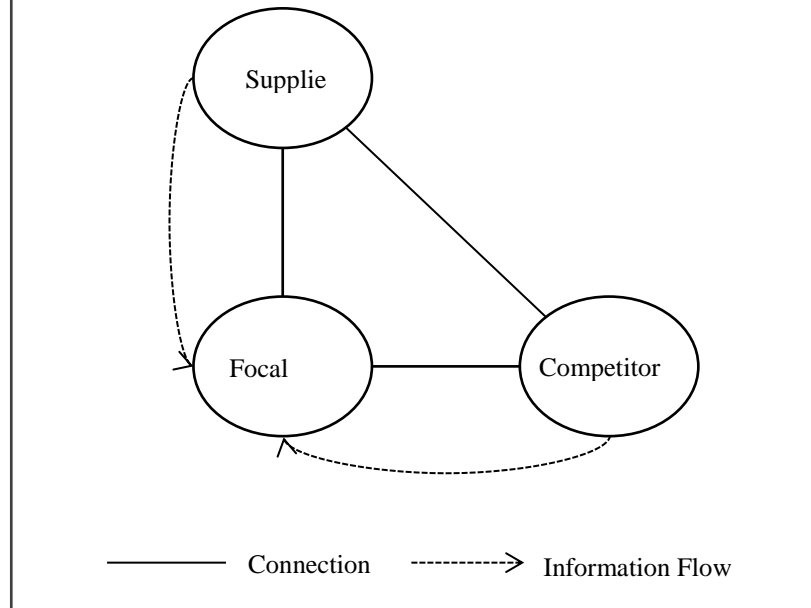
⁹¹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 21 years.

⁹² A male entrepreneur who was the chief executive officers of a manufacturing firm in a Pearl River Delta city. The age of this firm was 15 years. This entrepreneur was a CCP member. He was also the chairman of a business chamber.

⁹³ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

⁹⁴ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

Figure 4.3 Information Flow among B2B Networks in Acquiring Information about Suppliers



other connected actors. B2B networks among suppliers, competitors and the focal firms increase the capability of firms embedded in these networks to search for and process information. This explains why entrepreneurs who have frequent connections with both suppliers and competitors are more likely to agree B2B networks help their firms to acquire information about suppliers.

For connections with buyers, the regression results show that entrepreneurs who only connect to buyers frequently are more likely to agree that connections with suppliers and competitors help firms to acquire information about suppliers, as opposed to entrepreneurs who have less frequent connections with their buyers. These entrepreneurs do not have frequent connections with their suppliers and competitors in business operation, but value both connections as useful in acquiring supplier information. In discussion involving connections with suppliers, one entrepreneur said:

It is not necessary to become very familiar and friendly with suppliers. But both parties should have some basic understandings about each other. Communication before transactions provides more reputation

understanding about potential suppliers, especially in terms of the (*shangyu*, 商誉) of the company. (Interview 17⁹⁵)

The above quotation is from an entrepreneur who only has frequent connections with his buyers. His opinion towards suppliers shows that some connections with suppliers are necessary. Collecting information from connections with suppliers helps him to evaluate the reputation of the suppliers. Reputation is the collective assessment of other stakeholders (Sjovall & Talk, 2004). It is a measure of whether stakeholders perceive the focal company as reputable and trustworthy. The above quotation shows that this entrepreneur values the overall credibility of suppliers above all other aspects. In his view, the main purpose of cultivating B2B networks with suppliers is not acquiring information about products/services, but evaluating the reliability of the company to reduce ex-post costs in monitoring contract enforcement. However, when this entrepreneur compared the connections with suppliers to connections with buyers, he said:

The customer is the market. Having no customer means the market does not exist. No matter how low the price or how good the product offered by the suppliers, my firm cannot survive. (Interview 17⁹⁶)

Another entrepreneur who also only connects to buyers frequently added:

Connections with buyers are linked to the survival of the firm directly. The customer is always ranked as the first priority. (Interview 32⁹⁷)

From the viewpoint of these entrepreneurs, many industries in China are in a buyer's market. In a buyer's market, where numerous suppliers supply standard products at similar prices, firms face less uncertainty in choosing different suppliers (Besanko et al., 2010). Consequently, entrepreneurs who experience a lot of pressure to cultivate relationships with buyers try to reduce

⁹⁵ A male entrepreneur who owned a manufacturing firm in Guangzhou, and was chairman of a business chamber, and the vice-chairman of local Federation of Industry and Commerce, and a representative in local PC and provincial PPCC. The age of the firm was 17 years.

⁹⁶ *Ibid.*

⁹⁷ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 7 years. This entrepreneur was a representative of local PPCC and a member of a business chamber.

the cost of maintaining relationships with suppliers. A credible supplier in a long-term relationship will reduce costs in both information searching and monitoring. Focal firms with stable relationships with suppliers can concentrate on increasing the satisfaction of their customers, which might have a stronger effect on their survival and profit than investing in relationships with suppliers. This is summarized by the comments of one entrepreneur:

There is no problem for my firm to switch to other suppliers, but if nothing special has happened, I still prefer to keep the current suppliers. We have cooperated for a long time and understand the other party's concerns. (Interview 37⁹⁸)

For control variables, the attitudes of entrepreneurs towards the role of B2B networks in acquiring information about suppliers vary as firm size changes. The larger the firm, the less likely its owner is to agree that connections with competitors are useful in acquiring such information. This is consistent with the existing literature, which indicates that large firms are more capable of handling a complex business environment and have stronger bargaining power over their suppliers (Park & Luo, 2001; Xin & Pearce, 1996). It is also more likely that large firms will have secured suppliers based on long-term cooperation. As a result, these firms can access more information based on their past experience to make strategic decisions.

Summing up, networks that involve connections with both suppliers and competitors reduce the opportunistic behaviours of withholding and distorting information about products/services provided by suppliers. This reduces the ex-ante costs in information processing. Firms also use B2B networks in evaluating the credibility of their potential partners, which further reduces the ex-post costs in monitoring operations. B2B networks help firms to make purchasing decisions and better compete in the market. However, having reliable suppliers is not enough for firms to sustain competitive advantage. The ability of the focal firm to anticipate market change enables the firm to respond to external uncertainties quickly. The next section will explore how private

⁹⁸ A male entrepreneur who owned a tourism company in a Pearl River Delta city. The age of his firm was 9 years.

entrepreneurs embedded in different business connections perceive the role of B2B networks in reacting to market change.

4.4.2 Business to Business Networks in Reacting to Market Change

Table 4.6 shows the regression results for the determinants of the perceptions of entrepreneurs regarding the role of B2B networks in helping firms to react to market change. Model χ^2 shows that all models are significant at $p < 0.01$.

Models 1a to 3a focus on the role of connections with buyers in responding to market changes. Connections with buyers are significant in all three models ($p < 0.01$). The odds ratio of connection with buyers is 4.07 in model 1a. It increases to 6.86 in model 2a, which controls for the interaction terms. The odds ratio indicates entrepreneurs who have frequent connections with buyer are 6.86 times more likely to believe that connections with buyers enable firms to react to market change quickly compared to those who do not use connections with buyers frequently, conditioned for entrepreneurs who do not have frequent connections with supplier and competitors. For the interaction terms, only the interaction between SC and CC shows a significant effect ($p < 0.1$). A positive odds ratio for the interaction between SC and CC indicates that entrepreneurs who have frequent connections with both suppliers and competitors are more likely to agree that connections with buyers help firms to react to market change. Model 3a controls for firm location and size. The main effect of the predictors and interaction terms presents similar results compared to model 2a. None of the control variables are significant.

For the perceptions about the role of connections with competitors in helping the focal firms to react to market change, the regression results are reported in models 1b to 3b in Table 4.6. In model 1b, both connections with buyers and competitors are significant at $p < 0.01$ with odds ratios of 2.16 and 2.19 respectively. Model 2b includes the interaction terms. Connections with buyers are still significant and the odds ratio increases to 2.84. The odds ratio further increases to 2.99 in model 3b when controls for firm location and size. The odds ratios of connections with buyers in both models 2b and 3b indicate

Table 4.6: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2B Networks in Reacting to Market Change

	Connections with Buyer Firms in Reacting to Market Change			Connection with Competitor Firms in Reacting to Market Change		
	Model 1a	Model 2a	Model 3a	Model 1b	Model 2b	Model 3b
	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Connections with buyers (BC)	1.40 (4.07)***	1.93(6.86)***	1.90 (6.70)***	0.77 (2.16)***	1.04(2.84)***	1.10 (2.99)***
Connections with suppliers (SC)	-0.07 (0.94)	0.00(1.00)	-0.04 (0.96)	-0.01 (0.99)	0.57(1.77)	0.49 (1.63)
Connections with competitors (CC)	-0.10 (0.91)	-0.52(0.59)	-0.69 (0.50)	0.78 (2.19)***	0.53(1.70)	0.41 (1.50)
BC * SC		-0.72(0.49)	-0.70(0.50)		-0.97(0.38)*	-0.97(0.38)*
SC * CC		1.54(4.65)*	1.73(5.64)**		-0.13(0.88)	-0.02(0.98)
BC * CC		-1.00(0.37)	-0.97(0.38)		0.56(1.75)	0.66(1.93)
<i>Location^b</i>						
Pearl River Delta Cities			-0.39 (0.68)			0.02 (1.02)
Peripheral Cities			0.26 (1.30)			0.59 (1.80)
<i>Firm characteristics</i>						
Size			-0.03 (0.98)			-0.05 (0.95)
Constant	-0.21 (0.81)	-0.24(0.79)	0.13 (1.14)	-0.58 (0.56)***	-0.63(0.54)***	-0.53 (0.59)*
Model χ^2	40.28***	46.52***	51.56***	27.01***	30.11***	33.95***
Cox & Snell R ²	0.10	0.11	0.12	0.07	0.07	0.08

n=404

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

that entrepreneurs who have frequent connections with buyer are more likely to agree connections with competitors help firms to respond to market change, compared to entrepreneurs who connect to their buyers less frequently, with the condition that entrepreneurs do not have frequent connections with their suppliers and competitors. Connections with competitors become insignificant in model 2b. The interaction term between BC and SC is significant at $p < 0.1$ and the coefficient is negative, which indicates that entrepreneurs who use both connections to buyers and suppliers frequently are less likely to agree that competitor help firms to react to change in the market, compared to entrepreneurs who only use connections with buyers frequently.

The regression results emphasize the importance of connections with buyers in helping focal firms to anticipate and react to market changes, compared to connections either with suppliers or competitors. The behaviours of the focal firms in maintaining good relationships with their buyers show their commitment to the buyer-supplier relationships, which increases the satisfaction of the buyers regarding the focal firms (Chen, Huang, & Sternquist, 2011). Buyers are more willing to believe that the behaviours of the focal firms will be aligned about the shared interests of both parties and are more likely to share information to strengthen buyer-supplier relationships (Liu, Li, Tao, & Wang, 2008). This enables the focal firms to adjust their business plans in advance to avoid uncertainties and prepare themselves for business opportunities (Hsu, 2005). One entrepreneur mentioned that:

Information about new technology or new developments in the industry mainly comes from my customers, especially large firms. It (access to information about new technology and industrial development) helps my company to invest in new project and new technologies earlier, which will attract more potential customers later. (Interview 36⁹⁹)

This entrepreneur emphasized the information shared by his customers about new technology, which can improve the capability of his firm in

⁹⁹ A male entrepreneur who was the chief executive officers of a manufacturing firm in a Pearl River Delta city. The age of this firm was 15 years. This entrepreneur was a CCP member. He was also the chairman of a business chamber.

attracting and serving other potential customers. Existing research also shows that Japanese firms, which are famous for their supplier networks, tend to cooperate with long-term suppliers in technology development, since these suppliers are perceived as more reliable and maintain a better understanding of the requirements of the buyers (Aoki & Lennerfors, 2013). In the interviews, another entrepreneur also mentioned that his customers are the main channel for his firm in terms of accessing information about market change (Interview 17¹⁰⁰). Connections with buyers help the focal firms to forecast new development in their market in advance.

In addition to industrial development, connections with buyers also help the focal firms to acquire information about their competitors. One entrepreneur explained that:

If I am familiar with the owner of the buyer firm, I can ask for information about new products supplied by my competitors. If the owner of the buyer firm is a good friend, I even can obtain some information about the price set by my competitor. This is very useful for my company in making strategic decisions, such as investment in new technology and new product lines, or price negotiation with other customers. In the majority of cases, around 70 to 80 percent of the information I have obtained from my customers is reliable. (Interview 43¹⁰¹)

From the perspective of buyers, they tend to believe that their suppliers are more enthusiastic about maintaining long-term relationships in the context of the buyer's market (Zajac & Olsen, 1993). Information disclosed by buyer firms influences the strategic behaviours of their suppliers. Buyers exercise their power in buyer-supplier relationships to motivate their suppliers to invest in activities that are jointly beneficial for both parties. The above entrepreneur also mentioned that the information provided by his buyers is not always

¹⁰⁰ A male entrepreneur who owned a manufacturing firm in Guangzhou, and was chairman of a business chamber, and the vice-chairman of local Federation of Industry and Commerce, and a representative in local PC and provincial PPCC. The age of the firm was 17 years.

¹⁰¹ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

accurate (Interview 43¹⁰²). The buyer firms may provide false information for some purposes, for example price negotiation. Entrepreneurs need to evaluate the accuracy of information. Connections with suppliers and competitors provide more supplementary information to inform their judgements.

Good connections with competitor firms encourage inter-firm collaboration and reduce uncertainty arising from intensive competition (Luo, 2007). However, many interviewees indicated that competitor firms in China are less likely to share information about their customers and how they predict market change. Entrepreneurs are more cautious in their connections with competitors, and are less likely to believe that there is a trust relationship among competitors in general. However, business connections are dynamic. Competitors are not always competitors and in some situations, competitors can become buyers. According to one entrepreneur:

For some big companies in my industry, it is possible that they outsource smaller contracts to other companies. So maintaining good *guanxi* with these competitors is similar to cultivating customer relationships. But for other competitors, close connections are less likely. (Interview 36¹⁰³)

This quotation shows that the positions of different firms in the market can change in different situations. Competitors can become buyers when they outsource contracts, while buyers can also become competitors when they integrate into upstream industries. For the focal buyer firms, connecting to more firms might strengthen their position in the market and enable involvement in more networks. As many interviewees have demonstrated the belief that having more connections is always better, connections with competitors are perceived by these entrepreneurs as another channel to acquire market information and help them to process the information received to react to changes in the external environment. The combination of connections with

¹⁰² A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

¹⁰³ A male entrepreneur who was the chief executive officers of a manufacturing firm in a Pearl River Delta city. The age of this firm was 15 years. This entrepreneur was a CCP member. He was also the chairman of a business chamber.

buyers, suppliers and competitors provides more information along the whole value chain for the focal firms to predict market change.

Although social networks among suppliers, buyers and competitors enable information flows in a more efficient and effective way among connected members, it brings unfair competition to unconnected firms. Interviewees discussed the fairness of using *guanxi* in doing business. Majority of them admitted that rely on *guanxi* is unfair to those people who are not involved in the networks. One entrepreneur even mentioned that *guanxi* divides people into different classes (*jiēcéng*, 阶层) (Interview 6¹⁰⁴). Those people who have *guanxi* with successful entrepreneurs or government officials are privileged in the society. As discussed in this chapter, they can access more valuable information and cheaper strategic resources, as will be shown in next chapter. Existing literatures point out that *guanxi* practice brings ethical problems in doing business and may raise the problem of negative externalities in long-run (Chen & Chen, 2009). The negative externalities mean that *guanxi* benefits network members, but may do harm to the interest of the organization and society, or impact the development of the modern technology (Chen, Chen, & Huang, 2013; Dunfee & Warren, 2001). When people collude to pursue personal or small group interests, they may oppose institutional changes which bring threat to their privileged status and benefits. However, when interviewees were asked why they still rely on *guanxi* as they know it is not good for the society, one entrepreneur said:

It is not always a bad thing to rely on *guanxi* in doing business. *Guanxi* increases productivity (*shēngchǎn lì*, 生产力). For Chinese society, *guanxi* likes lubricant oil (*rùnhuā yóu*, 润滑油). You cannot work without it. And it is not good to have too much of it. This is not a problem of black or white. It is the problem about how much you are working with it (*guanxi*). (Interview 8¹⁰⁵)

¹⁰⁴ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 19 years.

¹⁰⁵ A male entrepreneur who owned a firm in the advertising and media industry in Guangzhou. The age of his firm was 17 years.

This quotation reflects part of the reality in Chinese market and society. As inherited from the Confucianism and traditional culture, Chinese entrepreneurs are accustomed to use *guanxi* to deal with uncertainties when they work in the environment with underdeveloped institutional mechanism. More and more people aware some drawbacks of using *guanxi*, but it is still regarded as important channels in helping their firms to increase productivity and maintain competitiveness.

In summary, social networks provide more reliable channels for firms to share and access more accurate information which cannot be acquired in the market. Business networks with buyers and suppliers help firms to access information about upstream and downstream industries. Connections with competitors further strengthen the role of existing buyer-supplier relationships and provide supplementary information for decision making. This reduces the cost of information searching and processing. With a higher capability to handle information, the connected firms can prepare themselves well for changes in the external environment and are enable to seek business opportunities in advance. Although it might create unfair access to information to those unconnected firms, social networks are still the important channel which helping Chinese private firms to react to the fast-changing market.

4.5 CONCLUSION

This chapter has investigated the effect of B2B networks in the strategic decision making of entrepreneurs and how different business networks in which these entrepreneurs are embedded affect their decisions. Entrepreneurs have confirmed that the most important function of B2B networks is information acquisition. With the underdeveloped market mechanism, the cost of information searching is higher in a transitional economy. Access to more accurate information not available in the market helps firms to forecast market change and to seize business opportunities. It also helps firms to evaluate the credibility and reliability of their business partners before entering into transactions, which reduces the likelihood of losses being suffered from breach of contract. In addition to information acquisition, B2B networks force the

connected actors to obey the implicit rules that govern all of the network members. The principle of reciprocity increases the commitment of entrepreneurs to the network and their connected business partners, reducing opportunism and creating a shared long-term orientation. Thus, it strengthens trustworthy buyer-supplier relationships and facilitates better communication among cooperated firms. A well-established B2B network provides more business opportunities and ensures smooth cooperation among firms. Simultaneously, a well-established B2B networks requires skilful management to maintain it among connected members. Firms are all profit pursuing. Under intensive competition, conflicts may arise among networks members with lower profit margin across the value chain. Connected firms need to rebalance the resources distributed among the value train to maintain the high commitment toward the networks. While pursuing collective interests of the networks, entrepreneurs aware the potential damage to the development of the society. How to balance the group interest and the interest of the society becomes an important challenge for *guanxi* practice. Besides B2B networks and the consideration about profit of the value chain, the behaviours of firms are also affected by policies and regulations issued by regulatory agencies. The next chapter will explore the role of B2G networks in the business strategies of private firms.

CHAPTER 5 BUSINESS TO GOVERNMENT NETWORKS

Guanxi is important. It is the key to success in many cases. But the goal for which people want to use *guanxi* to achieve cannot go against heaven (*nitian*, 逆天). People need to find a rational reason to support their actions and enable things to work smoothly... *guanxi* cannot help you to reach the sky in one step. You have to construct the stairs by yourself. *Guanxi* helps you to climb the stairs more efficiently. But if you do not have any *guanxi* or have bad relation with the government, the government can close a door on your stairs anytime. In that case, no matter how smart you are, you cannot climb the further steps and reach success. (Interview 11¹⁰⁶)

5.1 INTRODUCTION

Firms not only connect to their business partners or competitors in the market, but also have connections with other stakeholders such as regulatory and supporting government departments, research institutes, and public sector organizations. B2G networks differ from B2B networks in their functions and roles, as well as how they affect the business strategies of firms (Luo et al., 2012; Park & Luo, 2001; Peng & Luo, 2000; Sheng et al., 2011). In transition countries, the government retains significant power to intervene in market activity. Managers in China have reported that the state regulatory regime is difficult to predict and highly influential in firm performance (Rowe & Guthrie, 2010). This affects the behaviours adopted by the private entrepreneurs in maintaining government relationships. The importance of B2G networks in strategic management has attracted increasing attention. Existing studies have investigated the role of B2G networks in firm performance (Li et al., 2008; Wu et al., 2012), firm innovation (Wei et al., 2011), project management ((Ling & Li, 2012), and investment (Chow & Fung, 2012). B2G networks have been identified as an important channel for firms to maintain a stable business environment and access strategic resources controlled by the government. This chapter primarily focuses on B2G networks to explore how private

¹⁰⁶ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

entrepreneurs perceive the role of government connections in maintaining a stable business environment and acquire strategic resources controlled by the government.

The remainder of this chapter is organized as follows. The next section explains the variables and regression models used to examine the perceptions of entrepreneurs regarding the role of B2G networks in their business strategies and how their perceptions are affected by the different government connections they have. Section 5.3 and 5.4 discuss the regression results combined with interviews, while Section 5.3 focuses on the function of B2G networks in helping private firms to reduce external uncertainty. This is followed by the discussion of the results focusing on the role of B2G networks in helping private firms to access resources in Section 5.4. The last section provides summarizing remarks.

5.2 LOGISTIC REGRESSION MODELS AND VARIABLES MEASUREMENT

This section describes the variables and logistic regression models. In Chapter 3, Section 3.3.2, the factor analysis results grouped the 13 types of personal connections of entrepreneurs into three different categories. They are distant government connections, local government connections and business connections. The functions of business connections were examined in the previous chapter. This chapter focuses on the two types of government connections and explores whether entrepreneurs embedded in different government connections have different attitudes towards the role of B2G networks in making strategic decisions. It begins with a discussion of the dependent variables.

5.2.1 Dependent variables

From the transaction cost theory, the opportunism of business partners and environmental information uncertainty will increase transaction costs. B2G networks enable private entrepreneurs to establish a trustworthy relationship with government officials in China. This facilitates a more stable environment

for private firms to operate and reduces the risks and costs of facing uncertainty (Faccio, 2006; Puffer et al., 2010). The existing literature shows that private enterprises that maintain good government connections are more likely to receive endorsements from the government (Dickson, 2007) and access to more internal policy information. The trust between private entrepreneurs and the government also provides incentives and confidence for private enterprises to invest in long-term projects. In the questionnaire, two statements examine the role of B2G networks in allowing entrepreneurs to respond to policy changes and make the decision to invest in a long-term project in a specific city. These are displayed in Table 5.1 as statements 1 and 2. Both statements measure the role of B2G networks in helping private firms to secure a stable business environment. Entrepreneurs have slightly positive attitudes towards these two statements (change of policy: mean = 3.66, long-term project investment: mean = 3.57), which implies they agree that B2G networks enable private firms to react to external environmental changes quickly and to maintain a stable business environment.

Table 5.1: Descriptive Statistics of the Functions of B2G Networks

	Mean	SD	No.	Positive Responses ^b (%)	Negative Responses ^b (%)
Reducing External Uncertainty					
1. Good connections with government officials enable my company to respond to change of policy more quickly (1-5) ^a	3.66	1.11	405	57.50	12.60
2. If I have good connections with the government officials in a city, my company is more willing to invest in long-term projects there (1-5) ^a	3.57	1.09	405	51.60	13.80
Accessing Strategic Resources					
3. Good connections with government officials enable my company to acquire financial resources easier (1-5) ^a	3.26	1.02	405	38.00	20.20
4. Good connections with government officials enable my company to acquire new technology easier (1-5) ^a	3.16	1.04	405	33.80	24.70

Notes:

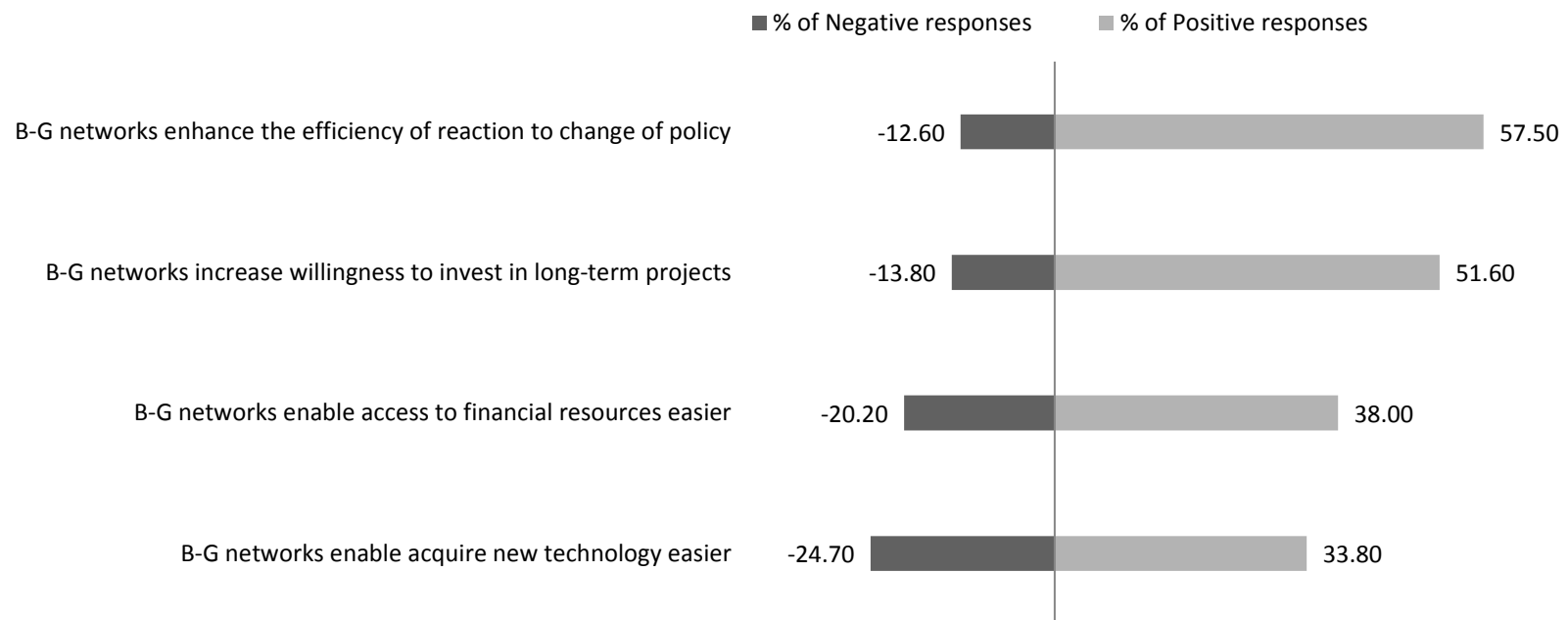
^a Respondents were asked to access each of these four statements on a 5-point scale, from 1 (strongly disagree) to 5 (strongly agree).

^b The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statement. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statements.

From the RBV, resources that are rare, valuable, inimitable and non-substitutable are important for firms to achieve competitive advantages (Barney, 1991). The Chinese government possesses significant power in the allocation of resources (Li & Yang, 2006; Ma et al., 2012; Peng & Heath, 1996; Wu et al., 2012). The existing literature explains that political connections are important channels helping private firms access bank loans (Li et al., 2008) and strategic resources controlled by the government, for example land and government subsidies (Chen, 2010a; Faccio, 2006; Wei et al., 2011). In the questionnaire, statements 3 and 4 in Table 5.1 are used to examine the level of agreement about the role of B2G networks in acquiring financial resources and new technology. An efficient channel to access financial resources is one key success factor for firms (Ahlstrom & Bruton, 2006). In China, state-owned banks control the majority of the formal external financial resources that are available in the market (Le & Nguyen, 2009; Naughton, 2007; Tang & Ward, 2003). However, the bank loans allocated to the private sector are very limited (Kwong, 2009; McNally, 2011). Since the state controls the appointment of senior managers in state-owned banks, it is important to explore whether private entrepreneurs perceive that B2G networks help their firms access financial resources. Compared to the resources controlled by the state, the development of new technology relies more on the internal capability of the focal firm. Government agencies play a supportive role providing subsidization or assistance (Wei et al., 2011). It is also valuable to investigate how entrepreneurs perceive the role of B2G networks in helping their firms to develop new technology. Statements 3 and 4 in Table 5.1 partly reflect the role of B2G networks in accessing and developing strategic resources. Both statements received slightly positive views from private entrepreneurs (financial resources: mean = 3.26, new technology: mean = 3.16).

Figure 5.1 summarizes the positive and negative views of the above four statements examining the role of B2G networks in business strategy. It shows that entrepreneurs overall have highly positive views regarding the role of B2G networks in reducing external uncertainty. The percentage of positive responses is four to five times higher than the negative responses. Government connections help private entrepreneurs to access policy information

Figure 5.1 Distribution of Agreement about the Role of B2G Networks



Note: The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statements. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statements.
 Source: Table 4.3

(Hillman, Zardkoohi, & Bierman, 1999) and ensure a more efficient response to changes in the external environment. A more stable business environment and access to government endorsement is an attractive factor affecting entrepreneurs' decisions regarding long-term investment (Zacharakis, McMullen, & Shepherd, 2007).

For resource acquisition, although the majority of the responses are neutral, entrepreneurs still have a slightly more positive view of the role of B2G networks in accessing financial resources and new technology. This result is consistent with the current literature on the function of B2G networks in resource acquisition (Sheng et al., 2011; Wei et al., 2011; Wu et al., 2012).

In this chapter, I want to further investigate how the frequency of distant government connections and local government connections affect the view of entrepreneurs regarding the role of B2G networks in business strategies. The agreement of entrepreneurs with the four statements shown in Table 5.1 are recoded into dummy variables with scores higher than 3 recoded as 1 for positive responses, and scores equal to or lower than 3 as 0 for non-positive responses. These four dummy variables have been used in the regression models as dependent variables.

5.2.2 Independent and control variables

The two main predictor variables in this chapter are distant government connections and local government connections. They are two of the three new factors extracted by the factor analysis in Chapter 3, Section 3.3.2. Recalling the factor analysis results, distant government connections include connections with leaders in central government and provincial government, staffs in public-sector organizations, managers in SOEs and state-owned utility companies, and members in business chambers. Local government connections are composed of connections with local government leaders, officials in regulatory and supporting government departments, and managers in state-owned banks. I use the Anderson-Rubin method to calculate the composite score of all cases for these two new factors. The Anderson-Rubin method produces factor scores that are not correlated with each other

(DiStefano, Zhu, & Mindrila, 2009). This avoids the problem of collinearity in regression analysis. The two new variables measure the intensity of the entrepreneurs' use of distant government connections and local government connections. These two variables are the main predictors for the logistic regression models below.

Besides the distant government connections and local government connections, I also use two control variables in the regression models. The first control variable is the location of the firm. As discussed in Section 4.2.3, the existing literature corroborates that people rely less on informal networks to acquire resources and protect their own interests in more developed and marketized regions (Gu et al., 2008; Park & Luo, 2001). I therefore control the regional (city level) effect in the regression model using the three groups of classification discussed in the descriptive analysis section in Chapter 3.

The second control variable is firm size. The management style varies with the size of the firm as also discussed in Section 4.2.3. In addition, larger firms have more formal ties with different stakeholders in the market, enabling them to more easily establish legitimacy (Freeman, Carroll, & Hannan, 1983). Compared to large firms, smaller firms lack bargaining power and government agencies can intervene more readily (Perkins, 1994). They are more likely to rely on entrepreneurs' personal *guanxi* with officials in order to gain acceptance from the government and thus establish legitimacy (Carlisle & Flynn, 2005). Firm size in the regression model is the natural log of annual sales.

Apart from these two control variables, I have also tested the effects of other possible control variables including industry, firm age and the age of the respondents. However, the regression models show that including these three variables does not lead to significant improvement of the overall models, and all of the three variables do not have a significant effect on the outcome variables. As a result, I excluded these three control variables from the regression models introduced in the following section.

5.2.3 Estimation Strategy

This chapter aims to examine how the frequency of distant and local government connections utilized by entrepreneurs affects their perception of B2G networks in determining their business strategy. Since all of the four dependent variables are dummy variables with 1 for positive responses and 0 for non-positive responses, I use a binary logistic regression model once again. The logistic regression equation was outlined in Section 4.2.3 and below is the equation after reformulation:

$$\ln [P(Y)/(1-P(Y))] = b_0 + b_1X_1 + b_2X_2 + \dots + b_nX_n$$

In the regression models in this chapter, Y is the probability that the private entrepreneurs give a positive response to the four statements used as the dependent variables and shown in Table 5.1. In other words, this is the probability that private entrepreneurs agree that B2G networks increase efficiency in reacting to policy change, increase the willingness to invest in long-term project, enable firms to access financial resources more easily, and enable firms to acquire new technology more easily. The two main predictors are DGC, which is the frequency of distant government connections, and LGC, which is the frequency of local government connections. Model 1 simply uses the two main predictors. Model 2 adds the control variables LO for firm location and SI for firm size. For firm locations, the reference group is the two main cities (Guangzhou and Shenzhen). I have tried other control variables in model 2. They include industry, age of entrepreneurs. These variables did not increase the significance of the model. Thus I remove them from model 2 and keep firm location and firm size as the control variables.

$$\ln [P(Y)/(1-P(Y))] = b_0 + b_1DGC + b_2LGC \quad (\text{model 1})$$

$$\ln [P(Y)/(1-P(Y))] = b_0 + b_1DGC + b_2LGC + b_3LO_1 + b_4LO_2 + b_5SI \quad (\text{model 2})$$

5.3 BUSINESS TO GOVERNMENT NETWORKS IN REDUCING EXTERNAL UNCERTAINTY

The profit margin for many private enterprises in China is small (Chen, Firth,

& Xu, 2009; Dougherty et al., 2007). The majority of Chinese private firms are small and medium-sized enterprises and their capability to diversify their operations is limited (Parnell et al., 2012; Zhu et al., 2012); they are also more constrained by costs (Child & Tsai, 2005; Nee, 1992). Policy change in their industries or uncertainty in the local business environment might increase operational costs. Thus the capability to forecast and react to policy change to maintain a stable business environment is important for the overall profitability of private firms. This section discusses the role of B2G networks in reducing external uncertainty using the results from the regression analysis and the interview data. It begins with entrepreneurs' reactions to policy changes.

5.3.1 Business to Government Networks in Reacting to Change of Policy

Table 5.2 reports the logistic regression results examining the factors that affect entrepreneurs' views of B2G networks in reacting to policy change. Model χ^2 indicates that both of the models are significant ($p < 0.01$). In model 1, the local government connections are the only significant factor ($p < 0.01$) with an odds ratio of 2.36. Model 2 controls for firm location and size. The odds ratio of local government connections decreases slightly to 2.29, but it is still significant at $p < 0.01$. Overall, both models show that local government connections have a significant effect on how private entrepreneurs perceive the role of B2G networks in reacting to changes in policy. Entrepreneurs who connect with local government officials frequently are 2.29 times more likely to agree that B2G networks increase the efficiency of their firms in responding to policy change. Distant government connections do not have significant effect in either model. In model 2, the location of firms has a partial effect. Entrepreneurs whose firms are in the Pearl River Delta Cities are less likely to agree that B2G networks help their firm to react to policy change, compared to other firms located in Guangzhou and Shenzhen.

The regression results reveal the positive role of local government connections in helping private firms to access internal government information and predict changes in the external environment. Entrepreneurs are more likely to access information and administrative resources that are exclusive to connected firms with more connections with local government officials (Sheng et al., 2011).

Table 5.2: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks in Reacting to Change of Government Policy

	Model 1	Model 2
	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Distant Government Connections	-0.14 (0.87)	-0.16 (0.86)
Local Government Connections	0.55 (2.36)***	0.83 (2.29)***
<i>Location^b</i>		
Pearl River Delta Cities		-1.13 (0.32)***
Peripheral Cities		-0.21 (0.81)
<i>Firm characteristics</i>		
Size		-0.01 (0.99)
Constant	0.36 (1.44)	1.20 (3.33)***
Model χ^2	58.22***	77.67***
Cox & Snell R ²	0.13	0.18

n=405

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

This information and administrative resources includes advanced information about new policies, shorter time or loose standards for administrative approval. Thus, compared to those who use local government connections infrequently, these entrepreneurs are more aware of the role of local government in helping them to predict changes in the external environment and adjust their strategy to fit the new policy. Entrepreneurs said that one of the benefits of B2G networks in general is that they improve a firm's ability to predict change in the political environment. One entrepreneur explained:

The Chinese government is the organ that makes different policies. Simultaneously, it is the organization that implements policy and allocates preferential treatments... B2G relations are the most important channel to acquire government information... for example, if some owners of high-end restaurants realize in advance that the central government has decided to control government expense, they might sell their restaurants or change the direction of business to avoid losses. Many high-end restaurants that relied on the consumption of government departments face a lot of difficulty nowadays.¹⁰⁷ If these people have government connections and can

¹⁰⁷ At the end of 2012, the General Secretary of the Chinese Communist Party Xi Jinping launched an anti-corruption campaign at the 18th Party Congress. Xi outlined "Eight Rules" for party and government officials to restrict spending on luxurious dining and official waste, and

become aware of the change ahead, the result will be different.
(Interview 17¹⁰⁸)

This quotation reveals that information acquired through B2G networks affects the future business strategy of a company. Firms can withdraw investments from industries which will be subject to unbeneficial policies, or invest in industries which will be granted more government support. This not necessarily guarantees the success of the firm in the new industry, but at least it protects the firm from suffering a huge loss under new restrictions and allows the firm more time to prepare for the change compared to its counterparts. Accessing advanced information about industrial policies thus helps private firms to maintain a more stable market environment. Although this practice is unfair for firms which do not have channel to access internal information, Chinese entrepreneurs tend to admit and tolerance the unfairness.

The role of local government in providing internal information was emphasized by many interviewees. Close connections with government officials express the support of the private firm for the work of the officials, which persuades them to disclose more internal information to help their firms in development (Interviews 1¹⁰⁹, 19¹¹⁰, 34¹¹¹). In addition to accessing

set a strict discipline for official conduct. This new policy meant that many high-end restaurants, which mainly depended on government consumption in China, suffered huge losses or even closed down.

¹⁰⁸ A male entrepreneur who owned a manufacturing firm in Guangzhou, and was chairman of a business chamber, and the vice-chairman of local Federation of Industry and Commerce, and a representative in local PC and provincial PPCC. The age of the firm was 17 years.

¹⁰⁹ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of the firm was 15 years. This entrepreneur was a CCP member.

¹¹⁰ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC.

¹¹¹ A male entrepreneur who was the chief executive officer of a manufacturing firm in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a representative in local PPCC.

information about new policies, entrepreneurs also talked about the power of local government in affecting policy implementation, which also help their firms to react to policy change. This is one possible reason that also explains the regional effect in model 2.

The fact that entrepreneurs in less developed regions are less likely to consider B2G networks important in reacting to policy change conflicts with the existing literature (Gu et al., 2008; Luo et al., 2012; Park & Luo, 2001). Power in terms of policy implementation is still concentrated in the hands of local government in China (Su & He, 2010; Zhu et al., 2012). Many interviewees emphasized that the most important way in which local government agencies affect the survival of firms is not by making policies, but through the implementation of policies. Government connections enable private firms to be perceived as more trustworthy and competent in the minds of local government officials (Levin & Cross, 2004). Being involved in the same network, actors exchange superior information about each other and enhance trust among all parties (Gulati et al., 2000). This favours government connected firms in government administrations (Wei et al., 2011). Entrepreneurs who have intensive government connections might perceive that they are more trusted by government officials. The relationship of trust perceived by the entrepreneurs encourages them to believe political ties are important in affecting how government agencies implement policies involving their firms rather than predicting changes in policy. This is shown in the following quotation:

Many policies issued by the government are not comprehensive (*bugou quanmian*, 不够全面). Thus, there are many aspects that rely on the interpretation of the people who implement these policies. If entrepreneurs have a good relationship with local leaders, the leaders can solve a problem easily. It does not necessarily mean that the law or policy is violated. For example, if the local environmental fee indicated in the policy is from three to seven percent, the regulatory agencies can charge the company the highest seven percent. But a company with good government relationships might only need to pay three percent. Both outcomes are within the legal framework, but the

result might be totally different in terms of the profit of the company.
(Interview 44¹¹²)

Comparing government officials in Guangzhou and Shenzhen with their counterparts in other municipal cities in Guangdong, interviewees said that officials in the two main cities behave more “cautiously” (*jinshen*, 谨慎) and are more likely to follow government documents to the letter, since they are under more strict supervision. Consequently, in the two main cities policy implementation is less subject to the interpretation of local authority. However, in less developed regions, local government leaders retain more power in how the policy is applied (Ahlstrom & Bruton, 2001). Box 5.1 shows a case that studies how firms can benefit through preferential treatment in local government policy implementation. A recent investigation of the blast that occurred in Tianjin on 12 August 2015 also reveals that firms with close connections with government departments bypassed regulations easily, even when there is a clear guideline on policy (*Xinhua* 19 August 2015).¹¹³ For these entrepreneurs, predicting policy change is less valuable and essential for their firms as a means to prepare for market change caused by new policies. Instead, firms rely on B2G networks to influence government officials in order to gain favours regardless of the policy.

¹¹² A male entrepreneur who owned a real estate firm in a peripheral city. The age of his firm was 12 years. This entrepreneur was a representative in local PPCC, and the chairman of a business chamber.

¹¹³ A warehouse located in the Tianjin port in Binhai District exploded on 12 August 2015, leading to the death of more than 160 people. This warehouse handled hazardous goods but was located in an area close to residential community. The recent investigation discovered that the real shareholders of the company that owned this warehouse were sons of an official in the local police department and an executive in a SOE respectively. A close connection with local government department enabled this firm bypassed the regulation of distance between dangerous warehouses and residential areas, operating from October 2014 until the blast happened without a proper license.

Box 5.1 B2G Connections in Helping Firms to Bypass Regulations

Company A is a printing company located in a Pearl River Delta city. In Guangdong, many printing companies are busy during the summer with orders from customers in hotels or the catering services industry, such as for the packaging box for moon cakes. (Moon cake is a traditional food consumed by Chinese people in the mid-autumn festival, which is usually in September.) Some firms that have received out-sourced orders from the state-owned printing companies are even busier with printing textbooks for the new semester starting in September. Thus, summer is the busiest season for the printing industry. However, in the summer there is high demand for electricity because of the hot weather in Guangdong. The government needs to guarantee the electricity supply to residential areas and institutions such as hospitals, schools and government departments. Manufacturing firms sometimes face arbitrary cuts to their electricity supply during the summer. This increases the competitive pressure on firms to deliver their orders on time. The owner of company A faced this problem. Because he had very good connections with leaders in the local government and the electricity supply company, the local government authorities were not that strict when they implemented the policy on electricity supply towards the firm. This enabled his firm to retain the electricity supply during the busiest period and consume less electricity during the off-season.

I did not gain any extra advantage from the government, and I am not involved in any corruption behaviours by paying the government leaders extra benefits to use more electricity. I pay the fee based on how much electricity my firm consumed, but it enables my firm to finish all the orders on time. The local government also enjoys more tax which will be paid by my firm at the end of the year. This is a win-win situation for both my company and the government. However, if I do not have good connections with local government leaders, it might be impossible for my firm to use more electricity during the summer.

For company A, the secured electricity supply not only allows the

firm to finish transactions, but also enables the firm to maintain its reputation in the industry and better compete in the market.

Interview 36¹

Note:

¹ A male entrepreneur who was the chief executive officers of a manufacturing firm in a Pearl River Delta city. The age of this firm was 15 years. This entrepreneur was a CCP member. He was also the chairman of a business chamber.

Another possible explanation for the regional difference is the administrative levels of different cities. Guangzhou and Shenzhen are sub-provincial level cities in Guangdong Province. The government officials in these two cities are closer to the centre of power in terms of making provincial level decisions. They have more opportunities than officials in other municipal governments to know a change in policy in advance. Thus, the information within the hands of the official in the two main cities is more valuable for entrepreneurs to predict and react to change in the external environment. This is why entrepreneurs with firms in Guangzhou and Shenzhen are more likely to consider that government connections enable their firms to react to policy change more quickly.

This section explores the role of B2G networks in ensuring a stable local business environment. The entrepreneurs emphasized the role of local government in helping their firms to access information about new policies, and granting favours to their firms through close B2G networks. However, firms also seek opportunities in other cities and make investment decisions. The next section will investigate how different connections affect entrepreneurs' perceptions of long-term investments.

5.3.2 Business to Government Networks in Long-Term Investment Decision

Table 5.3 shows the regression results for the determinants of entrepreneurs' views about B2G networks in long-term investment decisions. Both models 1 and 2 are significant at $p < 0.01$. For the two main predictors, only local government connections have a significant effect on the perceptions of entrepreneurs ($p < 0.01$). The odds ratio is 2.18 in model 1, and this decreases slightly to 2.16 in model 2, which controls for firm location and size. The odds ratio indicates that entrepreneurs who use local government connections frequently are 2.16 times more likely to agree that having connections with local government officials in a city increases their willingness to invest in long-term projects there compared to entrepreneurs who do not have frequent connections with local government officials. For the two control variables, firm size does not have any significant effect. Location is partly significant ($p < 0.01$). Compared to Guangzhou and Shenzhen, entrepreneurs from other Pearl River Delta cities are less likely to believe that local government connections increase their willingness to make long-term investments in that city. These regional differences are contrary to my initial expectations.

Table 5.3: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks in Long-term Investment Projects

	Model 1	Model 2
	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Distant Government Connections	-0.04 (0.96)	-0.05 (0.95)
Local Government Connections	0.78 (2.18)***	0.77 (2.16)***
<i>Location^b</i>		
Pearl River Delta Cities		-0.90 (0.41)***
Peripheral Cities		0.01 (1.01)
<i>Firm characteristics</i>		
Size		-0.05 (0.95)
Constant	0.08 (1.08)	0.89 (2.43)***
Model χ^2	50.70***	67.54***
Cox & Snell R ²	0.12	0.15

n=405

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Ties with local government officials increase the interactions between private entrepreneurs and government agencies and enable both parties to establish commitment and mutual understanding (Poppo, Zhou, & Ryu, 2008). Entrepreneurs who use local government connections more frequently are more likely to rely on B2G networks to do business. Making investments in a new city is risky. A lot of essential information such as investment opportunities, information about land purchasing and government subsidization is not generally available to the public. Entrepreneurs tend to acquire information in the way they are accustomed to. Those entrepreneurs who rely on local government connections to make strategic decisions may prefer to establish connections with local government officials in the new city to acquire more information and evaluate the risk of investment in advance. However, this does not mean government connections are the most important components of the decision when entrepreneurs consider investments.

When entrepreneurs explained how they make investment decisions in other cities, two words were most frequently mentioned: the first is the market, the other one is local government relation. Entrepreneurs who consider the market as the most important factor in their investment decisions believe that the market is the primary factor that affects the long-term survival of the firm. The local government cannot support the survival of the firm in the long run. As outlined below, profitability is based on the capability of the firm itself under the market mechanisms:

When making the decision to invest in a new place, I will firstly consider the local market and whether the managers in my company can take root (*zhagen*, 扎根) in that city. After I decide to invest in a particular city, then I will start to think about whether I need to cultivate *guanxi* with the government officials there...the government officials in China today change their positions very frequently. It is impossible for the local government to take care of a company in the long term. Government connections, in many cases, only help the firm to solve the problem in the near future. In addition to that, government officials are not responsible for the profitability of private firms. So the market is the most important component in my decision to invest

in a new city. Government connections can be cultivated according to what problem my company faces in operation. (Interview 51¹¹⁴)

The quotation above shows the companies cannot rely on political connections alone to compete in the market. Government connections are short-term oriented and can change easily. They do not facilitate long-term cooperation (Sheng et al., 2011). Entrepreneurs consider that market forces are the most important factors affecting their long-term profitability. In their view, the most important role of local government connections in their investment decisions is helping them to enter a market or to acquire resources controlled by the local government, such as land. This is consistent with the existing literature that emphasizes the role of B2G networks in acquiring strategic resources (Faccio, 2006; Hillman et al., 1999; Khwaja & Mian, 2005). Another important function of B2G networks is protection for private firms from the intervention of local authorities. A close government connection, especially a close personal tie with local leaders, can reduce the probability of experiencing rent-seeking behaviours from local government officials. One entrepreneur explained that people who are involved in a relationship tend to work hard to maintain the current relationship, but not destroy it (Interview 53¹¹⁵). Intervening into the operation of the connected firms may destroy the current B2G connections, which Chinese people try to avoid.

In addition to preventing government intervention, B2G networks help private firms to access another type of important resources controlled by the government. That is the administrative approval power (Wang et al., 2011). The same process of administrative approval can take one month on one occasion, or several years at other times. The factor which makes the difference is the B2G networks, especially connections with local government officials. One entrepreneur mentioned that without good government connections, a firm is often unable to get approval to start their business in a

¹¹⁴ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

¹¹⁵ A male entrepreneur who owned a firm in the real estate industry in Guangzhou. The age of his firm was 10 years. This entrepreneur was a member of a business chamber.

new city or will face extreme difficulty in operation (Interview 2¹¹⁶). This is further confirmed by the following statement:

I visited Jiangxi (an inland, less developed province) to investigate the investment environment there. The local government provides zero tax rates to attract investment. However, the problem of eat-take-stuck-want (*chi-na-qia-yao*, 吃拿卡要) is more serious.¹¹⁷ Other companies have faced a lot of trouble doing business there. In that case, although there was zero tax rate policy, the cost of operation was higher than Guangdong. Some of my friends invested there and finally withdrew their investment, mainly because of the bad *guanxi* with the local government. They suffered huge losses in those investments. (Interview 46¹¹⁸)

As mentioned above, understanding policy is not enough. The practical behaviour of the local government has a more significant effect on the survival of the firm. Entrepreneurs cultivate *guanxi* with local government to seek its support and reduce the probability of experiencing rent-seeking behaviours. Existing literature examines the correlation between *guanxi* practices and rent-seeking behaviours in Chinese market and conclude that the culture tradition, the market environment and close relationship between entrepreneurs and officials increase the probability of corruption (Lin & Si, 2010). However, *guanxi* is not equivalent to and not necessarily lead to corruption. *Guanxi* practice builds on exchange of favours and follow the implicit rule of long-term social reciprocity (Chung & Hamilton, 2001; Luo, 2007). Corruption usually involves explicit short-term monetary transaction (Luo, 2007). The above quotation shows that good *guanxi* with local government even can help the firm to avoid to be involved in corruption activities. Maintaining a good government connection is essential for entrepreneurs when making investment

¹¹⁶ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 34 years. This entrepreneur used to be a representative in local PC. He was a member in local business chamber.

¹¹⁷ This is a new Chinese term describing rent-seeking behaviours. Eat refers to ask for lunch or dinner paid by others. Take refers to taking a valuable thing owned by others. Stuck refers to setting an administrative block in order to request others to give benefits to free the situation. Want refers to directly asking for gifts or money.

¹¹⁸ A female entrepreneur who owned a manufacturing firm in a peripheral city. The age of her firm was 11 years.

decisions, not only aim for access to internal information and support, but also switch the short-term transactional relationship to a long-term reciprocal connection.

Although some entrepreneurs emphasized that either the market or government connections is the most important factor, the majority of the interviewees argued that the market and local government connections have different effects on their investment considerations. Several entrepreneurs use the phrase “the right time, the right place, and the right people” (*tianshi dili renhe*, 天时, 地利, 人和) to explain the philosophy of doing business (Interviews 15¹¹⁹, 22¹²⁰, 53¹²¹). They explained that the market represents the right time and the right place. Firms need to search for suitable investment opportunities and investigate the market environment of the new city, for instance competition and transportation infrastructure, to make their investment decisions. Simultaneously, the “right people” represents the connections with the local government. All of these factors are important for the future profitability of a long-term investment in a new place. Figure 5.2 shows the distribution of the importance of different personal ties when entrepreneurs make long-term investment decisions. The most important personal relationship is connections with managers in buyer firms, which partly represents the market, followed by local government connections. One entrepreneur even quantified these two dimensions in his investment decisions, stating that the market accounts for 70 percent and government connections accounts for 30 percent (Interview 30¹²²). Other entrepreneurs said that government connections are more important in the early stage, but the market

¹¹⁹ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

¹²⁰ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

¹²¹ A male entrepreneur who owned a firm in the real estate industry in Guangzhou. The age of his firm was 10 years. This entrepreneur was a member of a business chamber.

¹²² A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

Figure 5.2 Distribution of the Importance of Different Personal Ties in Making Long-Term Investment Decisions



Note: Respondents were asked to evaluate the imporantance of these personal ties on a 4-points scale, where 1 stands for not important and 4 stands for very important.
Source: Survey data

enables the firm to survive in the long run (Interviews 21¹²³, 23¹²⁴). For long-term investment decisions, the most important role of local government connections is helping firms to access the market and start their business there. During on-going operations, local government connections enable the firm to experience less environmental uncertainty. However, it is impossible for private firms to rely entirely on government support for long-term operations

¹²³ A male entrepreneur who owned a wholesale and retail firm in a Pearl River Delta city. The age of this firm was 14 years.

¹²⁴ A male entrepreneur who owned a firm in manufacturing industry in a Pearl River Delta city. The age of his firm was 9 years. This entrepreneur was a CCP member.

(Interview 7¹²⁵, 32¹²⁶). Long-term operation still depends on the capability of the firms and B2B networks. Successful entrepreneurs combine both market and B2G networks in a rational manner to compete in the market.

In terms of regional differences, firms located in the Pearl River Delta cities are less likely to agree that B2G networks increase their willingness to make long-term investments in that city. This finding conflicts with existing research indicating that entrepreneurs in less developed regions are more likely to rely on informal ties to do business (Guthrie, 1999; Park & Luo, 2001). One explanation for this result is the regional differences in investment patterns. Firms located in Guangzhou and Shenzhen face more competition and are more open to investment opportunities in other cities. They have more opportunities and experience to compete and cooperate with firms that come from different regions compared to their counterparts located in less developed cities. This difference in accumulated experience might lower the willingness of firms located in less developed regions to invest in a city with different customs and cultures. Box 5.2 provides a case which studies how investment decisions are affected by local culture.

The different investment pattern of firms in different regions is further supported by the data. Of all the companies surveyed only six had invested outside Guangdong, with five of them based in Guangzhou and Shenzhen. About one-third (32.87 percent) of companies in Guangzhou and Shenzhen made investments outside their headquarter cities compared to only 13.31 percent for companies located in the Pearl River Delta cities and 19.57 percent of companies located in peripheral cities. One entrepreneur expressed his concerns about competition in the big cities:

The strategy of my company is to seek stable development. My company mainly invests in second-tier, third-tier or fourth-tier cities.

¹²⁵ A male entrepreneur who owned a company in the advertising and media industry. His firm was in Guangzhou. The age of the firm was 23 years.

¹²⁶ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 7 years. This entrepreneur was a representative of local PPCC and a member of a business chamber.

Box 5.2 Cultural Difference in Investment Decisions

Company A is a leading company in the catering industry in a Guangdong city. Its owner – Mr. Ma – was invited by a friend to invest in a restaurant in Jiangsu Province (a coastal, developed province) several years ago. His friend had very good connections with local government officials that enabled him to buy a piece of land at a very good location to build the restaurant. Mr. Ma went to that city to investigate the local business environment. First of all, he considered the competition in that city:

It's a big city with many restaurants with already long-established brands. It would be difficult for my company to enter into that industry.

In addition to the consideration of competition, Mr. Ma was also aware of the different cultures and customs of dining out in that city. He commented:

... (in the target city) people prefer to dine out and have business gatherings during lunch. All the restaurants are closed at 8:30 pm, and people spend much less on food compared to Guangdong residents. Even if my company could survive there, it would be difficult to maintain my way of running the business and still generate profit.

Based on the consideration of both local competition and culture differences, Mr. Ma finally rejected this investment opportunity.

Interview 47¹

Note:

¹ A male entrepreneur who owned a firm in the hotel and catering service industry in a peripheral city. The age of his firm was 9 years. This entrepreneur was a representative in local PC.

There is less competition in these cities, thus less risk...In my opinion, many private firms in Guangdong are conservative (*baoshou de*, 保守的). They mainly concentrate on local development, and are less interested in investment in other provinces. (Interview 20¹²⁷)

As discussed above, government connections are important for firms when entering a new market, but such B2G networks are of little value when a firm faces intensive market competition that is different from their home cities or cultural barriers in a new market. This is a more obvious problem for firms located in less developed regions, and is one possible explanation for why firms in less developed regions of Guangdong are less likely to consider local government connections as important in their long-term investment decisions in a new city.

This section has explored the role of B2G networks in helping private firms to reduce the risk of external uncertainty and maintain a stable business environment. The findings show that local government connections play a significant role in helping private firms to predict changes in the political environment. B2G networks enable firms to access information about new policies in advance and influence the local government to grant preferential treatment to circumvent certain regulations. A close connection with the local government also motivates and helps firms enter new markets, further enabling them to overcome administrative barriers in investment. Despite this, the main objective of business organization is making profit. A stable environment can reduce costs, but it cannot guarantee success. The next section will explore how B2G networks helps private firms to access strategic resources and achieve competitive advantage to better compete in the market.

¹²⁷ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of the firm was 33 years.

5.4 BUSINESS TO GOVERNMENT NETWORKS IN ACCESSING RESOURCES

In China, the government influences resource allocation, which makes B2G networks important for resource acquisition. This section discusses the regression results along with interview data reporting the perceptions of entrepreneurs regarding the role of B2G networks in acquiring resources and how these perceptions are affected by their government connections. It begins with an analysis of access to financial resources.

5.4.1 Business to Government Networks in Accessing Financial Resources

Table 5.4 reports the logistic regression results for the determinants of the view of entrepreneurs about B2G networks in helping private firms to access financial resources. Model χ^2 shows that both models are significant ($p < 0.01$). For the two main predictors, only local government connections have a significant effect ($p < 0.01$). The odds ratio of local government connections decreases slightly from 1.64 in model 1 to 1.63 in model 2, indicating that entrepreneurs who connect with local government officials frequently are 1.63 times more likely to agree that B2G networks help their firms to access financial resources. For the control variables, only location had any significant effect on the perceptions of entrepreneurs. The odds ratio of Pearl River Delta cities is 0.53. This indicates that entrepreneurs whose have their firms located in the Pearl River Delta cities are less likely to believe that B2G networks are useful in acquiring financial resources, compared to their counterparts located in Guangzhou and Shenzhen. This contradicts my initial expectations.

Discussion of financial resources acquired by private enterprises in China is mainly focused on bank loans, which one is the most important channels for formal external funding (Le & Nguyen, 2009). Although banks in China are supposedly commercial operations and independent from government intervention these days, the close relationship between bank managers and government officials enables government leaders to retain considerable influence over financial resource allocation:

Table 5.4: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks to Access Financial Resources

	Model 1	Model 2
	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Distant Government Connections	0.11 (1.12)	0.11 (1.12)
Local Government Connections	0.49 (1.64)***	0.49 (1.63)***
<i>Location^b</i>		
Pearl River Delta Cities		-0.64 (0.53)**
Peripheral Cities		0.33 (1.39)
<i>Firm characteristics</i>		
Size		-0.07 (0.93)
Constant	-0.52 (0.59)***	0.10 (0.93)
Model χ^2	22.49***	36.67***
Cox & Snell R ²	0.05	0.09

n=405

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

The management of Chinese banks today is more independent. Local governments cannot control their operations, so their influence on loan approval is limited. But this does not mean that government connections have no influence over the lending decision at all. The managers in local bank branches work and live in local cities. They have to give face to local government officials. Even if the local government does not appoint them, the job arrangement of their family members or the education of their children might be related to local authorities. (Interview 40¹²⁸)

This entrepreneur emphasized that people in a society are all connected in different ways. The local government leaders might lack power to influence a lending decision directly by asking the local branch to approve loan application, but the rule of reciprocity is already something practised by the majority of Chinese people (Chai & Rhee, 2010; Chung & Hamilton, 2001). For bank managers, giving a favour to the local leaders means they can ask for something in return in the future. They might not necessarily ask for something, but owning a favour means the other party is obligated to return something (Chung & Hamilton, 2001). This makes people more willing to invest in

¹²⁸ A male entrepreneur who owned a firm in the manufacturing industry in Shenzhen. The age of the firm was 10 years.

relationships prior to others to initiate the exchange of favours or to strengthen an existing connection. However, this entrepreneur also indicated that this form of thinking has limits (Interview 40¹²⁹). People always evaluate the risk of investment and the potential profit. Banks in China now check each loan approval strictly and force the staff members that approve bank loans to take responsibility. It is impossible for bank managers to approve loans just based on personal networks. Thus, in order to access bank loans, the company has to meet basic requirements such as providing property as collateral. In the process of asset evaluation however, B2G networks can help private firms to access more financial resources, as illustrated by the following statement:

Basically, local government does not have influential power over banks' decisions to approve loans. The lending decision is more based on the capability of the firms. But if the owner of the company has a good relationship with the bank managers or government officials, it is still possible that the asset can be evaluated at a higher value. (Interview 32¹³⁰)

Similar to the above entrepreneur, another entrepreneur talked about how *guanxi* with asset evaluation companies helps firms to solve different problems (Interview 39¹³¹). He used the value of a piece of land owned by a factory as an example: when a firm needs to report the value of the land to the tax bureau the value can be estimated as lower, but when the firm needs to use the land as the collateral for bank loans the value can be estimated as much higher. However, besides a close connection with the asset evaluation company, firms also need to maintain good relationships with the tax bureau and the banks. Otherwise, banks can reject the asset evaluation report and refuse to grant loans.

¹²⁹ A male entrepreneur who owned a firm in the manufacturing industry in Shenzhen. The age of the firm was 10 years.

¹³⁰ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 7 years. This entrepreneur was a representative of local PPCC and a member of a business chamber.

¹³¹ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

The above quotation and example reveal that although B2G networks cannot influence the lending decisions of banks directly, good government connections are an additional advantage for firms once they fulfil the basic lending requirements. B2G networks help firms to speed up the process of loan approval or enable the firm to obtain a higher loan (Chow & Fung, 2012; Khwaja & Mian, 2005). Another entrepreneur also stated that B2G networks can act as a kind of intangible asset in the loan application:

In the same situation, if government leaders can say something in support for the company, the approval process will be quicker. After all, it is a kind of reputation of the company. The banks will have more confidence to grant loans to the firm. (Interview 9¹³²)

This interpretation shows the role of government officials who are on familiar terms with both the managers in the bank and the firm act as the middlemen to provide more information to both sides (O'Connor, 2000). A lack of credible information is one important reason why private firms face extreme difficulty in getting financial resources in transition countries (Nguyen, Le, & Freeman, 2006). The role of B2G networks in loan approval partly reduces the level of asymmetric information, thus banks can make lending decisions more quickly to reduce the cost of collecting and processing information. Firms also benefit from efficient loan approvals.

The role government officials play in helping private firms to access resources reveals some problems that exist in Chinese society that enables *guanxi* and corruption intertwine. China is under the process of reforming and improving political system and legal environment (Luo, 2007). New laws and policies are issued by different levels of government each year. The enforcement of laws is still problematic. Implementation of policies still highly based on the interpretation of local government officials. Government officials control administrative resources, which motivate rent-seeking behaviours (He, 2000). In addition to administrative power, Government and SOEs control the distribution of many strategic resources. This creates another breeding ground for corruption (Dong & Torgler, 2013). Scholar argues that *guanxi* in China

¹³² A male entrepreneur who owned a real estate firm in Guangzhou. The age of the firm was 17 years.

today becomes more instrumental, which is more profit oriented and includes more power exchanges (Luo, 2007). Relationship between entrepreneurs and government officials can be easily turn into *guanxi*-based corruption.

Among the 53 interviews, only six interviewees mentioned the problem of corruption (Interview 22¹³³, 25¹³⁴, 27¹³⁵, 47¹³⁶, 50¹³⁷, 51¹³⁸) and only two of them mentioned that relying on *guanxi* to do business will potentially lead to corruption (Interview 50¹³⁹, 51¹⁴⁰). For other interviewees, they consider that a powerful government and the income gap between government officials and SOE managers are the major causes of corruption. However, even those two entrepreneurs who admit the correlation between *guanxi* and corruption, both of them mentioned that this is the rule for doing business in China. Everyone need to obey the rule to survive and cultivate *guanxi* with different people.

¹³³ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

¹³⁴ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta City. The age of his firm was 11 years. This entrepreneur was a CCP member. He was also a member of standing committee in local PPCC, a representative in local PC, and vice-chairman of a business chamber.

¹³⁵ A male entrepreneur who owned a wholesale and retail firm in a Pearl River Delta city. The age of the firm was 35 years.

¹³⁶ A male entrepreneur who owned a firm in the hotel and catering service industry in a peripheral city. The age of his firm was 9 years. This entrepreneur was a representative in local PC.

¹³⁷ A male entrepreneur who was the chief executive officer of a manufacturing firm in a Pearl River Delta city. The age of this company was 4 years. This entrepreneur was a CCP member, and a member of a business chamber.

¹³⁸ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

¹³⁹ A male entrepreneur who was the chief executive officer of a manufacturing firm in a Pearl River Delta city. The age of this company was 4 years. This entrepreneur was a CCP member, and a member of a business chamber.

¹⁴⁰ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

Their attitude further affirms the important role of social networks in Chinese market, no matter links to legal reciprocate favours exchange, or leads to illegal and unethical business behaviours.

For the location of firms, the regression results show that entrepreneurs who are from the Pearl River Delta cities are less likely to agree that B2G networks help their firm to access financial resources compared to firms in Guangzhou and Shenzhen. The regional difference in the role of B2G networks in accessing financial resources has not been examined by the existing literatures. I suspect one reasonable explanation for this finding is the composition of external financing. Bank loans are the most important formal external financing channel for Chinese private firms, but there are many other channels to access financial resources when difficulties arise. Informal external financing, which means borrowing from informal financial institutions and business partners, is the second major channel for private firms (Zhou, 2009). The existing literature has reported that firms in developed regions are more likely to use bank loans and rely less on informal financing (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2010). In recent years, the four state-owned commercial banks closed many branches in smaller cities to concentrate their business in bigger cities. Interviewees whose firms are located outside Guangzhou and Shenzhen mentioned that banks are reluctant to lend money to private firms (Interview 19¹⁴¹, 39¹⁴², 45¹⁴³). Companies are more likely to rely on business connections to solve their financial problems. They might negotiate with their suppliers to postpone the payments or contact their

¹⁴¹ A male entrepreneur who owned a firm in the construction industry in a Pearl River Delta City. The age of the firm was 19 years. This entrepreneur was a CCP member, vice-chairman of local Federation of Industry and Commerce and a representative in local PPCC.

¹⁴² A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

¹⁴³ A female entrepreneur who owned a firm in the primary industry in a peripheral city. The age of her firm was 19 years. This entrepreneur was a CCP member, and a representative in local PC.

customers to collect receivable payments in advance (Interview 52¹⁴⁴). For manufacturing firms or wholesale and retail firms, products might be sold at a lower price to solve the problem of short-term cash flow (Interview 51¹⁴⁵). If the company faces an extreme short-term cash shortage, it is also possible to borrow from informal loan companies. However, the interest rate will be much higher than bank loans and cannot be burdened by many private firms (Ayyagari et al., 2010). This is exemplified by the following statement:

My friend's company has property as collateral. His firm can borrow from state-owned banks. But even after he contacted some people in the banks, the approval process still took more than three weeks. He could not wait for that long and asked me to contact the loan company for his firm. Although I used my *guanxi* to help my friend to negotiate with the loan company, the interest rate for the loan just decreased from six percent per month for common companies to four percent for my friend. This means that the annual interest rate will be as high as 48 percent. For the majority of private firms I know, their annual profit is less than 20 percent of their total sales. Can you imagine a firm with 20 percent annual profit rate borrowing with a 48 percent annual interest rate? (Interview 11¹⁴⁶)

Access to financial resources is important for the survival and expansion of firms. Since state-owned banks dominate the banking sector in China, the role of B2G networks is more obvious. Although government connections cannot influence loan approvals directly, they help private firms to acquire higher loans in a shorter timeframe. B2G networks also transmit information between firms and state-owned banks, which reduces the problem of asymmetric information in making lending decisions. Besides the financial resources, firms also need other resources and must increase their own capability to better compete in the market. Although relying on *guanxi* to access resources may lead to *guanxi*-based corruption, it is the channel widely adopted by private entrepreneurs as general channels in acquiring resources.

¹⁴⁴ A female entrepreneur who owned a manufacturing firm in Shenzhen. The age of her firm was 6 years. This entrepreneur was a member in a business chamber.

¹⁴⁵ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

¹⁴⁶ A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

The next section explores how B2G networks help private firms to develop and acquire new technology.

5.4.2 Business to Government Networks in Acquiring New Technology

Table 5.5 presents the logistic regression results that examine the determinants of the perceptions of entrepreneurs about the role of B2G networks in acquiring new technology. Model χ^2 denotes that both models are significant at $p < 0.05$ or better. In both models, distant government connections are significant at $p < 0.1$. The odds ratio increases from 1.20 in model 1 to 1.22 in model 2, which indicates that entrepreneurs who use distant government connections frequently are 1.22 times more likely to agree that B2G networks help their firms to acquire new technology. Local government connections are significant at $p < 0.05$ and $p < 0.01$ in models 1 and 2 respectively. The odds ratio is 1.32 in model 1 and this increases to 1.35 in model 2 when controls for firm location and size are included. Entrepreneurs who connect to local government officials frequently are more likely to agree that B2G networks help their firms to access new technology. The higher odds ratio for local government connections means that they have a stronger effect on the perceptions of entrepreneurs compared to distant government connections. For the control variables, neither location nor size has a significant effect on the model. The size and locations of the firms do not have any significant effect on how their owners perceive the role of B2G networks in terms of acquiring new technology.

The regression results reveal the positive role of government connections in helping private firms to develop and acquire new technology. In the discussion of developing and acquiring new technology, there are two different interpretations. The first one means that a company develops new technology by itself, which refers to research and development (R&D). The second meaning is acquiring a new technology already developed by other firms. In the interviews, entrepreneurs expressed their views of the role of social networks in both R&D and acquiring existing technology.

Table 5.5: Logistic Regression Examining the Determinants of Private Entrepreneurs' Perception of B2G Networks to Acquire New Technology

	Model 1	Model 2
	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Distant Government Connections	0.19 (1.20)*	0.20 (1.22)*
Local Government Connections	0.28 (1.32)**	0.30 (1.35)***
<i>Location^b</i>		
Pearl River Delta Cities		-0.10 (0.91)
Peripheral Cities		0.22 (1.25)
<i>Firm characteristics</i>		
Size		-0.09 (0.92)
Constant	-0.69 (0.50)***	-0.34 (0.71)
Model χ^2	9.87***	13.34**
Cox & Snell R ²	0.02	0.03

n=405

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

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

For R&D, existing research highlights that private firms in developing countries experienced different institutional barriers when attempting to increase their innovation capability (Zhu et al., 2012). These institutional barriers include a lack of access to finance, a lack of support from research institutions, unfair competition between private firms and SOEs, and so on. Some scholars who conduct empirical research in China indicate that political connections will decrease the willingness of firm to invest in R&D, since there are more other opportunities rather than rely on R&D activities (Chen, Tian, Ellinger, & Daugherty, 2010). In the interviews, many entrepreneurs mentioned that the lack of funding was one of the main reasons why many private firms in China do not invest in R&D (Interviews 30¹⁴⁷, 39¹⁴⁸, 51¹⁴⁹). Private firms are unable to carry the burden of investment in R&D without

¹⁴⁷ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

¹⁴⁸ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

¹⁴⁹ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

external financial support. These barriers force private firms to rely on B2G networks to overcome their disadvantage in the technology development. As examined in the previous section, B2G networks help private firms to access financial resources in general. In addition to that, the Chinese government encourages firms to develop technology innovation schemes by providing financial support through subsidies and bank loans (Fan, 2003). However, entrepreneurs reported that it was difficult to acquire these subsidies and loans without good government connections (Interviews 29¹⁵⁰, 32¹⁵¹). This finding is consistent with existing research on the role of political ties in helping small and medium-sized enterprises to access government assistance (Wei et al., 2011). Entrepreneurs who have frequent connections with government officials have more opportunities to access information about subsidies and funding in advance, which allows them to increase the probability of obtaining funding to develop new technology.

Although B2G networks help private firms access government assistance, entrepreneurs considered that R&D is primarily based on the capability of the focal firm. The role of government support in R&D is subsidiary. As one entrepreneur said:

The ability for technology development is mostly based on the capability of the firm and the talents within the firm. Government support and subsidies only have a minor role in affecting the development of new technology. (Interview 32¹⁵²)

However, besides the government subsidies and financial support, some interviewees mentioned another reason why private firms do not invest in R&D without good government connections:

¹⁵⁰ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a CCP member and a member in a business chamber.

¹⁵¹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 7 years. This entrepreneur was a representative of local PPCC and a member of a business chamber.

¹⁵² *Ibid.*

In China, government connections not only affect whether the firm can receive funding for R&D, but also affect whether the new technology developed by the firm can be applied in production. For many industries, firms need to seek approval or pass certain tests before they can use the new technology in daily production. And obviously, the power of examination and approval is in the hands of the government. (Interview 51¹⁵³)

This entrepreneur emphasized the role of the government in approving for the utilization of new technology developed by the focal firm. Many interviewees explained that they worried that huge investments in developing a new technology might not create any competitive advantage, since it is possible that the technology might not be used in production (Interviews 39¹⁵⁴, 45¹⁵⁵, 51¹⁵⁶). In some industries, such as construction and pharmacy, before the new technology can be applied or the new products can be sold, they need to be tested by the regulatory departments. This is a complicated and time-consuming process. With close connections with officials in related government agencies, firms can reduce the time for the whole process and increase the probability of passing the test (Interview 50¹⁵⁷). B2G networks help private firms to overcome the barrier of unclear and confusing regulations in the application of new technology.

In addition to the administrative power of the government, a lack of property rights protections also lowered the willingness of entrepreneurs to invest in projects they thought have a high risk of suffering loss (Batjargal,

¹⁵³ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

¹⁵⁴ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

¹⁵⁵ A female entrepreneur who owned a firm in the primary industry in a peripheral city. The age of her firm was 19 years. This entrepreneur was a CCP member, and a representative in local PC.

¹⁵⁶ A male entrepreneur who owned a wholesale and retail firm in Guangzhou. The age of his firm was 21 years. This entrepreneur was a member of a business chamber.

¹⁵⁷ A male entrepreneur who was the chief executive officer of a manufacturing firm in a Pearl River Delta city. The age of this company was 4 years. This entrepreneur was a CCP member, and a member of a business chamber.

2007). This affects the spending of firms in innovation (Tonoyan, Strohmeyer, Habib, & Perlitz, 2010; Zhu et al., 2012). The interviewees also mentioned that a lack of intellectual property rights protection in China makes it difficult for firms to protect their sole right to use the new technology (Interviews 29¹⁵⁸, 39¹⁵⁹). When other companies copy the new technology without permission, the focal company may not even win the lawsuit as the developer of the technology without good government connections. All of these concerns are not only about the process of R&D but also about the role of the government in the utilization and protection of new technology. Little research has examined this topic and how B2G networks help private firms to overcome this obstacle to protect their intellectual property rights. However, the important role of the government in the development and application of new technology encourages entrepreneurs to cultivate and maintain good government connections during the whole process of R&D. This not only requires connections with the local government, but also connections with distant government agencies to access information about subsidies and support from different levels of government to ensure their new products or technologies pass tests or government approval.

In addition to R&D, government connections also help private firms to acquire new technologies developed by other firms. Many Chinese private firms are small and medium-sized enterprises. They do not have the capability to develop new technology. Access to information about new technologies and developments in their industries is important as this enables firms to compete more effectively in the market. B2G networks can help them to access this information. As an entrepreneur explained:

The local government agencies arrange some trips to different industrial exhibitions all over the world each year under the direction of the provincial government. That is a very important channel to get information about new technology, especially for firms in some

¹⁵⁸ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a CCP member and a member in a business chamber.

¹⁵⁹ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

smaller cities where there are few opportunities to cooperate with big firms and get information about new technology...but information about these kinds of trips is sometimes not open to the public. If you have better connections with government leaders, you will have more opportunities to obtain this information and register in advance. (Interview 49¹⁶⁰)

This quotation shows that B2G networks assist private firms in accessing more information about new technology more easily. Another entrepreneur mentioned that if a new technology is developed jointly by private firms and SOEs, it is much easier to access the accurate information about this new technology through state-owned partners (Interview 41¹⁶¹). Private firms always have more strict supervision over the technology they have developed and are less likely to disclose information to external parties. However, their state-owned partners care less about this aspect.

Summing up, B2G networks help private firms to access information about new technology, and increase the probability of private firms gaining government support in R&D and the application of innovations. Although existing literature point out political connections may reduce willingness of private firms to invest in R&D activities, the result of this study support that B2G networks have positive effect on firms' capability to acquire new technology. B2G networks also enable private firms to reduce the cost of accessing financial resources. Although the institutional environment has developed during the past three decades, the Chinese government still maintains power over the allocation of strategic resources. This means that Chinese private entrepreneurs rely on government connections to access resources and increase their competitiveness in the market.

¹⁶⁰ A male entrepreneur who owned a manufacturing firm in Shenzhen. The age of his firm was 12 years. This entrepreneur was a member in a business chamber.

¹⁶¹ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

5.5 CONCLUSION

This chapter has discussed the role of B2G networks in helping private firms to maintain a stable business environment and access strategic resources. Entrepreneurs have emphasized the importance of the local government connections in their business strategies. Good connections with local government officials help private firms to predict policy changes and receive more preferential treatment in policy implementation. They also help private firms to secure long-term investment and avoid government intervention. Private entrepreneurs use government connections as the most important channel to overcome administrative obstacles. In accessing financial resources and new technology, government connections provide essential information, help firms to gain loan approvals more quickly, and ensure the application of innovations. B2G networks are important in reducing the risks of external uncertainty and accessing resources that are controlled by the government. Box 5.3 shows a real case about how entrepreneurs utilize *guanxi* to achieve business goal. *Guanxi* is persistent in Chinese market and is regarded as the rule to do business. Although *guanxi* practices potentially leads to more corruption, entrepreneurs perceived that they cannot avoid using it. Simultaneously, entrepreneurs suggested that B2G networks are no longer of over-riding importance for their companies. Such ties cannot guarantee the success of a firm, although people cannot bypass it. In the wake of the anti-corruption campaign that led by President Xi Jinping,, entrepreneurs become more cautious in use of *guanxi* to avoid involvement in corruption activities. With the continuing development of the market mechanism, B2G networks will still retain their function but more and more private entrepreneurs have become aware of the importance of market-oriented B2B networks. Simultaneously, private entrepreneurs participate in political roles directly to enjoy more favours and increase the acceptance of their firms by both the government and their business partners. The next chapter will explore the political participation of private entrepreneurs.

Box 5.3 What Makes *Guanxi* Work?

The following case summarizes a story shared by an interviewee regarding the experience of the firm owned by his friend. The quotation at the end outlines the comments about this story from the interviewee:

A construction project was developed by a private firm A at the beginning of the 1990s. The company purchased a piece of land in the old town and planned to construct a 28 floor commercial building. The owner of company A had already reached an oral agreement with the local government leaders about the design of the building. However, company A failed to provide the government with a benefit they had agreed to pay. As a result, the final approval cut the design of the building to 13 floors on the grounds of a policy change.

For a real estate project, the biggest cost is the price of land. If the company can construct more floors, it can generate higher profits. The decision made by the government to reduce the number of floors lowered the profit from the project significantly. The outcome was that company A did not invest extra money in the project. The construction of the building was not finished.

In 2012, this project was taken over by another private firm B. Company B planned to revert to the original 28 floor design. The owner of company B had very good *guanxi* with central and local government leaders. His company made up a reason that the population density had changed quite a lot during the past decade. It is common that many new buildings in the city now have 20 to 30 floors with a limited number of them having less than 20 floors. In addition, the owner of company B also indicated that it is necessary to initiate new projects in the old town to stimulate local economic development. After company B reported these reasons to the regulatory departments, plus the function of *guanxi*, Company B successfully persuaded the government to approve the original 28 floor design.

This is a typical case that reflects the role of *guanxi* in China today.... in this case, why did company B not submit a new design containing 38 floors? This would have enabled the firm to generate higher profits. The underlying reason is that reapproving the original design submitted by company A was more reasonable for the government officials, making things easier and reducing the risk taken on by both parties (government and the company). For companies in China today, even if they have very good *guanxi*, they still need to have good reasons to use that *guanxi*. Otherwise, you are putting yourself and others at risk.

Interview 11¹

Note:

1 A male entrepreneur who was the vice manager of a finance firm in a Pearl River Delta city. The age of the firm was 20 year.

CHAPTER 6 THE POLITICAL PARTICIPATION OF PRIVATE ENTREPRENEURS

In talking about political participation, membership in the PC is the most useful one, followed by the PPCC. CCP membership is also a little helpful, but not much. The most important function of these identities (*shenfen*, 身份) is establishing *guanxi* with the government and creating personal networks. Without these identities, it is difficult to even meet government officials. But people with these identities often meet government officials in different meetings and have more opportunities to communicate with them. It is much easier for these people (who participate in different political roles) to establish *guanxi* with government officials. This is also helpful in increasing the reputation of the company. The general public and customers consider that companies which are owned by people with these identities have better reputations, since they regard such people as members of the elite. (Interview 21¹⁶²)

6.1 INTRODUCTION

Social networks are important in helping Chinese private firms to access resources and reduce uncertainty (Batjargal & Mannie, 2004; Clegg, Wang, & Berrell, 2007a; Gold et al., 2002; Luo, 2007; Tsang, 1998). Connections with certain key persons are important for private firms when navigating the chaotic environment in China (Guthrie, 2002; Ma et al., 2012; Wank, 2002). Chapter 4 and 5 have discussed the ways in which private entrepreneurs use B2B and B2G networks to navigate the business environment and compete in the market. Besides personal connections however, private entrepreneurs also seek to maintain more formal connections with the state. The political participation of Chinese private entrepreneurs is one strategy for building business-state alliances. Through political participation, private entrepreneurs not only aim to increase their competitive advantage through resource acquisition (Chen & Touve, 2011; Chen et al., 2008; Li et al., 2008), but also aim to establish legitimacy for their firms and for their business practices. This chapter examines how the private entrepreneurs perceive the roles of different types of

¹⁶² A male entrepreneur who owned a wholesale and retail firm in a Pearl River Delta city. The age of this firm was 14 years.

political participations in increasing legitimacy. The chapter also investigates whether the entrepreneurs who have government backgrounds and/or close government connections have different perceptions about political participation and legitimacy compared with others.

In the study of corporations, legitimacy refers to the right of an organization to exist and operate in a certain institutional environment (Scott & Meyer, 1983), and whether other observers accept the existence and behaviour of the focal firm as appropriate (Ahlstrom & Bruton, 2001; Ahlstrom, Bruton, & Yeh, 2008; Aldrich & Fiol, 1994; Suchman, 1995). In terms of legitimacy, firms are regarded as “responsible”, “well behaving”, “reliable” and “trustworthy” (Ma et al., 2012; Nee & Opper, 2012). This helps firms to attract resources and support from other market participants (Tian & Gao, 2006). However, legitimacy is not an attribute of the firm; it is offered by other stakeholders in the market (Perrow, 1970). This chapter focuses on two dimensions of legitimacy that are bestowed by different actors. They are regulatory legitimacy, which refers to the acceptance of the firm by state organizations, and business legitimacy, which is the perception of the legitimacy of the firm shared by commercial partners.

The remainder of this chapter is organized into four sections. The next section discusses the general results regarding the perceptions of entrepreneurs of political participation in increasing legitimacy. Section three shows the logistic regression models that examine the effect of having a former government background and government connections. The regression models aim to investigate the influence of having a former government background and close government connections on how entrepreneurs perceive the role of political participation in terms of increasing legitimacy compared to entrepreneurs without former government backgrounds or government connections. Section four discusses the regression results related to regulatory legitimacy and business legitimacy respectively. Finally, the last section summarises this chapter.

6.2 POLITICAL PARTICIPATION AND LEGITIMACY

6.2.1 Dimensions of Legitimacy and Types of Political Participation

Firms are involved in different transactions with business partners and need to fulfil their social responsibility as required by other stakeholders. The acceptance of the focal firm by their business partners and stakeholders in the external environment affects the performance of the focal firm. Therefore, firms need to establish legitimacy to seek recognition in the external environment. This section describes how regulatory legitimacy and business legitimacy are defined and measured. It also reports the general results of the perceptions of entrepreneurs regarding regulatory legitimacy and business legitimacy. It begins with a brief discussion about the importance of establishing regulatory legitimacy and business legitimacy for private firms in China.

6.2.1.1 Regulatory legitimacy and business legitimacy

From the RBV, legitimacy is a form of capital or asset that can be acquired by the firm. Firms can compete for legitimacy for the activities they will perform and confer legitimacy to activities performed by others (Dowling & Pfeffer, 1975). In a transition country like China, since the government retains significant power to intervene in market activity, a firm not only needs to compete for legitimacy conferred by other commercial partners but also for recognition by regulatory agencies to survive and better compete in the market (Feng & Wang, 2010; Nee & Opper, 2012). Regulatory agencies have the authority to issue and enforce regulations, laws and policies. They have the power to shape what is perceived as legitimate in the society (Dowling & Pfeffer, 1975; Scott, 2014). In China, although most goods and services are now distributed through the market, the party-state still controls some important assets, such as land, and influences the administrative procedures or court judgments that affect businesses. Chinese private entrepreneurs are strongly motivated to maintain frequent connections with government officials to show their commitment to the party-state. This helps them to avoid expropriation of their property and access resources, which is discussed in Chapter 5 and which revealed the functions of B2G networks in acquiring

resources controlled by the state and maintaining a stable business environment. In addition to cultivating personal connections with specific persons in other firms and regulatory agencies, entrepreneurs seek acceptance from these stakeholders in order to extend their personal connections. An increase in legitimacy helps to achieve this outcome.

Dowling and Pfeffer (1975) suggested that there are three channels for firms to establish legitimacy. The first channel is adopting operation methods which are considered as legitimate, for example the 'red hat' strategy adopted by Chinese private firms to mimic the structures and behaviours of state-affiliated firms in the 1980s and 1990s (Chen, 2007). The Chinese party-state directs the development of the institutional environment, setting the laws and policies by which the entrepreneurs must abide and influencing the implementation of policies and laws (Dickson, 2008, 2010). The power of the government motivates private entrepreneurs to establish close relationships with the party-state in order to enjoy the preferential status reserved for state-connected firms (Chen & Touve, 2011; Li et al., 2008). This can be seen as both a coercive isomorphism, whereby firms need to comply with legal and policy requirements and fulfil social expectations, and also mimetic isomorphism, where by firms mimic the structures and behaviours of existing successful examples in the face of uncertainty (DiMaggio & Powell, 1991). The political connections established by entrepreneurs through political participation partly mimic the relationships between SOEs and the government. This enables private firms to achieve legitimacy.

The second channel in establishing legitimacy is to try to reshape the current definition of legitimacy (Dowling & Pfeffer, 1975), in other words to pursue a normative isomorphic approach (DiMaggio & Powell, 1991). This channel usually requires a long process and collective activities by a group of organizations to redefine the standards of legitimacy accepted by society (Johnson, Dowd, & Ridgeway, 2006). It is a difficult and time-consuming process. The Chinese private firm, which was an illegal form of corporation for most years from soon after the founding of the new China until 1980s, endured a long process to obtain the legal status to exist and operate in the market (Nee

& Opper, 2012). This process partly reveals how the definition of legitimacy can be changed in the institutional environment. The third channel is for a firm to attach itself to institutions that are strongly supported by society in order to become legitimate. Political participation is a way for Chinese private entrepreneurs to ally themselves to institutions, for example either the ruling party or political organs, in order to establish legitimacy and gain acceptance from regulatory agencies and commercial partners.

6.2.1.2 CCP membership versus PC and PPCC membership

Becoming a CCP member and serving as a delegate in the PC and PPCC are the most popular political roles for Chinese private entrepreneurs. The CCP is the ruling party in China. As a CCP member entrepreneurs are able to extend their political networks. In the past decade, more and more entrepreneurs have joined the CCP. The percentage of private entrepreneurs with CCP membership increased from 13 percent in the early 1990s to 38 percent in 2007 (Dickson, 2010). Some of these private entrepreneurs even obtained high positions within the party's congresses. Dickson (2008) suggests dividing private entrepreneurs who are CCP members into two groups. The first group is the *xiahai* (下海) entrepreneurs, who were government officials, SOE managers or CCP member before going into private business (Braendle, Gasser, & Noll, 2005; Wang et al., 2011). For the *xiahai* entrepreneurs, CCP membership might have come from the requirements and career development of their previous jobs. The other group is the co-opted entrepreneurs,¹⁶³ who became CCP members after going into business. These entrepreneurs joined the CCP for profit-oriented reasons (Dickson, 2008). They believe CCP membership will enable their firms to be treated better in the allocation of resources and in policy implementation (Nee & Opper, 2012). For this group, membership reduces uncertainty in the political environment. CCP membership also enables private entrepreneurs to achieve higher positions in other political organizations, such as the PC (Chen & Touve, 2011; Dickson,

¹⁶³ The word “co-opted” reflects the attitudes of the party-state towards the private sector. The party-state recruits private entrepreneurs into the political regime to seek their support on economic development, as well as strengthening their control over the private sector.

2008). This persuades private entrepreneurs to participate in party activity.

Compared to CCP membership, the PC and PPCC are party-state official and bureaucratic organizations. The PC is the mechanism for passing legislation in China from the central National People's Congress (NPC) through to local level PCs. All the representatives in the PCs should be elected by the organizations or districts they come from or all the representatives in the lower level PCs. Many factors affect the probability of a private entrepreneur acquiring PC membership. Entrepreneurs who are older, better educated, managing a larger firm, or who are CCP members are more likely to be elected as delegates to the PC (Chen et al., 2008; Dickson, 2008; Li, Meng, & Zhang, 2006). This implies that the selection process favours entrepreneurs who have more influence and who are more willing to follow the policy of the state. Entrepreneurs with PC membership are generally more successful and regarded as members of the economic elite.

The PPCC is a mass organization that comments on policies or laws issued by the government that have been passed by the NPC or local PC. It also oversees the behaviour of the government and provides comment, but under the supervision of the CCP. The constitution of the PPCC states that the representatives in the PPCC are nominated by the local United Front Work Department, and then the local PPCC committee approves the list. This implies that the representatives in the PPCC are not elected, but selected by the government. Current research shows that the only factor that has a significant effect on the probability of participating in the PPCC is firm size (Dickson, 2008). The larger the firm, the more likely the owner will be selected as a representative in the PPCC. Selection signifies success in business.

Both PC and PPCC memberships enable private entrepreneurs to join the policy making process. Besides the annual PC and PPCC meetings, government officials consult member entrepreneurs about industrial and local economic developmental issues (Dickson, 2008, 2010). This enables an entrepreneur to communicate with officials in different regulatory agencies (Li et al., 2006). While private entrepreneurs thereby win acceptance and establish legitimacy, the party-state also obtains support from these private

entrepreneurs on policy implementation. This interaction facilitates trust between the two sides and validates the behaviours of private firms in the eyes of the regulatory agencies (Ahlstrom et al., 2008). In addition, the PC and PPCC memberships are perceived as more formal and official identities. Member entrepreneurs have the right to comment on the performance of government officials and suggest proposals to the PC or PPCC committees, which reduces the probability of government intervention and rent-seeking activities from local government officials. The participation in the policy making process also communicates the sense that the PC and PPCC members are more reliable and successful people in the market. It persuades other entrepreneurs to pursue similar political roles (Nee & Opper, 2012) and to emulate the behaviours of these successful examples as a means to achieve business legitimacy (Deephouse, 1996). They are less able to achieve this through CCP membership, which does not directly allow private entrepreneurs to influence government policy and industry development.

This chapter distinguishes the political participation of private entrepreneurs into CCP membership, and PC and PPCC memberships. It explores how private entrepreneurs perceive these two types of political participation differently and the determinants of their perception. The current understanding regarding the incentives for private entrepreneurs to participate in different political organizations is extended from the perspective of legitimacy building.

6.2.1.3 Measurement of legitimacy

In this research, regulatory legitimacy and business legitimacy have been measured using multi-dimensional variables. Firms with legitimacy are regarded as trustworthy and reliable (Ma et al., 2012). Their behaviours are assumed to comply with accepted underlying social norms, rules and values in the particular institutional environment (Suchman, 1995). Legitimacy is thus a measure of the perceptions observers in the market have regarding the focal firm. In order to derive a measure of legitimacy based on perceptions, this chapter draws on Terreberry (1968) suggestion of what constitutes legitimacy for firm actors: “The view taken here is that legitimacy is mediated by the

exchange of other resources. Thus the willingness of firm A to contribute capital to X, and of agency B to refer personnel to X, and firm C to buy X's product testifies to the legitimacy of X" (Terreberry, 1968:608). This indicates that legitimacy can be measured by the willingness of firms to exchange resources. Participants in the market are more willing to exchange resources or provide support to firms with greater legitimacy. The owner of the focal firm will also perceive his/her firm as legitimate when he/she receive support from regulatory agencies or trust from commercial partners. For example, many Chinese private firms registered as collective firms in the 1980s and 1990s, which was an important strategy to seek acceptance from the government and the public and to access state-controlled resources (Che, 2002; Che & Qian, 1998). My questionnaire thus has statements on 'government intervention', 'internal information sharing', and 'trust by the government' to measure regulatory legitimacy. When the focal firm receives more trust and internal information from officials and regulatory agencies intervene less, its owner perceives that his/her firm is more accepted by the regulatory agencies and its regulatory legitimacy is greater.

Business legitimacy is a measure of the degree to which the focal firms feel that their commercial partners accept them. Past research suggests long-term cooperation, the use of oral agreements, and respect from competitors are the three measures of inter-organizational trust that could serve to measure business legitimacy (Seppanen et al., 2007). The Chinese business environment is dynamic, laws and policies change frequently, and firms face many external uncertainties. Commercial partners thus perceive that a firm that 'maintains long-term cooperation with its buyers', 'receives materials from its suppliers without a formal contract', and 'is respected by its competitor' is a reliable (business legitimate) and trustworthy participant in the market.

In the questionnaire, I use six statements to measure these two types of legitimacy and whether political participation affects these six dimensions, distinguishing between the influence of CCP membership and PC or PPCC membership. There are 12 statements in total: six measure the effect of CCP membership on legitimacy, and the other six measure the effect of PC or PPCC

membership. This enables a comparison of the different perceptions entrepreneurs have of these two types of political participations. For each statement, I used a 5-point Likert scale to measure the agreement of the respondents. Table 6.1 summarizes the statistics of these statements and two additive indices. Statements 1 to 3 measure the effect of political participation on regulatory legitimacy, and statements 5 to 7 measure business legitimacy. Most of the means are below the midpoint of the 1-5 scale (3), which indicates that generally private entrepreneurs do not believe that political participation can increase legitimacy. About 40 percent of respondents neither agreed nor disagreed with these statements. I followed Chen and Dickson (2008) to create additive indices to measure the overall effect, which separately combine the scores for regulatory legitimacy and business legitimacy. Items 4 and 8 in Table 6.1 report the additive regulatory legitimacy index and business legitimacy index, both of which are 3 to 15 scale variables. In the next step, I have recoded the additive indices into dummy variables with the score higher than the midpoint 9 as 1 for positive responses and scores equal to or lower than 9 as 0 for non-positive responses. These dummy variables of the additive indices are used to investigate entrepreneurs' attitudes toward membership of different political organizations in establishing regulatory legitimacy and business legitimacy; they are also used in the regression models later in this chapter.

Columns 4 and 9 in Table 6.1 show that the positive responses are relatively low in general. For the survey items, the lowest positive response of 8.2 percent for CCP membership is in relation to acquiring a supply of materials without a formal contract. The highest is 29.5 percent for the statement that PC or PPCC membership can increase government trust. The relatively low percentage of positive responses shows that the sample private entrepreneurs do not perceive that political participation is particularly important in helping their firms to establish either forms of legitimacy. Guangdong entrepreneurs in general have a poor view of the value of political ties. This sits uneasily with the findings of others (Ma et al., 2012; Tang & Ward, 2003). But Guangdong entrepreneurs seem to display some differences. A representative national survey found that Guangdong private entrepreneurs

Table 6.1: Distribution of Perceived Function of Political Participation by Private Entrepreneurs

	CCP Membership on Legitimacy					PC or PPCC Membership on Legitimacy				
	Mean (1)	SD (2)	No. (3)	Positive Responses ^c (%) (4)	Negative Responses ^c (%) (5)	Mean (6)	SD (7)	No. (8)	Positive Responses ^c (%) (9)	Negative Responses ^c (%) (10)
Regulatory Legitimacy										
1. political participation enables my company to experience less intervention from the government (1-5) ^a	2.49	0.89	405	9.9	49.1	3.00	0.96	405	28.4	27.7
2. the government officials are more willing to share internal information in advance with my company if I have political role (1-5) ^a	2.64	0.90	405	12.8	44.0	3.04	0.97	405	29.4	25.7
3. political participation enables my company to be more trusted by the government (1-5) ^a	2.68	0.89	404	13.4	39.6	3.07	0.93	404	29.5	22.0
4. Entire regulatory legitimacy index (3-15) ^b	7.82	2.37	404	14.6	53.2	9.11	2.44	404	36.1	28.7
Business Legitimacy										
5. the buyer firms are more willing to have long-term cooperation with my company in advance if I have political role (1-5) ^a	2.54	0.88	404	10.1	47.0	2.82	0.92	404	19.8	33.9
6. the supplier firms are more willing to supply materials for my company without formal contract if I have political role (1-5) ^a	2.44	0.89	404	8.2	53.5	2.60	0.91	404	13.1	45.0
7. I will pay more respect to my competitor if the owner of the company has political role (1-5) ^a	2.63	0.89	404	12.1	41.6	2.81	0.91	404	18.3	32.4
8. Entire Business legitimacy index (3-15) ^b	7.62	2.38	404	10.6	53.7	8.23	2.37	404	19.8	43.3

Notes:

^a Respondents were asked to access each of these six statements on a 5-points scale, from 1 (strongly disagree) to 5 (strongly agree).

^b The three statements belonged to each category were combined to form additive indices to evaluate respondents perception on regulatory legitimacy and public legitimacy.

^c The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statement. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statements.

had the lowest support for the current political regime and the lowest attachment to the state (Chen & Dickson, 2008). This was attributed to Guangdong being one of the earliest provinces opened to foreign investment. Guangdong entrepreneurs in the past and during the reform period were more closely connected to Hong Kong and overseas Chinese than their counterparts in other provinces (Lin & Lin, 1997). Accordingly, they were more distant from the state and less collectivistic (Eberhard, 1965). These factors combine to make Guangdong private entrepreneurs less eager to seek support from the state or value political participation highly. Nee and Opper (2012) also argued that local government's commitment to a competitive market reduces the value of political ties. When market mechanism continuously improve, the success of a firm is less linked to the involvement of party-state officials and more linked to interfirm networks and cooperation (Nee & Opper, 2012). As the province firstly opened to foreign capital and closely link to global market, Guangdong private entrepreneurs view political ties as less important in their business, compared to their counterpart in other provinces.

If comparing all the data in columns 4 and 9 in Table 6.1, the PC and PPCC memberships are perceived more positively than CCP membership for all the survey items and the two additive indices. The largest difference is the index for regulatory legitimacy, which is item 4 in Table 6.1. The probability to receive a positive response for PC and PPCC memberships is 2.5 times higher than CCP membership. The greater importance of memberships in the PC and PPCC than the CCP has previously been observed (Dickson, 2008). Although CCP membership demonstrates private entrepreneurs follow the existing rules and behaviours accepted by the leading party, the PC and PPCC memberships provide more opportunities for private entrepreneurs to network with decision makers and engage in policy making. In interviewees, the majority of the interviewees considered CCP membership is useless. CCP membership does not enable entrepreneurs to be involved in or influence policy making. Dickson (2008) points out that one major incentive for entrepreneurs to join CCP membership is showing that they are “within the system”. However, entrepreneurs in south China are less likely to be involved in political ties that lead to corruption due to the lower level of collectivism

(Dong & Torgler, 2013). Guangdong entrepreneurs are more pragmatic and market oriented (Li & Fung Research Centre, 2011). These all lead to higher value on PC and PPCC memberships compared to CCP membership, since PC and PPCC memberships bring political power that may benefit their firms. CCP membership only shows entrepreneurs are within the system, but did not bring any “actual benefit” (Interview 2¹⁶⁴, 12¹⁶⁵, 43¹⁶⁶, 44¹⁶⁷). Some interviewees even pointed out that CCP membership may create a negative impression. They reported that the general public might consider entrepreneurs who join CCP are corrupted, since they are within the system and support the party to gain benefit (Interview 4¹⁶⁸, 41¹⁶⁹). The general perception is that the PC and PPCC membership is better than CCP membership. Some interviewees admit that entrepreneurs who join the PC or PPCC contribute to industrial development (Interview 2¹⁷⁰, 17¹⁷¹, 18¹⁷², 22¹⁷³, 39¹⁷⁴). Entrepreneurs perceive

¹⁶⁴ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 34 years. This entrepreneur used to be a representative in local PC. He was a member in local business chamber.

¹⁶⁵ A male entrepreneur who owned a firm in the hotel and catering service industry in Guangzhou. This age of his firm was 19 years.

¹⁶⁶ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

¹⁶⁷ A male entrepreneur who owned a real estate firm in a peripheral city. The age of his firm was 12 years. This entrepreneur was a representative in local PPCC, and the chairman of a business chamber.

¹⁶⁸ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 3 years. This entrepreneur was a CCP member.

¹⁶⁹ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

¹⁷⁰ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of the firm was 34 years. This entrepreneur used to be a representative in local PC. He was a member in local business chamber.

¹⁷¹ A male entrepreneur who owned a manufacturing firm in Guangzhou, and was chairman of a business chamber, and the vice-chairman of local Federation of Industry and Commerce, and a representative in local PC and provincial PPCC. The age of the firm was 17 years.

this recognition as important in establishing their firms' recognition among both the regulatory authorities and commercial partners. In the following sections, the perceptions of entrepreneurs regarding regulatory legitimacy and business legitimacy will be discussed.

6.2.2 The Perception of Entrepreneurs about Regulatory Legitimacy

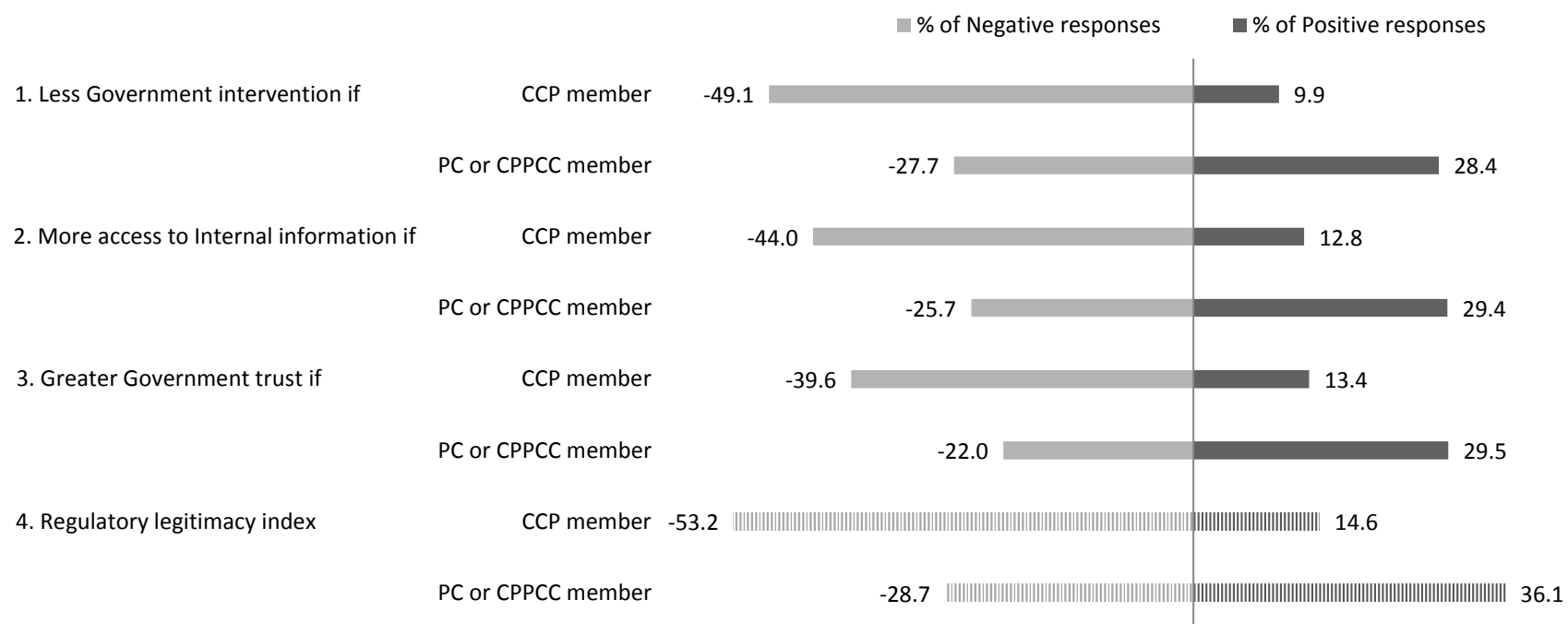
Figure 6.1 summarizes the positive and negative views of political participation for the legitimacy of private firms reported in Table 6.1, highlighting the clear differences between CCP membership and PC or PPCC membership. The results show that entrepreneurs are at least three times more likely to hold a negative view of the value of CCP membership in terms of increasing regulatory legitimacy than a positive view. In general, private entrepreneurs did not perceive that CCP membership reduces government intervention, increases access to government information or enhances government trust, which are the measures of regulatory legitimacy. However, the roles of PC and PPCC memberships in establishing regulatory legitimacy were viewed more positively than CCP membership. Overall, the participants had a slightly more positive view of the value of PC and PPCC memberships for regulatory legitimacy. The regulatory legitimacy index shows a clearer case. More entrepreneurs have a negative attitude toward CCP membership. This is the opposite of the PC and PPCC memberships, which receive more agreement for their roles in increasing regulatory legitimacy.

¹⁷² A female entrepreneur who owned a manufacturing firm in Guangzhou. The age of her firm was 7 years. This entrepreneur was a CCP member, and a vice-chairman of a business chamber.

¹⁷³ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

¹⁷⁴ A male entrepreneur who was the vice manager of a manufacturing firm in a Pearl River Delta city. The age of this firm was 8 years. This entrepreneur was a CCP member.

Figure 6.1: Distribution of Attitudes towards Political Participation in Increasing Regulatory Legitimacy



Note: The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statement. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statement.
Source: Table 6.1

In the interviews, many entrepreneurs stated that “CCP membership is not important” or “CCP membership is meaningless”. Some entrepreneurs explained that there are too many CCP members in China today (Interviews 4¹⁷⁵, 12¹⁷⁶, 15¹⁷⁷, 42¹⁷⁸, 43¹⁷⁹). Government officials are consequently not aware who is a CCP member and who is not. In general, entrepreneurs did not consider that CCP membership was crucial to their success, but several entrepreneurs also said it was still more beneficial to have CCP membership than to be without any political attachment (Interviews 22¹⁸⁰, 33¹⁸¹, 38¹⁸²). One entrepreneur stated:

Although CCP membership does not provide important support to the firm’s operation, it is influential in deciding whether an entrepreneur can be selected as a delegate to the PC. It is more difficult to become a delegate to the PC than the PPCC. People who are selected as PC delegates should have some political power or political consciousness (*zhengzhi juewu*, 政治觉悟). Becoming a CCP member shows the entrepreneur complies with the values of the Communist Party. It is a channel for private entrepreneurs to access PC membership. Once entrepreneurs become a delegate in the PC or PPCC, they can win

¹⁷⁵ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 3 years. This entrepreneur was a CCP member.

¹⁷⁶ A male entrepreneur who owned a firm in the hotel and catering service industry in Guangzhou. This age of his firm was 19 years.

¹⁷⁷ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 16 years.

¹⁷⁸ A male entrepreneur who owned a manufacturing firm in a Peripheral city. The age of his firm was 13 years.

¹⁷⁹ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

¹⁸⁰ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

¹⁸¹ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 21 years.

¹⁸² A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of this firm was 8 years.

more trust from the government. This is helpful for the firm to acquire preferential treatment. It is also possible to help the firm to obtain favourable interest rates in bank loans. (Interview 16¹⁸³)

The explanation of this entrepreneur shows CCP membership is important, primarily for accessing other political positions. Several interviewees also reported that CCP membership is “critical” or “influential” in acquiring PC membership (Interviews 22¹⁸⁴, 26¹⁸⁵, 41¹⁸⁶). Through participation in the PC or the PPCC, entrepreneurs perceive that they become legitimized and are treated more preferentially by the government and state-connected organizations, such as state-owned banks. Another entrepreneur who is a PC delegate added:

Having this identity (*shenfen*, 身份) [of a PC delegate], the benefit for my company is that government officials are more willing to provide support and help my company to solve problems. After all, I am the person in the PC. (Interview 25¹⁸⁷)

This entrepreneur was proud of his position in the PC and believed that this was why his company enjoyed more government benefits. In summary, PC and PPCC memberships enable private firms to experience less government intervention, to access more internal information, and to be more trusted by the government. Regulatory agencies accept them as reliable actors and act

¹⁸³ A male entrepreneur who owned a firm in manufacturing industry in Guangzhou, and was vice-chairman of a business chamber. The age of his firm was 24 years.

¹⁸⁴ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

¹⁸⁵ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of this firm was 13 years. This entrepreneur was a member of a business chamber.

¹⁸⁶ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

¹⁸⁷ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta City. The age of his firm was 11 years. This entrepreneur was a CCP member. He was also a member of standing committee in local PPCC, a representative in local PC, and vice-chairman of a business chamber.

appropriately. Entrepreneurs perceive that their participation in the PC and the PPCC confers regulatory legitimacy to their firms.

6.2.3 The Perceptions of Entrepreneurs regarding Business Legitimacy

Figure 6.2 summarizes the positive and negative views on business legitimacy in Table 6.1. The value of both forms of political participation however was viewed even more negatively in terms of increasing business legitimacy. Although PC and PPCC membership was still viewed more favourably for business legitimacy than CCP membership, there was an overwhelmingly negative response to all the statements measuring business legitimacy. Private entrepreneurs do not believe that political participation can increase the business legitimacy of their firms. When some entrepreneurs were asked to explain their perceptions about other entrepreneurs who participate in political roles, some of them mentioned that these “identities” (*shenfen*, 身份) were not necessarily good for entrepreneurs. In their view, the general public in China today hold negative attitudes toward rich people and the belief is that those entrepreneurs who actively participate in politics only want to build better *guanxi* with government departments to enrich themselves (Interviews 4¹⁸⁸, 41¹⁸⁹). Another entrepreneur stated that:

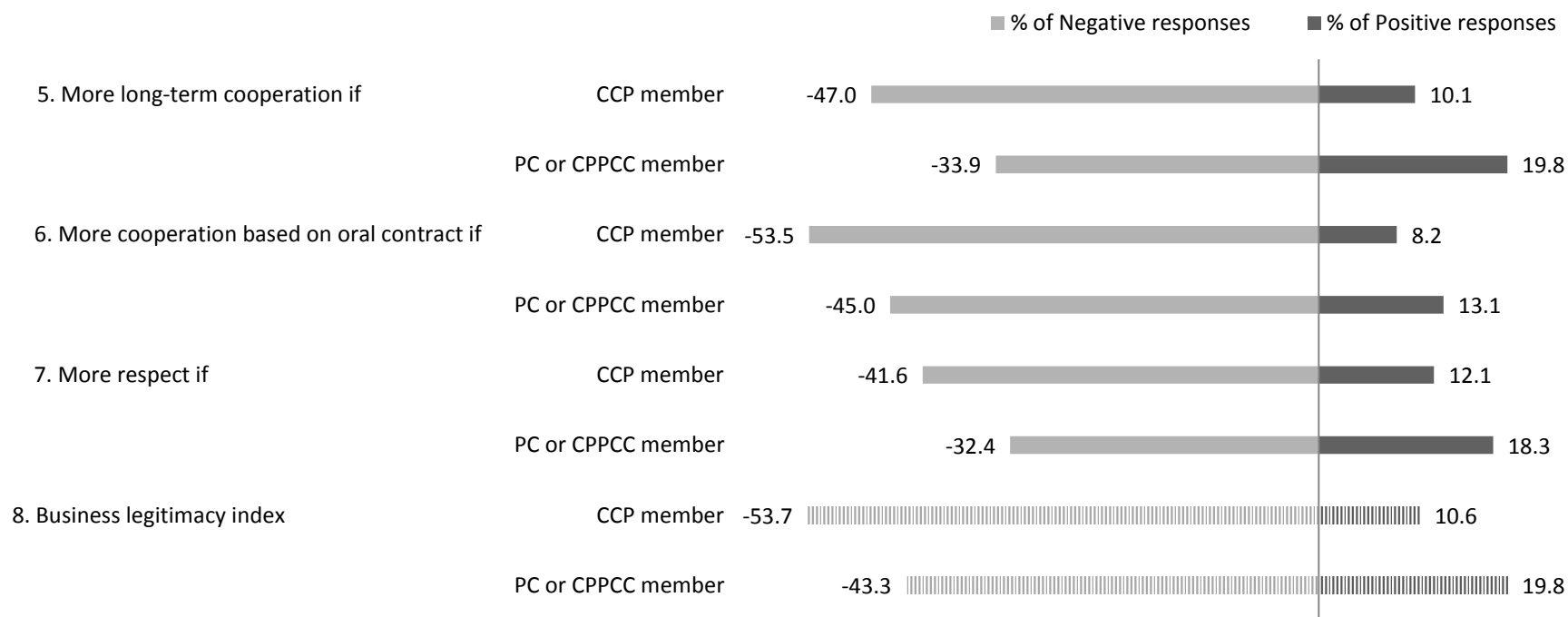
The general public regards those entrepreneurs with PC or PPCC membership as scheming (*you xinji*, 有心计). They join these organizations with a deliberate purpose. Becoming members of the PC and PPCC enables entrepreneurs to maintain closer relationships with the government, so they can access resources more easily. This obviously makes other entrepreneurs feel there is unfair competition. So business partners may have bad impression about these people (who sit in the PC or PPCC). (Interview 8¹⁹⁰)

¹⁸⁸ A male entrepreneur who owned a firm in the wholesale and retail industry in Guangzhou. The age of the firm was 3 years. This entrepreneur was a CCP member.

¹⁸⁹ A male entrepreneur who owned a manufacturing firm in a peripheral city. The age of his firm was 12 years.

¹⁹⁰ A male entrepreneur who owned a firm in the advertising and media industry in Guangzhou. The age of his firm was 17 years.

Figure 6.2: Distribution of Attitudes towards Political Participation in Increasing Business Legitimacy



Note: The percentage of positive responses is the combination of the percentages of those who "agree" and "strongly agree" with the questionnaire statement. The percentage of negative responses is the combination of the percentages of those who "disagree" and "strongly disagree" with the questionnaire statement.

Source: Table 6.1

This entrepreneur had a negative attitude towards people who participate in politics. He emphasized that when he chooses his suppliers and customers he will not consider the political identity of their owners. In Figure 6.2, the responses to all three statements measuring business legitimacy show that political participation is often seen to deliver little benefit in business dealing. Participation did not increase long-term cooperation or respect from competitors. The highly negative response to cooperation based on oral contracts suggests political participation does little to enhance trust among business partners.

However, some entrepreneurs held the opposite opinions on political participation and business legitimacy. They believe that political participation, especially memberships in the PC and PPCC, can increase business legitimacy. As one entrepreneur explained:

Becoming a member in the PPCC is a form of improvement of one's personal identity and status (*diwei*, 地位). Other people will perceive that you have a better reputation. They will not worry that you will disappear suddenly. Having these identities, people need to keep connected (with the attached political organizations). (Interview 10¹⁹¹)

Drawing on the insights of Dowling and Pfeffer (1975), it could be concluded that attachment to these institutions, which are perceived by the Chinese public as legitimate, is an important channel for some firms in seeking legitimacy. For Chinese private entrepreneurs, the PC and the PPCC are institutions that are highly recognized by the public as influencing state policies. This ensures a higher status for the members who become attached to these organizations. Data in Figure 6.2 also shows that memberships of the PC and PPCC were viewed less negatively than CCP membership.

In this section, I have discussed the overall perceptions of entrepreneurs regarding the value of political participation for legitimacy. The next two sections will examine the effect of political connections and government

¹⁹¹ A male entrepreneur who owned a firm in the architecture structure design industry. The firm was in Guangzhou. The age of the firm was 9 years.

backgrounds on the attitudes of entrepreneurs towards political participation in terms of increasing legitimacy.

6.3 LOGISTIC REGRESSION MODELS AND VARIABLES MEASUREMENT

This section explains the estimation strategy, the main predictors and the control variables used in the regression model. It begins with an interpretation of how to measure the two main predictors, which are government background and government connection.

6.3.1 Measurement of the Two Main Predictors

Government background is a measure of past or present involvement in government or state agencies. The existing studies show that the government backgrounds of private entrepreneurs affect the probability of them being selected to participate in different political positions (Chen & Dickson, 2008; Chen & Touve, 2011; Chen et al., 2008; Li et al., 2006). The political embeddedness of the private entrepreneurs also facilitates shared interests between them and the party-state, thus increasing their support for the political regime (Chen & Dickson, 2008; Dickson, 2007). Entrepreneurs who have a higher level of support for the party-state are more likely to consider that participation in political roles enables their firm to be more accepted by regulatory agencies and their business partners. Therefore, it is important to examine whether government backgrounds, including CCP membership, and past working experiences in government agencies and SOEs affect the attitudes of entrepreneurs towards political participation and legitimacy.

To measure the government backgrounds of entrepreneurs, I combine *xiaohai* entrepreneurs with co-opted entrepreneurs. For *xiaohai* entrepreneurs, their working experiences in the regulatory agencies or SOEs allowed them to establish more and closer personal relationships with officials in different government departments before they started their owned business (Li et al., 2008). They have a better understanding of the functions of different regulatory agencies and the political system in China, influencing their

perceptions of political participation. For co-opted entrepreneurs, CCP membership shows their support or closeness to the ruling party and government. Their involvement in the party is expected to affect how they perceive the role of political participation in establishing legitimacy. These entrepreneurs with government backgrounds thus comprise those who are CCP members, former government officials and former SOE managers and are coded into a dummy variable, with 1 for a government background and 0 for none of government background.

The other main predictor in the regression model is government connections. It is a measure of the extent of ties between entrepreneurs and government officials for business purposes. Guthrie (1999) states that people who are already involved in networks are more likely to share similar perceptions of how to do things legitimately and behave in similar ways. For entrepreneurs who frequently utilize government connections in their business, political participation provides more channels and opportunities to expand their personal connections with officials in different regulatory departments. Moreover, political participation reduces the risks of government intervention in business operations. Achieving the same purpose might require extensive personal connections with local government officials, possibly requiring more time and money (Chen et al., 2008). From this perspective, political participation is more valuable for entrepreneurs who use government connections frequently in their business. Consequently, government connections are included as the main predictor in the regression models.

In the survey, government connections are a measure of the frequency of networking activities between private entrepreneurs and officials at different levels of government or state-connected organizations. I discussed the different perceptions of private entrepreneurs about distant government connections and local government connections in Chapter 5. In this chapter, I focus on the different effects of government backgrounds and government connections and how they affect the perceptions of private entrepreneurs regarding political participation and legitimacy. Thus, I combine distant government connections and local government connections to measure whether private entrepreneurs

have connections with state-connected organizations in general. This also reduces the probability of high standard errors generated by empty cells in a logistic regression. Recalling the results of factor analysis in Chapter 3, Section 3.3.2, 10 different types of connections are grouped as distant government connections and local government connections. Table 6.2 summarizes the statements used in the survey instrument to estimate these connections. Using the same approach as above for government background, I have constructed an additive index of government connections using the scores of all 10 statements. This index was recoded into a dummy variable with 1 for frequent use of government connections (index value more than 30), and 0 for in-frequent use (index value equal or below to 30). The frequency of personal relationships with the government is indicative of the extent to which private entrepreneurs seek support from the government, which can be expected to affect their perceptions of political participation.

Table 6.2: Measuring the Frequency of Utilizing Government Connections

	Mean	SD	No.
Connections with managers at SOEs in the same sector (1-5) ^a	2.28	1.09	413
Connections with managers at state-owned banks (1-5) ^a	2.69	1.11	413
Connections with managers at state-owned utility companies (1-5) ^a	2.45	1.10	413
Connections with members in business chambers or associations (1-5) ^a	2.54	1.16	413
Connections with leaders in CENTRAL government (1-5) ^a	1.68	0.96	412
Connections with leaders in PROVINCIAL government (1-5) ^a	1.82	1.03	412
Connections with leaders in LOCAL government (1-5) ^a	2.74	1.24	412
Connections with officials in REGULATORY organizations (1-5) ^a	2.80	1.18	412
Connections with officials in SUPPORTING organizations (1-5) ^a	2.73	1.13	412
Connections with staffs in public-sector organizations (1-5) ^a	2.15	1.04	412
Government connection index (10-50) ^b	11.76	4.35	412

Notes:

^a Respondents were asked to describe the extend they used these connections for business purpose during the past three years: 1 = no relation, 2 = very little, 3 = little, 4 = extensive, 5 = very extensive

^b The 10 items above were combined to form an additive index to measure the frequency the respondents utilized personal government connections for business purpose.

6.3.2 Measurement of Control Variables

In addition to the main predictors, further control variables are included in the regression models. They are the location of the firms, firm size, and the age of

the entrepreneur respondents. I also considered industry when the regression models were firstly constructed, but the regression results indicated that including industry as a variable does not significantly improve the overall model. Therefore I drop industry in the final model. The three control variables will be discussed in this section.

The locations of the firms reflect the regional differences in economic and institutional development. As discussed in Chapters 4 and 5, regional differences affect the perceptions of private entrepreneurs regarding the function of B2B networks and B2G networks in business operations. Many reform policies in China started in developed regions and enabled market forces to develop in these regions earlier and more intensively (Cao, Qian, & Weingast, 1999). This well-developed market mechanism increased the confidence of private firms in accessing resources and reduced the likelihood of government intervention. Private entrepreneurs in these regions might be less enthusiastic about participating in political roles. On the contrary, the society and citizens in developed regions are more influenced by western culture. This might encourage entrepreneurs to participate in political roles to try to improve the industrial environment. In my sample, the most developed cities are Guangzhou and Shenzhen followed by the other Pearl River Delta cities. Compared to the peripheral cities, the developed regions are closer to Hong Kong and Macau, where the citizens are more affected by democratic culture and believe that the middle class is the driving force in the democratization process (Lee, 2002; So & Kwitko, 1990). Entrepreneurs who have more connections with Hong Kong and Macau are more likely to perceive that political participation allows them to change the institutional environment. This might be one incentive for them to participate in political position. I therefore have controlled for the region in the regression model. The three groups of cities were discussed in Section 3.3.1. The two main cities, Guangzhou and Shenzhen, are used as the reference group.

The second control variable is firm size. Past studies show that firm size influences the probability that their owners will be selected by political organizations, such as the PC or PPCC (Dickson, 2008). Owners of larger

firms – and often older firms – have greater credibility for government and party leaders and can be expected to support the implementation of government decisions and policies. Private entrepreneurs are also likely to seek more connections with officials through political participation when their firms become bigger, which enables them to protect their property and expand their business (Ma et al., 2012). However, contrary findings also show that government connections have a more obvious effect on the market and financial performance of small firms (Peng & Luo, 2000). Smaller and younger firms are more active in cultivating government connections to ensure their survival (Park & Luo, 2001). In the regression model, firm size is the natural log of annual sales.

The last control variable is the age of the respondents. The business environment has changed significantly and quickly. Past work experience of entrepreneurs will affect their attitudes towards political participation. Li et al. (2008) concluded that older people and better educated people are more likely to participate in the PC or PPCC. As discussed in Chapter 3, the sample respondents are relatively young and well educated. The Pearson correlation coefficient between the age of respondents and their highest qualification shows that they are negatively correlated at $p < 0.01$: the younger the respondent, the higher the probability that he/she has received a higher degree. Based on the correlation between age and education, only the age effect has been controlled for to avoid multicollinearity. According to the distribution of age groups, the data has been split into two age groups: 39 and under and 40 and above. The former group was recoded as 0 and the latter was recoded as 1. Each group includes approximately half of the respondents.

6.3.3 Estimation Strategy

The objective of this chapter is to examine the factors affecting the attitudes of private entrepreneurs towards political participation in establishing the legitimacy of their firms. Since the dependent variable is a measure of whether responses are positive (1) or non-positive (0) for the impact of different types of political participations on regulatory legitimacy or business legitimacy, I have also used the binary logistic regression model. The logistic regression

equation discussed in Chapter 4 is shown below:

$$\ln [P(Y)/(1-P(Y))] = b_0+b_1X_1+b_2X_2+\dots+b_nX_n$$

In this chapter, Y is the probability that the private entrepreneurs show a positive response for the role of CCP membership, or PC and PPCC memberships in increasing regulatory legitimacy or business legitimacy; GB is whether the private entrepreneur has a government background; and GC is whether the private entrepreneur has frequent government connections. I have used government background and government connections in model 1 as the two main predictors. In model 2, the interaction between government background and government connections GB*GC has been used to examine whether there is any interaction effect, for example when entrepreneurs have both a government background and government connections. In model 3, I have introduced the control variables: LO for firm location, SI for firm size, and AG for age of respondents. I have tried to include industry in model 3. However, the regression result shows that including industry does not make significant contribution to the model. So I remove industry and keep location, firm size and age of respondents as control variables in model 3.

$$\ln [P(Y)/(1-P(Y))] = b_0+b_1GB+b_2GC \quad (\text{model 1})$$

$$\ln [P(Y)/(1-P(Y))] = b_0+b_1GB+b_2GC+ b_3(GB*GC) \quad (\text{model 2})$$

$$\ln [P(Y)/(1-P(Y))] = b_0+b_1GB+b_2GC+b_3(GB*GC)+b_4LO_1 \quad (\text{model 3})$$

$$+b_5LO_2+b_6 SI+b_7 AG$$

6.4 POLITICAL PARTICIPATION IN ESTABLISHING LEGITIMACY

This section combines the regression results and interview data to discuss the perceptions of entrepreneurs regarding CCP membership and PC and PPCC memberships in increasing regulatory legitimacy and business legitimacy, beginning with a discussion of regulatory legitimacy.

6.4.1 Political Participation and Regulatory Legitimacy

Table 6.3 reports the results for the determinants of the perceptions of private entrepreneurs about CCP membership and PC/PPCC memberships in establishing regulatory legitimacy. Model χ^2 shows that all of the models are significant ($p < 0.01$). Overall, models 1a to 3a show that government connections are more important than government backgrounds for regulatory legitimacy with higher odds ratios. In model 1a, government connection are significant ($p < 0.01$) and the odds ratio is 3.39, which means that entrepreneurs who frequently use government connections in business are 3.39 times more likely to agree that CCP membership increases regulatory legitimacy as opposed to those who do not frequently use government connections. A government background does not have any statistically significant effect on how they view the role of CCP membership in establishing regulatory legitimacy and the odds ratio is only 1.32.

Model 2a controls for the interaction between government backgrounds and government connections. The main effect of government background becomes significant ($p < 0.1$) with odds ratio of 1.99. The main effect of government connection is still significant at $p < 0.01$ with odds ratio of 5.72. Both odds ratios are higher than one and are significant. It means that entrepreneurs who have government background or who have frequent connections with government officials are more likely to agree CCP membership increase regulatory legitimacy. The interaction between government backgrounds and government connections is barely significant ($p < 0.1$) and the coefficient is negative (-1.16). As discussed in Section 4.4.1, the interaction term measures the moderating effect of the two main predictors on each other. A negative coefficient indicates that when entrepreneurs establish frequent government connections, the effect of government backgrounds on entrepreneurs' perceptions will decrease. It also indicates that for entrepreneurs with government background, the effect of government connections on the perceptions of entrepreneurs will decrease. Entrepreneurs with government backgrounds who also frequently utilize government connections in business are less likely to agree that CCP membership can increase regulatory

Table 6.3 : Logistic Regression Examining the Determinants of the Perception of Private Entrepreneurs about Political Participation and Regulatory Legitimacy

	CCP Membership on Regulatory Legitimacy			PC or PPCC Membership on Regulatory Legitimacy		
	Model 1a	Model 2a	Model 3a	Model 1b	Model 2b	Model 3b
	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Government Background (GB)	0.28 (1.32)	0.69 (1.99)*	0.83 (2.29)**	0.60 (1.81)***	0.64 (1.89)***	0.55 (1.73)**
Government Connection (GC)	1.22 (3.39)***	1.74 (5.72)***	1.83 (6.23)***	0.72 (2.05)***	0.80 (2.22)**	0.69 (1.99)*
GB* GC		-1.16 (0.31)*	-1.21 (0.30)*		-0.18 (0.83)	-0.05 (0.96)
<i>Location^b</i>						
Pearl River Delta Cities			0.86 (2.37)**			-0.31 (0.73)
Peripheral Cities			0.97 (2.64)*			0.47 (1.60)
<i>Firm characteristics</i>						
Annual Sales			-0.04 (0.96)			-0.06 (0.94)
<i>Age of the respondents^c</i>						
Constant	-2.22 (0.11)***	-2.40 (0.09)***	-2.92 (0.05)***	-0.96 (0.38)***	-0.98 (0.38)***	-0.54 (0.58)
Model χ^2	16.79***	20.43***	26.41***	16.63***	16.76***	24.22***
Cox & Snell R ²	0.04	0.05	0.06	0.04	0.04	0.06

n=404

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

^c Age of respondents is a dummy variable with 1 for 40 and above, and 0 for 39 and under.

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

legitimacy. These results suggest that frequent connections thus substitute or compensate for any past background effects. Model 3a includes the control variables and again an increase in the odds ratios for government backgrounds and government connections is demonstrated. The results for the control variables are discussed below.

The results for PC or PPCC membership are reported in models 1b to 3b in Table 6.3. Both government backgrounds and government connections are significant in model 1b at $p < 0.01$. The odds ratio shows that government connections (odds ratio 2.05) have a stronger effect on how the entrepreneurs value the PC and PPCC memberships in establishing regulatory legitimacy compared to government backgrounds (odds ratio 1.81). Both effects increase in model 2b after controls for interaction, but the interaction is not significant. The introduction of controls variables in model 3b reduced both the odds value and significance, though both government backgrounds and government connections are still significant predictors ($p < 0.05$ and $p < 0.1$ respectively) for whether entrepreneurs agree that PC or PPCC membership is able to increase regulatory legitimacy. In general, entrepreneurs who have government backgrounds or frequent government connections are more likely to agree that PC or PPCC membership increases regulatory legitimacy compared to those have no government backgrounds or use government connections infrequently.

Comparing the predictors affecting the perceptions of entrepreneurs about CCP membership and PC or PPCC memberships in increasing regulatory legitimacy, government background has a stronger effect (the odds ratio) on the view of CCP membership. I suspect that the reason for private entrepreneurs who already have frequent government connections perceiving CCP membership more positively is that acquiring a government background helps private entrepreneurs to attach themselves to the party-state, thus maintaining a closer relationship:

My feeling is that government officials regard entrepreneurs who have CCP membership as being better in quality (*zizhi genghao*, 资质更好). CCP membership is also an indicator that expresses my personal status, and shows my value is consistent (*yizhi*, 一致) with the state.

This makes the government less biased towards my company.
(Interview 31¹⁹²)

This entrepreneur emphasized the ‘consistent values’ between private firms and the state in order to operate in a more stable environment. As mentioned in both Chapters 4 and 5, one important reason why private entrepreneurs cultivate social networks in China is to reduce uncertainty in the external environment. For entrepreneurs who frequently use government connections to reduce the risk of uncertainty, the cost of cultivating these relationships can be particularly high. Carlisle and Flynn (2005) reported that networking costs for Chinese private firms are higher than other ownership forms since they are targets for rent-seeking officials. CCP membership enables private firms to show their support for the party-state (Dickson, 2008), which creates a foundation to establish a more trustworthy relationship with the regulatory agencies. This can act as a substitute for B2G networks in reducing rent-seeking activities by government officials. Thus, entrepreneurs who frequently utilize government connections in their businesses are also more likely to demonstrate a positive view towards the role of CCP membership in increasing regulatory legitimacy.

However, entrepreneurs who already have some type of government background do not seek deeper involvement in the political system but instead intend to expand their *guanxi* networks to include more government officials in different departments, as supported by the following statement:

PC and PPCC memberships are very good channels to contact more government officials. They are also a symbol (*xiangzheng*, 象征) of identity (*shenfen*, 身份) and status (*diwei*, 地位). It is not necessary that society have a good image of these persons (with PC or PPCC membership). It is more about recognition (*renke*, 认可) from the government. (Interview 9¹⁹³)

¹⁹² A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 22 years. This entrepreneur was a CCP member. He was a representative in local PPCC and a member of a business chamber.

¹⁹³ A male entrepreneur who owned a real estate firm in Guangzhou. The age of the firm was 17 years.

This entrepreneur stressed the importance of PC and PPCC membership in expanding the networks of private firms. Many other interviewees mentioned similar points. The members in these two organizations are leaders in different regulatory agencies and are successful entrepreneurs in different industries. For entrepreneurs with a degree of government background, although they have better knowledge about the existing local government network, participating in the PC and PPCC empowers them to establish more networks with important officials in higher-level government agencies or different regulatory departments. Involvement in the same organizations not only provides more opportunities for these members to communicate, but also establishes recognition as members in the same network. Political participation legitimizes private entrepreneurs or their firms and enables them to gain more trust and benefits. This privilege cannot be achieved with a previous government background.

In addition to network expansion, membership in the PC and PPCC provides extra protection for private entrepreneurs, which cannot be achieved through past connections with the government or the CCP. One entrepreneur stated:

Becoming members in the PC or PPCC, in my opinion, is not necessary for my company. But having these identities are beneficial for firms. For example, the government agencies might not make troubles (*zhao mafan*, 找麻烦) for these firms. For anything related to these member firms, the conduct of the government officials is more proper (*guiju*, 规矩) and normal (*zhenggui*, 正规). (Interview 30¹⁹⁴)

Another said that:

The local government and party have to go through some procedures (*tongguo yixie chengxu*, 通过一些程序) when they want to deal with (*chuli*, 处理) the people with these identities (membership in the PC or PPCC). It provides some temporary protection. (Interview 27¹⁹⁵)

¹⁹⁴ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of his firm was 16 years.

¹⁹⁵ A male entrepreneur who owned a wholesale and retail firm in a Pearl River Delta city. The age of the firm was 35 years.

These statements show that entrepreneurs believe that PC and PPCC memberships not only help their firms to avoid government intervention, but can also be a temporary umbrella for political arbitration. This motivates entrepreneurs who already have certain types of government background to participate in the PC and PPCC to secure a more stable environment for their businesses. Compared to CCP membership, PC and PPCC memberships formally legitimize private companies under the protection of these official organizations. This is a significant improvement compared to relying on an individual's past working experiences in the government or CCP membership.

As evidenced in Table 6.3, most of three control variables had little effect and were usually statistically insignificant. Annual sales and age of the respondents are not statistically significant in models 3a and 3b. Location had a significant effect on model 3a but not on model 3b. Compared to Guangzhou and Shenzhen (the reference group), entrepreneurs with firms located in underdeveloped regions are more likely to agree that CCP membership increases regulatory legitimacy and with a stronger effect for firms in the peripheral cities (Pearl River Delta cities: odds ratio 2.37, $p < 0.05$; Peripheral cities: odds ratio 2.64, $p < 0.1$). These results show that private entrepreneurs perceive that CCP membership has a more obvious and significant role in helping private firms to obtain recognition from regulatory agencies in less developed regions. I suspect one possible explanation is the previous working experiences of private entrepreneurs from different regions. A national survey of Chinese private firms conducted in 2006 shows that private entrepreneurs in less developed regions are more likely to have worked in government related departments or organizations before they started their business (All China Federation of Industry and Commerce(中华全国工商业联合会), 2007). As discussed above, entrepreneurs who have a government background are more likely to perceive that political participation helps private firms to increase regulatory legitimacy. Furthermore, Dickson (2008) also found that the proportion of red capitalists is higher in less developed regions in general. The atmosphere of pursuing affiliation with the party-state in less developed cities motivates entrepreneurs to attach themselves to the party and consequently to believe that it is an important way to legitimize their firms.

Summing up, entrepreneurs with frequent government connections have a more positive view of CCP membership in terms of increasing regulatory legitimacy since CCP membership shows that they support the ruling party and are politically reliable. Entrepreneurs in less developed regions also perceived CCP membership as important for increasing regulatory legitimacy. Entrepreneurs with certain types of government backgrounds are more likely to agree PC and PPCC memberships increase regulatory legitimacy. PC and PPCC memberships help entrepreneurs to expand their networks with other members in these organizations and provide extra protection for their firms, which cannot be achieved by CCP membership alone or past connections with regulatory agencies. However, private firms not only need to increase their acceptance by regulatory organizations but also seek recognition from existing or potential business partners to compete in the market. The next section explores how private entrepreneurs perceive the role of political participation in establishing business legitimacy.

6.4.2 Political Participation and Business Legitimacy

Table 6.4 presents the logistic regression results for the determinants of the perceptions of entrepreneurs regarding political participation in increasing business legitimacy. Model χ^2 shows that all models are significant at $P < 0.1$ or better.

For CCP membership and business legitimacy, models 1c to 3c show that government connections are significant ($p < 0.01$) and the odds ratio increases from 4.18 (model 1c) to 7.25 (model 3c). Entrepreneurs who connect to government frequently are 4.18 ($p < 0.01$) to 7.25 ($p < 0.01$) times more likely to agree that CCP membership can increase business legitimacy compared to those who do not frequently use government connections. The inclusion of the interaction term increases the odds ratio (models 2c and 3c), though the term itself is not significant. In model 3c, which includes the control variables, in addition to government connections (odds ratio 7.25, $p < 0.01$) government backgrounds are now significant ($p < 0.05$) with an odds ratio of 2.45. However, compared to government backgrounds, government

Table 6.4: Logistic Regression Examining the Determinants of the Perception of Private Entrepreneurs about Political Participation and Business Legitimacy

	CCP Membership on Business Legitimacy			PC or PPCC Membership on Business Legitimacy		
	Model 1c	Model 2c	Model 3c	Model 1d	Model 2d	Model 3d
	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)	b (Odds Ratio ^a)
Government Background (GB)	0.28 (1.32)	0.69 (2.00)	0.90 (2.45)**	0.16 (1.17)	0.44 (1.55)	0.51 (1.67)
Government Connection (GC)	1.43 (4.18)***	1.89 (6.61)***	1.98 (7.25)***	0.92 (2.51)***	1.34 (3.82)***	1.35 (3.85)**
GB*GC		-1.00 (0.37)	-1.04 (0.35)		-0.97 (0.38)*	-0.94 (0.39)
<i>Location^b</i>						
Pearl River Delta Cities			0.85 (2.35)*			0.41 (1.50)
Peripheral Cities			0.86 (2.37)			0.80 (2.23)*
<i>Firm characteristics</i>						
Annual Sales			-0.11 (0.90)			-0.08 (0.92)
<i>Age of the respondents^c</i>						
Constant	-2.68 (0.07)***	-2.87 (0.06)***	-3.07 (0.05)***	-1.69 (0.19)***	-1.80 (0.17)***	-1.79 (0.17)***
Model χ^2	18.19***	20.37***	27.12***	10.98***	13.90***	19.28***
Cox & Snell R ²	0.04	0.05	0.07	0.03	0.03	0.05

n=404

^a The odds ratio is calculated based on 95% confidence interval.

^b Reference category for location is Guangzhou and Shenzhen.

^c Age of respondents is a dummy variable with 1 for 40 and above, and 0 for 39 and under.

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

connection still have a more powerful and significant effect on the perception of entrepreneurs about CCP membership in increasing business legitimacy.

For PC or PPCC membership, models 1d to 3d demonstrate that government connections are significant at $p < 0.01$ with the odds ratio increasing from 2.51 to 3.82 in models 1d and 2d. Again, entrepreneurs who frequently use government connections in their businesses are more likely to agree that PC and PPCC membership can increase a firm's business legitimacy. In model 2d, government connections are significant ($p < 0.01$) as is the interaction term ($p < 0.1$). Government backgrounds however are not significant. In model 3d, the odds ratio of government connections further increases (3.85), but the interaction term is not significant after I control for the firm and respondent characteristics. Overall, government connections are a significant predictor for determining the views of entrepreneurs on increase business legitimacy compared to government backgrounds. An entrepreneur who is a delegate in the local PPCC shared his views on political participation help to explain this finding:

The identity (of the entrepreneurs) as representatives in PC or PPCC increases the credibility of the company. Chinese society lacks integrity (*chengxin*, 诚信) nowadays. Members of the PC and PPCC are selected rigorously. Thus, people in these organizations are elites in the society. They have good economic and social foundations. They also have status (*diwei*, 地位) in the local city. Thus they have a better reputation. Both the government and business partners trust these people more and feel that they are people who deserve to be respected. (Interview 22¹⁹⁶)

Another entrepreneur who is also a delegate in the local PPCC said:

When I have this identity (delegate in the PPCC), I feel there is an improvement in my status and reputation. This cannot be achieved by personal connections. People trust my organization more in general. If my company has some issues that need to be negotiated with the

¹⁹⁶ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

government or other companies, I feel this identity will be helpful.
(Interview 35¹⁹⁷)

Both entrepreneurs emphasized that PC and PPCC memberships improve their identity and status. The attitude of entrepreneurs towards these terms is very positive: the identity and status they gain as representatives in the PC or PPCC increase their credibility and reliability as businessmen. Although B2B networks can achieve the same purpose, time and money is required. In addition, networks have boundaries. Outsiders who cannot access information available to networked members make decisions based solely on information collected from the open market. Entrepreneurs who participate in political roles such as the PC or PPCC and contribute to the development of the local economy might be perceived as more reliable in cooperation. Entrepreneurs who are delegates in the PC and PPCC have the right and an obligation to suggest proposals about local issues to the PC or PPCC committee. A recent study shows that proposals suggested by private entrepreneurs in the PPCC are mainly concerned with the development of the local private sector, which reflects their perceptions of themselves as local economic elites (Chen, 2014). Box 6.1 illustrates how a private entrepreneur perceives his obligation as a representative in the PPCC and links it to the reliability of the PPCC delegates.

Box 6.1 Perception of Responsibility in Political Participation

Mr. Li owns a leading media company in a Guangdong city. He is the president of a local business chamber which includes entrepreneurs from different industries. He is also a delegate in the local PPCC. Several years ago, Mr. Li and several other delegates from the media industries suggested a proposal to the PPCC committee. The proposal was to reduce the tax rate of the media industry. Mr. Li explained the reason that encouraged him and his colleagues in the PPCC to suggest this proposal:

¹⁹⁷ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of the firm was 16 years. This entrepreneur was a representative in local PPCC, and chairman of a business chamber when interview was conducted.

I feel I am one of the leaders in the media industry in my city. As a delegate who represents my industry in the PPCC, I have to do something to improve the whole industry...many of my colleagues had the same feeling, though some of them did not act. When we submitted the proposal to the PPCC committee, many entrepreneurs from other industries in the business chamber and even some of my friends in my industry did not think we would succeed.

Several months later, the central government sent a division director (*siji ganbu*, 司级干部) (equivalent to the leader in a prefecture-level city) to the that city and held a meeting with several entrepreneurs in the media industry. Mr. Li was invited to the meeting and had a conversation with the central government officials. He was also later consulted by other officials from local to provincial level government. Six months after that meeting, the central government issued a new policy to change the tax system for modern service industries (including the media industry) from sales tax to value added tax. Shanghai was chosen as the experimental city and the new policy went into effect on 1st January 2012. Guangdong implemented the new policy on 1st November 2012.

This (the change from sales tax to value added tax) is a big deal for the whole country. I could not say how much our proposal contributed to that. But I felt proud of myself to be involved in

that scheme. However, I could not have done anything if I was not a delegate in the PPCC.

When he was asked to comment on how he though this action links to his identity as a PPCC delegate, Mr. Li further emphasized:

I need to be responsible having been chosen as the delegate to represent my industry. I feel that the majority of entrepreneurs in the PPCC also have similar perceptions...entrepreneurs who can participate in the PC or PPCC are usually more successful and reliable. Thus they can represent their industries.

(Interview 22¹)

¹ A male entrepreneur who owned a firm in the advertising and media industry in a Pearl River Delta city. The age of the firm was 11 years. This entrepreneur was a CCP member, a representative in local PPCC, and the chairman of a business chamber.

Political participation enables private entrepreneurs to join an extensive network whose members are perceived to be more reliable. Participation in the PC or PPCC marks out the entrepreneur as a member of the local elite and a successful person. Entrepreneurs who believe that delegates in these political organizations are more reliable may tend to cooperate with firms owned by delegates in the PC or PPCC. This is the value of political participation for those entrepreneurs who already have closer connections with government officials. Political participation facilitates trust relationships based not only on personal connections, but also on their identity as a member of the political elite and a reliable person. This could further explain why an attachment with powerful organizations increases the acceptance of the focal firm by its commercial partners, which confers business legitimacy (Dowling & Preffer, 1975).

In addition to the feeling of identity and status as representatives in the PC or PPCC, some entrepreneurs even stated that PC and PPCC memberships provide direct competitive advantages for the focal firm as reported below:

As members in political organizations, they can ask these organizations to represent them when communicating with government departments or other companies. This is an effective way of solving problems and reduces operational risks. For example, when companies need to negotiate compensation, it is possible that they can pay less through settlements under the table (*zhuo mian xia*, 桌面下). This will also not hurt the reputation of the company. (Interview 29¹⁹⁸)

Another said:

Becoming a representative in the PC or PPCC can increase the reputation of the company. Under the same circumstances, government and business partners prefer (to cooperate with) entrepreneurs with these positions. It (PC and PPCC memberships) is a bonus point (for the firms). (Interview 20¹⁹⁹)

¹⁹⁸ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of the firm was 9 years. This entrepreneur was a CCP member and a member in a business chamber.

¹⁹⁹ A male entrepreneur who was the vice manager of a wholesale and retail company in a Pearl River Delta city. The age of the firm was 33 years.

The entrepreneurs exemplified above mentioned that PC and PPCC memberships help firms to settle negotiations in a more favourable way. When firms are barely differentiated in competition, for instance offering a similar product at a similar price (Interview 43²⁰⁰) or submitting a similar project proposal to the government (Interview 52²⁰¹), the buyers and government agencies may be more willing to cooperate with firms owned by a person perceived as more reliable; this can be expressed by his/her position in the PC or PPCC. Entrepreneurs regard PC and PPCC membership as privileging their firms in competition. This is not achieved through personal networks but through the perception and image gained as members of these state organs.

For the control variables in models 3c and 3d in Table 6.4, only location had a significant effect when examining the perceptions of private entrepreneurs about political participation and business legitimacy. Compared to Guangzhou and Shenzhen, entrepreneurs from other Pearl River Delta cities are more likely to agree that CCP membership increases business legitimacy (3c: odds 2.35, $p < 0.1$) and entrepreneurs in peripheral cities are more likely to believe that PC and PPCC memberships increase business legitimacy (3d: odds 2.23, $p < 0.1$). These results are similar to the regional difference in regulatory legitimacy, where entrepreneurs from less developed regions are more likely to hold positive views regarding political participation.

In the interviews, entrepreneurs expressed that the power of resource allocations and project approval is more concentrated in the hands of government officials in less developed regions or smaller cities (Interview 44²⁰²). A special Chinese term ‘the mountain is high and the emperor is far

²⁰⁰ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

²⁰¹ A female entrepreneur who owned a manufacturing firm in Shenzhen. The age of her firm was 6 years. This entrepreneur was a member in a business chamber.

²⁰² A male entrepreneur who owned a real estate firm in a peripheral city. The age of his firm was 12 years. This entrepreneur was a representative in local PPCC, and the chairman of a business chamber.

away'²⁰³ (*shan gao huangdi yuan*, 山高皇帝远) was used by one entrepreneur (Interview 47²⁰⁴) to describe his view that the behaviours of government officials in peripheral cities are less governed by laws and regulations. One entrepreneur said:

I have heard some of my friends say that it was more common for the regulatory departments to make troubles (*zhao mafan*, 找麻烦) for their firms in order to gain benefits when doing business in certain peripheral cities. Guangzhou is a big city. It is better in this respect. (Interview 43²⁰⁵)

Because of the less favourable environment in the less developed regions, it is more important for firms to show their reliability to attract potential business partners. One entrepreneur explained why she felt political participation is more important in smaller cities:

In small cities, if a company can get more attention from the local government, it is much easier for the company to acquire support from the local government when developing a new project and to get support from other local companies in cooperation. (Interview 52²⁰⁶)

From the view of the above entrepreneur, political participation is a channel used to obtain more supports from the local government. The government favours firms that show their support for the political regime. It implies that a firm which affiliates itself with political organizations may experience less uncertainty arising from government intervention. This enables the firm to be perceived as more reliable, especially in less developed regions where the government maintains stronger power to intervene in market activities. Nee and Opper (2012) similarly argue that entrepreneurs view

²⁰³ The phrase in Chinese implies that a region is far away from the administrative centre. The distance means this region is less governed or affected by central laws and rules.

²⁰⁴ A male entrepreneur who owned a firm in the hotel and catering service industry in a peripheral city. The age of his firm was 9 years. This entrepreneur was a representative in local PC.

²⁰⁵ A male entrepreneur who owned a manufacturing firm in Guangzhou. The age of his firm was 11 years. This entrepreneur was a CCP member, and a representative in local PC.

²⁰⁶ A female entrepreneur who owned a manufacturing firm in Shenzhen. The age of her firm was 6 years. This entrepreneur was a member in a business chamber.

political capital as more valuable in a region with a high level of government control over economic activities.

Comparing CCP membership with PC and PPCC memberships, entrepreneurs in Pearl River Delta cities have a more positive view of CCP membership in business legitimacy, and entrepreneurs in peripheral cities maintain a more positive view of PC and PPCC memberships. Opposite to the friendly attitude towards CCP memberships by entrepreneurs in the Pearl River Delta cities, respondents in the Pearl River Delta cities has the lowest rate of having CCP memberships (two main cities: 25.6%; Pearl River Delta cities: 20.4%; peripheral cities: 30.4%). The Pearl River Delta cities experienced rapid growth after the implementation of the “open door” policy and economic reform. Many successful private entrepreneurs in this region comes from rural families or are benefited from returning oversea relatives (Lin & Lin, 1997; Shi, 2014). They earned their initial wealth through hardworking in their business, and relatively disadvantageous due to lack of political background. One entrepreneur who from a Pearl River Delta city mentioned that he felt he was looked down by the government officials and other business peoples since he comes from a very poor rural family and are not well educated. He considered CCP membership should be useful to improve his identity (*shenfen*, 身份) (Interview 5²⁰⁷). Another entrepreneur considered that it would be easier for him to join PC and PPCC if he has CCP membership, since local government discriminate against service industries in selecting PC and PPCC delegates (Interview 31²⁰⁸). However, both entrepreneurs do not have CCP membership. Entrepreneurs in the Pearl River Delta cities consider CCP membership can be treated as supplement to their family background. This can partly explain why entrepreneurs in the Pearl River Delta favour CCP membership in increasing business legitimacy.

²⁰⁷ A male entrepreneur who owned a firm in the wholesale and retail industry in a Pearl River Delta city. The age of his firm was 10 years.

²⁰⁸ A male entrepreneur who owned a manufacturing firm in a Pearl River Delta city. The age of the firm was 22 years. This entrepreneur was a CCP member. He was a representative in local PPCC and a member of a business chamber.

In addition to the background of the private entrepreneurs, entrepreneurs in less developed regions seek for closer connections with government, in order to better protect their interests and reduce uncertainty arising from government intervention over market activities (Gu et al., 2008). As discussed above, entrepreneurs perceive PC and PPCC memberships as a more reliable and formal way to maintain government connection. The stronger government in peripheral cities creates more incentive for entrepreneurs to establish formal political connections, in order to operate in an environment with less uncertainty. And with a powerful government in smaller cities, the level of corruption tend to be higher (Dong & Torgler, 2013). In a market environment with low levels of formal institutional support and a high level of corruption, political participation brings more obvious benefits to private firms and improve their performance (Li, Feng, & Cao, 2016). This help to explain why entrepreneurs in peripheral cities prefer formal political participation in the PC and PPCC, compared to entrepreneurs who prefer CCP membership in the Pearl River Delta cities. However, both variables are significant at $p < 0.1$ level. And for CCP memberships, the differences between the correlation coefficient and odds ratio of Pearl River Delta cities and peripheral cities are very small for CCP membership, the regional variance between CCP membership and PC/PPCC memberships need to be further explored in the future research.

In summary, although entrepreneurs have generally demonstrated a negative view of political participation in terms of increasing business legitimacy in general, those with frequent connections with government officials are more likely to have the opposite view. They perceive that political participation, especially for PC and PPCC membership, increases their identity and status as part of the local elite and establishes competitive advantage for their firms. CCP membership also perceived as the supplement to poor family and political background. These identity associations and reputations cannot be achieved or are difficult to achieve through personal networks alone. Political participation, especially memberships in the PC and PPCC, enables firms to be recognized as reliable and trustworthy business partners by other market participants thus increasing the business legitimacy of the focal firms.

6.5 CONCLUSION

This chapter discussed the linkage between the different types of political participation of Chinese private entrepreneurs and firm legitimacy. It has distinguished regulatory legitimacy and business legitimacy to measure the acceptance of the focal firm by different participants in the institutional environment. This chapter also developed an empirical framework to explore how the former government backgrounds and personal government connections of private entrepreneurs affect their perceptions about the value of political participation. In general, entrepreneurs who have frequent government connections are more likely to retain a positive view of political participation in establishing regulatory and business legitimacy. Political participation helps private entrepreneurs to strengthen their identity and enables them to become involved within the political system. This strengthens their government connections and expands their B2G networks to involve officials from different regulatory departments. Political participation enables firms to be more accepted by regulatory agencies. Entrepreneurs in less developed regions place higher value on political participation, especially participating in PC or PPCC, which is regarded as more formal than CCP membership. In the market environment with less formal institutional support and a powerful local government, there is higher incentive for entrepreneurs to maintain a closer relationship with government. This enables private entrepreneurs to improve their status and to be perceived as more reliable by authority and by business partners. The perception of reliability regarding those individuals who have political positions encourages the entrepreneurs to believe that their identity as PC or PPCC delegates increases their business legitimacy. Having a higher degree of acceptance among regulatory agencies and business partners provides a stable business environment and allows private firms to better compete in the market.

CHAPTER 7 CONCLUSION

This final chapter reviews the findings of this study. It summarizes the main points discussed in previous chapters, and presents the contributions and implications based on the results of this study.

7.1 SUMMARY OF THE STUDY

The main purpose of this research is to explore the role of social networks that influence the business strategies of Chinese private firms. Using both quantitative and qualitative data collected in Guangdong province, this investigation has examined the embeddedness of private entrepreneurs in different types of B2B and B2G networks, and how their embeddedness in different networks influences their perceptions of social networks in reducing external uncertainty and accessing strategic resources, thus enabling them to achieve competitive advantages. I have also examined how private entrepreneurs perceive political participation, and how their involvement in political roles helps their firms to establish regulatory legitimacy and business legitimacy. These findings drew on the application of logistic regression to data from 418 surveys and the close textual analysis of 53 interviews.

Social networks, or *guanxi* in the Chinese context, have a significant influence on how business people behave. B2B and B2G networks are informal institutional complements to the underdeveloped market mechanism and institutional environment. The result of this study suggests that B2B networks help private firms to access more accurate information about their business partners and markets. It reduces the cost of information searching, which can be extremely high in China because of the underdeveloped market mechanism and high levels of information asymmetries. Firms with good B2B networks can predict market change in a more efficient and cheaper way. B2B networks also help firms to secure contract enforcement and long-term cooperation. The behaviours of a firm in a business network influence the

reputation and attractiveness of that focal firm in future transactions among connected members. The risk of losing future business opportunities arising from unethical behaviours motivates connected firms to act honestly towards other network members. This reduces the probability of connected firms disclosing misleading information and to cheat connected firms, thus increasing the capability of the focal firm to process information and choose a more reliable business partner. The regression results reported in Table 4.4, for example, show that entrepreneurs with frequent connections with buyers are 2.81 times more likely to believe B2B networks reduce their risks than those without such connections. However, information sharing among connected members in B2B networks may create the problem of unfair competition. The lack of channels to access information internal to insider network members means that outsiders are disadvantage. Entrepreneurs are aware of the problem of unfair competition when using *guanxi*, but they tolerate this phenomenon and accept *guanxi* is an important rule, or social process, for doing business in China. B2B networks, or *guanxi* with other business partners, are an important channel for them to access information when making strategic decisions.

The role of B2G networks reflects how private entrepreneurs perceive and react to the influence of the government in market activities. Government at all levels in China can be highly interventionist. In general, entrepreneurs perceived that local government connections, which refer to networks with officials in regulatory and supporting government departments in local cities, are more important for private firms to avoid the rent-seeking behaviours of government officials and to secure their properties and investments compared to distant government connections. For example, the logistic results reported in Table 5.2 show that entrepreneurs who have frequent connections with local government officials are 2.29 times more likely to agree B2G networks enable them better to respond to government policy than those without. They are also 2.16 times more likely to invest long-term in a city where they have close government connections, as reported in Table 5.3.

Good relationship with local government might help private entrepreneurs to avoid involvement in corruption activities, since it switches

the short-term transactional relationship with local government officials to long-term reciprocal relationships. Exchange between private entrepreneurs and government officials are based on the rule of reciprocal favour, not bribe paying, for the most part, contrary to popular opinion. Local government connections also help private firms to access strategic resources, such as bank loans and new technology. B2G networks with local government officials reduce information asymmetries in obtaining loan approval from state banks, which help firm to get loan approved more quickly. B2G networks also provide essential information about new technology and help firms to access R&D activities. The underlying mechanism of using B2G networks to access different resources that are controlled by the government or state-affiliated firms is through direct connections with the official who decides the allocation of those resources. However, government officials are connected within the hierarchical structure of the state. The rule of reciprocity, where the giving of a favour obligates the recipient to reciprocate in the future, also applies to personal connections between government officials. This enables private entrepreneurs to use government connections to access resources that are controlled by different government related agencies, which may increase the competitiveness of the private firms.

In addition to the cultivation of personal connections, private entrepreneurs seek to increase the acceptance of their firms among different stakeholders, regardless of whether those stakeholders connect directly with their firms or not. This is the process of creating regulatory legitimacy and business legitimacy. Political participation gives member private entrepreneurs the privileges of participating in government operations and expanding their personal networks with even more government officials. From the perspective of entrepreneurs, those individuals who participate in political organizations are local elites and are perceived to be more reliable by others in business or the community. This highlights an increase in the business legitimacy of the entrepreneurs and their firms. The entrepreneurs also suggested that political participation enables their firms to receive more support and protection from the government since it shows their support for the political regime. This increases the regulatory legitimacy of their firms.

Chinese entrepreneurs have only had the opportunity to participate in political roles for a relatively short period. In general, private entrepreneurs place more value on PC and PPCC memberships than CCP memberships. PC and PPCC membership provide the opportunity for private entrepreneurs to be involved in policy making. Participating in the annual conference of the PC or PPCC, or becoming a member in different committees under these two organizations, provide more opportunities for private entrepreneurs to expand their personal connections with officials in different regulatory agencies. This helps private entrepreneurs to strengthen their government connections. The importance of PC and PPCC memberships received more recognition in less developed region. Entrepreneurs in smaller cities, where the government is more powerful and the market mechanism is relatively underdeveloped, view the role of the PC and PPCC memberships as more important in establishing regulatory legitimacy and business legitimacy than those who operate in more developed cities. The higher level of uncertainty in terms of policy implementation and legal protection motivate private entrepreneurs to cultivate a more stable and formal relationships with the government. Entrepreneurs therefore favour PC and PPCC memberships in less developed region.

The results of this research show that private entrepreneurs continue to place emphasis on cultivating government connections. Although more and more entrepreneurs are aware of the importance of the market and B2B networks for the long-term competitiveness, the entrepreneurs studied here considered that government connections are still important for the survival of their firms. A good government connection might not guarantee success, but bad government connections can create a competitive disadvantage. Entrepreneurs spend a lot of effort in cultivating *guanxi* with government officials and try their best to avoid having bad relationship with local government. Many scholars criticize the importance of B2G networks in Chinese market. B2G networks, especially the use of B2G networks to seek access to state-controlled resources, might potentially lead to corruption of government officials. Even where no overt corruption occurs, close official-entrepreneur relationships might have consequences. There are other downsides of using *guanxi* or social networks, including unfair competition,

collusion among firms and unethical business behaviours, which create barriers for institutional improvement and technology development. However, social networks, which emphasize the connection among people, exist in all countries and societies. There is nothing wrong with social networks per se and its use in business. *Guanxi* or social networks in China have particular characteristics that underpin the social interactions of Chinese in business and private lives; it is a logic of business and everyday life. We should not ignore the potential downside of *guanxi* – the collusion and corruption that may occur, but it is also important to recognize the positive effect of *guanxi* and how it works in business to cement trust between partners, enable efficient contracting, and diminish information asymmetries that arise from the inadequacies of formal institutions.

The finding of this study reveals that the Chinese government still influences market activities through different mechanisms, for instance project approvals, administrative investigation and the allocation of resources. In order to sustain their competitive advantage, private firms need to spend effort to maintain their current B2G networks or cultivate new B2G networks with different government officials for different business purposes. Simultaneously, maintaining well-functioning B2B networks reduces the costs of managing transactions. Combining the use of B2G and B2B networks in different business strategies, or balancing the regulatory legitimacy and business legitimacy of a firm, is the logic for the success of the Chinese private firms.

7.2 CONTRIBUTIONS AND IMPLICATIONS

This research is exploratory. The aim of the research is to explore how social networks affect the business strategies of Chinese private firms. The combination of both a quantitative survey and qualitative interviews has enabled specific research questions based on the review of the existing literature to be examined and has allowed the underlying reasons for the importance of social networks for Chinese private firms to be explored. This research makes both theoretical and empirical contributions, which will be

discussed as follows.

Theoretically, this research combines social network theory with TCE, the RBV of the firm, and institutional theory to understand how Chinese private firms use social networks in their business strategies. Strategic management theories emphasize the fit between business strategy and the external environment. In transition countries, the external environment changes quickly as new policies and laws are issued frequently. The rapidly changing external environment requires firms to have a high capability to predict changes in the environment and adjust their strategies. Social networks are therefore an important channel to enable firms to fit better into their external environment. The findings show that both B2B and B2G networks help private firms to increase their internal capability through access to more strategic resources and information, and to reduce external uncertainty through the prediction of policy changes and gaining government protection and preferential treatment. However, the findings also indicate that private entrepreneurs in less developed regions are less likely to hold the view that B2B networks and B2G networks help their firms to deal with external uncertainties and access resources, while results exploring the political participations suggest entrepreneurs in less developed regions have a more positive attitude towards participating in certain political roles. These findings may imply that the business environment in less developed regions encourages private entrepreneurs to establish formal connections with the government rather than relying on informal personal ties to access resources and deal with external uncertainties. Future research should further explore the regional differences in using formal and informal networks and the underlying reasons.

Second, this research distinguishes the different roles of connections with local government and distant government. Connections with officials in different levels of government have different impacts on business operation. Officials in higher-level government retain more power in approving big projects and resource allocation, but local government officials have more obvious influence on the daily operation of firms. The result suggests that private entrepreneurs place more value on connections with local government

in helping them to access information, predict policy changes and secure financial resources. This study provides empirical evidence that support the important role of local government in China for private firms, and help to explain why private entrepreneurs are eager to develop a good connections with local government.

Third, this research expands our understanding of how the legitimacy of private firms is established. Different types of political participation adopted by private entrepreneurs have been distinguished and their different effects on regulatory legitimacy and business legitimacy have been explored. The results suggest that entrepreneurs believe that membership in the PC and the PPCC are more significant and important than CCP membership for increasing legitimacy. This expands our understanding of the political participation of private entrepreneurs during the past decade in particular.

Fourth, this research has collected a unique data set to examine how private entrepreneurs perceive the functions of social networks based in Guangdong province. Accessing the Chinese private sector to conduct empirical research is difficult as Chinese private entrepreneurs are reluctant to disclose information about their businesses. Many past quantitative research involving the Chinese private sector are based on official data collected by national surveys. This research enriches our understanding of the Chinese private sector by using a different and unique sample population.

In addition to the theoretical contribution, this research also has empirical implications for managers. The data provides an insight into private entrepreneurs in Guangdong and how they use social networks in business. Many private firms in Guangdong are subcontractors of overseas companies or joint ventures with foreign firms. Understanding the behaviours of Guangdong entrepreneurs and private enterprises may help foreign managers to evaluate the risks and benefits of their investments, thus ensuring cooperation.

In conclusion, this research contributes to our understanding of the Chinese private sector and the perceptions of private entrepreneurs about the role of social networks to obtain resources and to reduce the risk of uncertainty.

The result suggests the persistent importance of social networks in the Chinese market. The interview data and discussion contribute to the understanding of how *guanxi* functions in the Chinese market. By understanding the role of *guanxi* in the business practices of private entrepreneurs, the study enriches our understanding of business management in contemporary China.

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APPENDICES

APPENDIX 1 LIST OF INTERVIEWEES

This section lists the interviews who participated in this study. Since I promised all of the interviewees that their identities would be concealed, their names are not included. The locations of the headquarter of their firms are also grouped into the three categories, which are Guangzhou and Shenzhen, Pearl River Delta Cities, and Peripheral Cities, to avoid identification. The interviews are organized by the sequence of conducting.

Sequence Number	Gender	Position of Interviewee	Years with the Position	Age of the Company (Years)	Industry	Location of Headquarter	Political Roles of the Interviewee
1	M	Owner	15	15	Manufacturing	Peripheral Cities	CCP member
2	M	Owner	34	34	Manufacturing	Guangzhou	Used to be representative in local PC; member in business chamber.
3	M	Owner	11	11	Transport, Storage and Postal Service	Guangzhou	
4	M	Owner	3	3	Wholesale and Retail Trades	Guangzhou	CCP member
5	M	Owner	10	10	Wholesale and Retail Trades	Pearl River Delta Cities	

6	M	Owner	19	19	Manufacturing	Guangzhou	
7	M	Owner	23	23	Advertising and Media	Guangzhou	
8	M	Owner	17	17	Advertising and Media	Guangzhou	
9	M	Owner	17	17	Real Estate	Guangzhou	
10	M	Owner	9	9	Architecture Structure Design	Guangzhou	Representative in local PPCC.
11	M	Vice Manager	1	20	Finance	Pearl River Delta Cities	
12	M	Owner	19	19	Hotel and Catering Service	Guangzhou	
13	M	Owner	19	19	Manufacturing	Guangzhou	
14	M	Owner	14	14	Wholesale and Retail Trades	Guangzhou	CCP member
15	M	Owner	16	16	Whole and Retail Trades	Guangzhou	
16	F	Owner	24	24	Manufacturing	Guangzhou	Vice-chairman of a business chamber.
17	M	Owner	17	17	Manufacturing	Guangzhou	Chairman of a business chamber; vice-chairman of local Federation of Industry and Commerce; representative in local PC; representative in Guangdong PPCC.

18	F	Owner	7	7	Manufacturing	Guangzhou	CCP member; vice-chairman of a business chamber.
19	M	Owner	19	19	Construction	Pearl River Delta Cities	CCP member; vice-chairman of local Federation of Industry and Commerce; representative in local PPCC
20	M	Vice Manager	3	33	Wholesale and Retail Trades	Pearl River Delta Cities	
21	M	Owner	14	14	Wholesale and Retail Trades	Pearl River Delta Cities	
22	M	Owner	11	11	Advertising and Media	Pearl River Delta Cities	CCP member; representative in local PPCC; chairman of a business chamber.
23	M	Owner	9	9	Manufacturing	Pearl River Delta Cities	CCP member
24	M	Owner	25	25	Manufacturing	Pearl River Delta Cities	CCP member; representative in local PPCC; member of the board of directors of a local business chamber.

25	M	Owner	11	11	Manufacturing	Pearl River Delta Cities	CCP member; member of standing committee in local PPCC; representative in local PC; vice-chairman of a business chamber.
26	M	Owner	13	13	Manufacturing	Pearl River Delta Cities	Member of a business chamber.
27	M	Owner	35	35	Wholesale and Retail Trades	Pearl River Delta Cities	
28	M	Owner	9	9	Real Estate	Pearl River Delta Cities	Representative in local PPCC and PC; chairman of a business chamber
29	M	Owner	9	9	Wholesale and Retail Trade	Pearl River Delta Cities	CCP member; member of a business chamber.
30	M	Owner	16	16	Manufacturing	Pearl River Delta Cities	
31	M	Owner	22	22	Manufacturing	Pearl River Delta Cities	CCP member; representative in local PPCC; Member of a business chamber.
32	M	Owner	7	7	Manufacturing	Pearl River Delta Cities	Representative of local PPCC; member of a business chamber.
33	M	Owner	21	21	Manufacturing	Pearl River Delta Cities	

34	M	CEO (The son of the owner)	11	11	Manufacturing	Pearl River Delta Cities	Representative in local PPCC
35	M	Owner	16	16	Wholesale and Retail Trades	Pearl River Delta Cities	Representative in local PPCC; chairman of a business chamber.
36	M	CEO	2	15	Manufacturing	Pearl River Delta Cities	CCP member; chairman of a business association.
37	M	Owner	9	9	Tourism	Pearl River Delta Cities	
38	M	Vice Manager	5	8	Whole and Retail Trades	Pearl River Delta Cities	
39	M	Vice Manager	4	8	Manufacturing	Pearl River Delta Cities	CCP member
40	M	Owner	10	10	Manufacturing	Shenzhen	
41	M	Owner	12	12	Manufacturing	Peripheral Cities	
42	M	Owner	13	13	Manufacturing	Peripheral Cities	
43	M	Owner	11	11	Manufacturing	Guangzhou	CCP member; representative in local PC.
44	M	Owner	12	12	Real Estate	Peripheral Cities	Representative in local PPCC; chairman of a business chamber.

45	F	Owner	19	19	Agriculture, Forestry, Animal Husbandry and Fishery	Peripheral Cities	CCP member; representative in local PC.
46	F	Owner	11	11	Manufacturing	Peripheral Cities	
47	M	Owner	34	34	Hotel and Catering Service	Peripheral Cities	Representative in local PC
48	M	Owner	9	9	Wholesale and Retail Trades	Shenzhen	Member of a business chamber; representative in local PPCC
49	M	Owner	12	12	Manufacturing	Shenzhen	Member of a business chamber.
50	M	CEO	4	4	Manufacturing	Pearl River Delta Cities	CCP member; member of a business chamber.
51	M	Owner	21	21	Wholesale and Retail Trades	Guangzhou	Member of a business chamber.
52	F	Owner	6	6	Manufacturing	Shenzhen	Member of a business chamber.
53	M	Owner	10	10	Real Estate	Guangzhou	Member of a business chamber.

APPENDIX 2 SURVEY QUESTIONNAIRE

Questionnaire – Social Network of Private Enterprises in Guangdong

Please tick your answer

Or

Circle the appropriate number

Section 1: Company Information:

- 1 Please state the year of establishment of your company: _____

- 2 Please identify the sector that best represents the main activity of your company: (choose one only)
 - Farming, forestry, animal husbandry, and fishery
 - Manufacturing
 - Papermaking and paper products
 - Manufacture of transport equipment
 - Manufacture of electrical machinery and equipment
 - Manufacture of communication equipment, computers and other electronic equipment
 - Manufacture of Cultural, Educational and Sports Articles
 - Other Manufacturing industry (please specify) _____
 - Transport, storage and postal service
 - Wholesale and retail trades
 - Hotels and catering services
 - Other sector (please specify) _____

- 3 Please identify the city of the headquarter of your company:
 - Guangzhou Shenzhen Dongguan Foshan
 - Zhuhai Jiangmen Zhongshan Shantou
 - Other city (please specify) _____

- 4 Whether your company has subsidiaries operating in other sectors?
 - Yes (please go to question 5 and 6)
 - No (please go to question 7)

- 5 Please rank the importance of sectors that the subsidiaries of your company operating in (1 refer to most important, 2 is the next, etc.):
- () Farming, forestry, animal husbandry, and fishery
 - () Manufacturing
 - () Papermaking and paper products
 - () Manufacture of transport equipment
 - () Manufacture of electrical machinery and equipment
 - () Manufacture of communication equipment, computers and other electronic equipment
 - () Manufacture of Cultural, Educational and Sports Articles
 - () Other Manufacturing industry (please specify) _____
 - () Transport, storage and postal service
 - () Wholesale and retail trades
 - () Hotels and catering services
 - () Other sector (please specify) _____
- 6 Please identify all the cities within Guangdong Province the subsidiaries of your company operate on:
- Guangzhou Shenzhen Dongguan Foshan
 - Zhuhai Jiangmen Zhongshan Shantou
 - Other city (please specify) _____
- 7 Size for you main business operation in the last financial year:
- Number of Employees: _____
 - Annual sales/turnover: _____
 - Sales growth rate: _____
 - Net profit: _____
 - Net profit growth rate: _____
 - Total assets: _____
 - Total debts: _____
 - Percentage of banks loans in total debts: _____

Section 2: Personal Information of respondent:

8 Job Title: _____

9 Please state the length of time that you are in this job: _____

10 Gender: Male Female

11 Age: Under 30 30-39 40-49

50-59 Above 60

12 Please state the years of school completed:

Less than 6 years 7 years to 9 years

10 years to 12 years More than 13 years

13 Please state your highest qualification:

Primary school Middle school High school

College or Bachelor degree Postgraduate degree

14 Party Membership:

Non-party member CCP member

Other party member (please specify) _____

15 Please state the organization(s) you have worked for before and the length of your job (please choose all applicable to you):

Government or government related agencies ()

Public-sector organization ()

State-owned enterprise ()

Collective-owned enterprise ()

Foreign-invested firm ()

Other private firm ()

Others ()

Section 3: Social networks:

16 Social networks are important for doing business in China. Maintaining personal ties with managers in other companies and government officials can help the companies. Please circle the number that best describing the extent to which you have used personal ties for business purpose during the past 3 years:

	No relation	Very little	Little	Extensive	Very extensive
a. Managers at buyer firms	0	1	2	3	4
b. Managers at supplier firms	0	1	2	3	4
c. Managers at competitor firms	0	1	2	3	4
d. Managers at SOEs in the same sector	0	1	2	3	4
e. Managers at state-owned banks	0	1	2	3	4
f. Managers at state-owned utility companies	0	1	2	3	4
g. Members in business chambers or associations	0	1	2	3	4
h. Leaders in central government	0	1	2	3	4
i. Leaders in provincial government	0	1	2	3	4
j. Leaders in local government	0	1	2	3	4
k. Officials in regulatory organizations, such as tax bureau	0	1	2	3	4
l. Officials in supporting organizations, such commercial administration bureaus	0	1	2	3	4
m. Staff in public-sector organizations, such as university and research institutions	0	1	2	3	4

Section 4: Social networks and business strategy:

17 Please circle the number that best describes the importance of using your different personal ties according to the following situations:

1=Not important	2=Little important	3=Important	4=Very important
-----------------	--------------------	-------------	------------------

a. When your company needs to make decision to invest in long-term project in specific city:

Personal ties with managers at buyer firms	1	2	3	4
Personal ties with managers at supplier firms	1	2	3	4
Personal ties with managers at competitor firms	1	2	3	4
Personal ties with managers at SOEs in the same sector	1	2	3	4
Personal ties with managers at state-owned banks	1	2	3	4
Personal ties with managers at state-owned utility companies	1	2	3	4
Personal ties with members in business chambers or associations	1	2	3	4
Personal ties with leaders in central government	1	2	3	4
Personal ties with leaders in provincial government	1	2	3	4
Personal ties with leaders in local government	1	2	3	4
Personal ties with officials in regulatory organizations	1	2	3	4
Personal ties with official in supporting organizations	1	2	3	4
Personal ties with staffs in public-sector organizations	1	2	3	4

b. When your company faces difficulty in finance and needs to get more financial resources:

Personal ties with managers at buyer firms	1	2	3	4
Personal ties with managers at supplier firms	1	2	3	4
Personal ties with managers at competitor firms	1	2	3	4
Personal ties with managers at SOEs in the same sector	1	2	3	4
Personal ties with managers at state-owned banks	1	2	3	4
Personal ties with managers at state-owned utility companies	1	2	3	4
Personal ties with members in business chambers or associations	1	2	3	4
Personal ties with leaders in central government	1	2	3	4
Personal ties with leaders in provincial government	1	2	3	4
Personal ties with leaders in local government	1	2	3	4
Personal ties with officials in regulatory organizations	1	2	3	4
Personal ties with official in supporting organizations	1	2	3	4
Personal ties with staffs in public-sector organizations	1	2	3	4

c. When your company needs to acquire more land for business expansion:

Personal ties with managers at buyer firms	1	2	3	4
Personal ties with managers at supplier firms	1	2	3	4
Personal ties with managers at competitor firms	1	2	3	4
Personal ties with managers at SOEs in the same sector	1	2	3	4
Personal ties with managers at state-owned banks	1	2	3	4
Personal ties with managers at state-owned utility companies	1	2	3	4
Personal ties with members in business chambers or associations	1	2	3	4
Personal ties with leaders in central government	1	2	3	4
Personal ties with leaders in provincial government	1	2	3	4
Personal ties with leaders in local government	1	2	3	4
Personal ties with officials in regulatory organizations	1	2	3	4
Personal ties with official in supporting organizations	1	2	3	4
Personal ties with staffs in public-sector organizations	1	2	3	4

d. When your company needs to acquire resources other than land controlled by the government (for example: energy, water supply, metal ores, and other regulated materials):

Personal ties with managers at buyer firms	1	2	3	4
Personal ties with managers at supplier firms	1	2	3	4
Personal ties with managers at competitor firms	1	2	3	4
Personal ties with managers at SOEs in the same sector	1	2	3	4
Personal ties with managers at state-owned banks	1	2	3	4
Personal ties with managers at state-owned utility companies	1	2	3	4
Personal ties with members in business chambers or associations	1	2	3	4
Personal ties with leaders in central government	1	2	3	4
Personal ties with leaders in provincial government	1	2	3	4
Personal ties with leaders in local government	1	2	3	4
Personal ties with officials in regulatory organizations	1	2	3	4
Personal ties with official in supporting organizations	1	2	3	4
Personal ties with staffs in public-sector organizations	1	2	3	4

- e. When your company needs to acquire new technology:
- | | | | | |
|---|---|---|---|---|
| Personal ties with managers at buyer firms | 1 | 2 | 3 | 4 |
| Personal ties with managers at supplier firms | 1 | 2 | 3 | 4 |
| Personal ties with managers at competitor firms | 1 | 2 | 3 | 4 |
| Personal ties with managers at SOEs in the same sector | 1 | 2 | 3 | 4 |
| Personal ties with managers at state-owned banks | 1 | 2 | 3 | 4 |
| Personal ties with managers at state-owned utility companies | 1 | 2 | 3 | 4 |
| Personal ties with members in business chambers or associations | 1 | 2 | 3 | 4 |
| Personal ties with leaders in central government | 1 | 2 | 3 | 4 |
| Personal ties with leaders in provincial government | 1 | 2 | 3 | 4 |
| Personal ties with leaders in local government | 1 | 2 | 3 | 4 |
| Personal ties with officials in regulatory organizations | 1 | 2 | 3 | 4 |
| Personal ties with official in supporting organizations | 1 | 2 | 3 | 4 |
| Personal ties with staffs in public-sector organizations | 1 | 2 | 3 | 4 |
- f. When your company is bidding for a project:
- | | | | | |
|---|---|---|---|---|
| Personal ties with managers at buyer firms | 1 | 2 | 3 | 4 |
| Personal ties with managers at supplier firms | 1 | 2 | 3 | 4 |
| Personal ties with managers at competitor firms | 1 | 2 | 3 | 4 |
| Personal ties with managers at SOEs in the same sector | 1 | 2 | 3 | 4 |
| Personal ties with managers at state-owned banks | 1 | 2 | 3 | 4 |
| Personal ties with managers at state-owned utility companies | 1 | 2 | 3 | 4 |
| Personal ties with members in business chambers or associations | 1 | 2 | 3 | 4 |
| Personal ties with leaders in central government | 1 | 2 | 3 | 4 |
| Personal ties with leaders in provincial government | 1 | 2 | 3 | 4 |
| Personal ties with leaders in local government | 1 | 2 | 3 | 4 |
| Personal ties with officials in regulatory organizations | 1 | 2 | 3 | 4 |
| Personal ties with official in supporting organizations | 1 | 2 | 3 | 4 |
| Personal ties with staffs in public-sector organizations | 1 | 2 | 3 | 4 |

g. When your company faces inappropriate expropriation of its assets and property:

Personal ties with managers at buyer firms	1	2	3	4
Personal ties with managers at supplier firms	1	2	3	4
Personal ties with managers at competitor firms	1	2	3	4
Personal ties with managers at SOEs in the same sector	1	2	3	4
Personal ties with managers at state-owned banks	1	2	3	4
Personal ties with managers at state-owned utility companies	1	2	3	4
Personal ties with members in business chambers or associations	1	2	3	4
Personal ties with leaders in central government	1	2	3	4
Personal ties with leaders in provincial government	1	2	3	4
Personal ties with leaders in local government	1	2	3	4
Personal ties with officials in regulatory organizations	1	2	3	4
Personal ties with official in supporting organizations	1	2	3	4
Personal ties with staffs in public-sector organizations	1	2	3	4

18 Social networks affect how the company structures their business strategies. Please circle the number that best describing your level of agreement about the following statements on personal ties and business strategy:

	1 = Strongly Disagree	2 = Disagree	3 = Neutral	4 = Agree	5 = Strongly agree
a. Good connections with government officials enable my company to respond to change of policy more quickly.	1	2	3	4	5
b. If I have good connections with the government officials in a city, my company is more willing to invest in long-term project there.	1	2	3	4	5
c. Good connections with managers in supplier firms enable my company to acquire more accurate information about the suppliers.	1	2	3	4	5
d. Good connections with managers in competitor firms enable my company to acquire more accurate information about the suppliers.	1	2	3	4	5
e. Good connections with managers in buyer firms enable my company to respond to change of the market more quickly.	1	2	3	4	5
f. Good connections with managers in competitor firms enable my company to respond to change of the market more quickly.	1	2	3	4	5
g. My company is more willing to invest in long-term projects with the firms in which I have a personal connection with its owner or manager.	1	2	3	4	5
h. Good connections with government officials enable my company to acquire financial resources easier.	1	2	3	4	5
i. Good connections with government officials enable my company to acquire new technology easier.	1	2	3	4	5
j. Cooperating with the firms in which I have a personal connection with its owner or manager can reduce the risk of breach of contract.	1	2	3	4	5

Section 5: Political participation:

19. By involving in different social networks and links, companies increase their ability to exercise political influence. Please circle the number that best describing your level of agreement about the following statements:

	1 = Strongly Disagree	2 = Disagree	3 = Neutral	4 = Agree	5 = Strongly agree
a. Becoming a member of CCP enables my company to experience less intervention from the government.	1	2	3	4	5
b. Becoming a representative of the People's Congress or CPPCC enables my company to experience less intervention from the government.	1	2	3	4	5
c. The government officials are more willing to share internal information in advance with my company if I am a member of CCP.	1	2	3	4	5
d. The government officials are willing to share information in advance with my company if I am a representative of the People's Congress or CPPCC.	1	2	3	4	5
e. The buyer firms are more willing to have long-term cooperation with my company in advance if I am a member of CCP.	1	2	3	4	5
f. The buyer firms are more willing to have long-term cooperation with my company in advance if I am a representative of the People's Congress or CPPCC.	1	2	3	4	5
g. The supplier firms are more willing to supply materials for my company without formal contract if I am a member of CCP.	1	2	3	4	5
h. The supplier firms are more willing to supply materials for my company without formal contract if I am a representative of the People's Congress or CPPCC.	1	2	3	4	5
i. I will pay more respect to my competitor if the owner of the company is a member of CCP.	1	2	3	4	5
j. I will pay more respect to my competitor if the owner of the company is a representative of the People's Congress or CPPCC.	1	2	3	4	5
k. It is easier for my company to get projects approved by the government if I am a member of CCP.	1	2	3	4	5
l. It is easier for my company to get projects approved by the government if I am a representative of the People's Congress or CPPCC.	1	2	3	4	5
m. Becoming a member of CCP enables my company to be more trusted by the government.	1	2	3	4	5

- n. Becoming a representative of the People's Congress or CPPCC enables my company to be more trusted by the government. 1 2 3 4 5
- o. It is more difficult for my company to acquire land if I am not a member of CCP. 1 2 3 4 5
- p. It is more difficult for my company to acquire land if I am not a representative of the People's Congress or CPPCC. 1 2 3 4 5
- q. It is more difficult for my company to receive preferential treatments from the government agencies if I am not a member of CCP. 1 2 3 4 5
- r. It is more difficult for my company to receive preferential treatments from the government agencies if I am not a representative of the People's Congress or CPPCC. 1 2 3 4 5

SURVEY QUESTIONNAIRE (IN CHINESE)

广东省私营企业社交网络问卷调查

请在你的选项处打勾
或
圈出适当的数字

第一部分：企业信息：

19 贵公司建立的年份： _____

20 贵公司主要行业： (只能选一项)

- 农业，林业，畜牧业和渔业
- 制造业
 - 造纸及纸制品业
 - 交通运输设备制造业
 - 电器机械及器材制造业
 - 通讯设备，计算机及其他电子设备制造业
 - 文教体育用品制造业
 - 其他制造行业 (请注明) _____
- 交通运输，仓储和邮政业
- 批发零售贸易业
- 住宿和餐饮业
- 其他行业 (请注明) _____

21 贵公司总部所在的城市：

- 广州 深圳 东莞 佛山
- 珠海 江门 中山 汕头
- 其他城市 (请注明) _____

22 您的公司是否有在其他行业经营的子公司？

- 是 (请回答问题 5 和 6)
- 否 (请回答问题 7)

23 请按重要性排列贵公司的子公司所处的行业（1 为最重要，2 为次之，如此类推）：

- 农业，林业，畜牧业和渔业
- 制造业
 - 造纸及纸制品业
 - 交通运输设备制造业
 - 电气机械及器材制造业
 - 通讯设备，计算机及其他电子设备制造业
 - 文教体育用品制造业
 - 其他制造行业 (请注明) _____
- 交通运输，仓储和邮政业
- 批发零售贸易业
- 住宿和餐饮业
- 其他行业 (请注明) _____

24 贵公司所有的分公司在广东省内经营的城市：

- 广州 深圳 东莞 佛山
- 珠海 江门 中山 汕头
- 其他城市 (请注明) _____

25 上一财政年度企业主要商务的规模：

- 员工人数： _____
- 年销售额 / 营业额： _____
- 销售额 / 营业额增长率： _____
- 纯利润： _____
- 纯利润增长率： _____
- 总资产： _____
- 总债务： _____
- 银行贷款占总债务百分比： _____

第二部分：个人信息：

26 职务： _____

27 您担任现今职位的时间： _____

28 性别： 男 女

29 年龄： 低于 30 岁 30-39 岁 40-49 岁 50-59 岁
60 以上

30 您的就学年限：
 少于等于 6 年 7 年到 9 年
 10 年到 12 年 多于等于 13 年

31 您的最高学历：
 小学 初中 高中
 大专或本科学历 硕士或博士学位

32 政治面貌：
群众 中共党员
其他民主党派人士 (请注明)_____

33 您曾经工作过的其他机构还有您在职的时间(请选择所有适用于您的选项)：
 政府和政府有关机 ()
构
 事业单位 ()
 国有企业 ()
 集体所有制企业 ()
 外资企业 ()
 其他私营企业 ()
 其他机构 ()

第三部分：社交网络：

34 社交网络对中国某些私营企业的经营有影响。与其他企业的管理人员和政府官员维持个人关系对企业的经营有所帮助。下列的数字表示在过去3年中，为商业的目的而运用的个人关系。请圈出能最好地描述您对不同关系运用程度的数字：

	没有 关系	非常 少量	少量	大量	非常 大量
n. 买方公司的管理人员	0	1	2	3	4
o. 供应商的管理人员	0	1	2	3	4
p. 竞争企业的管理人员	0	1	2	3	4
q. 处于同行业的国有企业的管理人员	0	1	2	3	4
r. 国有银行的管理人员	0	1	2	3	4
s. 国有公用事业企业的管理人员	0	1	2	3	4
t. 商会或协会的成员	0	1	2	3	4
u. 中央政府的领导	0	1	2	3	4
v. 省政府的领导	0	1	2	3	4
w. 地方政府的领导	0	1	2	3	4
x. 监管机构（如税务局）的官员	0	1	2	3	4
y. 其他支持部门（如工商行政管理部门）的官员	0	1	2	3	4
z. 事业单位，例如大学和研究机构的职员	0	1	2	3	4

第四部分：社交网络和商业策略：

35 根据下列不同的情况，请圈出最能描述不同个人关系重要性的数字：

1=不重要	2=有点重要	3=重要	4=非常重要
-------	--------	------	--------

h. 当您的企业需要对在某个城市投资长期项目作出决策时：

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

i. 当您的企业面临财政困难，需要得到更多的财政支持时：

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

j. 当您的企业需要更多的土地用于业务扩张:

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

k. 当您的企业需要获得除土地以外其他被政府控制的资源时 (如: 能源, 供水, 金属矿石或其他受规管的材料):

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

l. 当您的企业需要获得新的技术:

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

m. 当您的企业进行项目竞标时：

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

n. 当您的企业面对不当的资产征收:

和买方公司管理人员的个人关系	1	2	3	4
和供应商管理人员的个人关系	1	2	3	4
和竞争企业管理人员的个人关系	1	2	3	4
和同行业的国有企业管理人员的个人关系	1	2	3	4
和国有银行管理人员的个人关系	1	2	3	4
和国有公用事业企业管理人员的个人关系	1	2	3	4
和商会或协会管理人员的个人关系	1	2	3	4
和中央政府领导的个人关系	1	2	3	4
和省政府领导的个人关系	1	2	3	4
和地方政府领导的个人关系	1	2	3	4
和监管机构官员的个人关系	1	2	3	4
和其他支持部门官员的个人关系	1	2	3	4
和事业单位工作人员的个人关系	1	2	3	4

36 社交网络影响企业如何制定它们的商业策略。请指出您对下列关于个人关系和商业策略的句子的同意程度：

1 = 非常不同意	2 = 不同意	3 = 中立	4 = 同意	5 = 非常同意
-----------	---------	--------	--------	----------

- | | | | | | |
|---|---|---|---|---|---|
| k. 跟政府官员良好的关系使我的企业能更迅速地回应政策的变动。 | 1 | 2 | 3 | 4 | 5 |
| l. 如果我跟某个城市的政府官员有良好的关系，我会更愿意在那个城市投资长期的项目。 | 1 | 2 | 3 | 4 | 5 |
| m. 跟供应商的管理人员有良好的关系可以让我的企业获得关于供应商更准确的信息。 | 1 | 2 | 3 | 4 | 5 |
| n. 跟竞争企业的管理人员有良好的关系可以让我的企业获得关于供应商更准确的信息。 | 1 | 2 | 3 | 4 | 5 |
| o. 跟买方企业的管理人员有良好的关系可以让我的企业对市场的变动有更迅速的反应。 | 1 | 2 | 3 | 4 | 5 |
| p. 跟竞争企业的管理人员有良好的关系可以让我的企业对市场的变动有更迅速的反应。 | 1 | 2 | 3 | 4 | 5 |
| q. 如果我与对方企业的所有者或者管理人员有良好的关系，我的企业会更愿意与对方合作长期的项目。 | 1 | 2 | 3 | 4 | 5 |
| r. 跟政府官员有良好的关系让我的企业能更容易获得资金。 | 1 | 2 | 3 | 4 | 5 |
| s. 跟政府官员有良好的关系让我的企业能更容易获得新的技术。 | 1 | 2 | 3 | 4 | 5 |
| t. 与我和对方的老板或管理人员有个人联系的企业合作，能够降低违反合同的风险。 | 1 | 2 | 3 | 4 | 5 |

第五部分：政治参与：

20. 置身于不同的社交网络和联系中，企业能够提高自身影响政府决策的能力。请圈出最能表达您对下列说法同意程度的数字：

	1 = 非常不同意	2 = 不同意	3 = 中立	4 = 同意	5 = 非常同意
s. 成为中共党员能让我的企业经历少一些政府的干预。	1	2	3	4	5
t. 成为人大代表或政协委员能让我的企业经历少一些政府的干预。	1	2	3	4	5
u. 如果我是中共党员，政府的官员会更愿意预先跟我分享内部信息。	1	2	3	4	5
v. 如果我是人大代表或政协委员，政府的官员会更愿意预先跟我分享内部信息。	1	2	3	4	5
w. 如果我是中共党员，买方企业会更愿意跟我的企业长期合作。	1	2	3	4	5
x. 如果我是人大代表或政协委员，买方企业会更愿意跟我的企业长期合作。	1	2	3	4	5
y. 如果我是中共党员，供应商会更愿意提供材料给我的企业，即使没有正式的合约。	1	2	3	4	5
z. 如果我是人大代表或政协委员，供应商会更愿意提供材料给我的企业，即使没有正式的合约。	1	2	3	4	5
aa. 如果竞争企业的所有者是中共党员，我会更尊重他。	1	2	3	4	5
bb. 如果竞争企业的所有者是人大代表或政协委员，我会更尊重他。	1	2	3	4	5
cc. 如果我是中共党员，我的企业的项目能更容易获得政府的批准。	1	2	3	4	5
dd. 如果我是人大代表或政协委员，我的企业的项目能更容易获得政府的批准。	1	2	3	4	5
ee. 成为中共党员可以让我的企业得到政府更多的信任。	1	2	3	4	5
ff. 成为人大代表或政协委员可以让我的企业得到政府更多的信任。	1	2	3	4	5
gg. 如果我不是中共党员，我的企业在获取土地时会面临更多的困难。	1	2	3	4	5
hh. 如果我不是人大代表或政协委员，我的企业在获取土地时会面临更多的困难。	1	2	3	4	5
ii. 如果我不是中共党员，我的企业会更难享受到政府的优惠政策。	1	2	3	4	5

jj. 如果我不是人大代表或政协委员,我的企业会更难 1 2 3 4 5
享受到政府的优惠政策。

APPENDIX 3 CORE INTERVIEW QUESTIONS FOR SEMI-STRUCTURED INTERVIEWS

1. In your opinion, how important are social networks for doing business in China? Could you explain the importance of social networks concretely?
2. Are social networks more important for private firms than SOEs or COEs? If so, why?
3. Are social networks helpful in overcoming some disadvantages facing by private firms in the Chinese business environment? What problems can it deal with? Could you provide some examples or explain these in detail?
4. How often does your firm use social networks to solve problems in operations? What is the most common purpose in using social networks? Can you give an examples?
5. In theory, we divide social networks into two types. One is B2B networks, the other one is B2G networks. In your opinion, which one is more important for your company, and which do you use more often? Why?
6. What are the differences in establishing and maintaining B2B and B2G networks?
7. How do your personal social networks affect the business strategy of your company? For example, in access to financial resources, investing in long-term projects, acquiring resources, land, etc.
8. In your opinion, under the current situation of Chinese business environment, are there any good or bad effects for the company in using social networks to solve problems? Why?
9. About political participation, do you think it is helpful for your company if you become CCP members, or membership in PC or CPPCC? Do you think it will increase the acceptance of your company by the government agencies and other people? Why?

CORE INTERVIEW QUESTIONS FOR SEMI-STRUCTURED INTERVIEWS (IN CHINESE)

访谈主要问题:

1. 在您看来，社交网络对在中国做生意有多重要？具体体现在哪些方面？
2. 社交网络对私营企业作用，是否比对国有或集体企业更加重要？为什么？
3. 社交网络能否解决私营企业在中国的商业环境中的一些劣势问题？能解决哪些问题？可以提供一些例子或详细讲述吗？
4. 您的企业通过社交网络来解决企业营运上的问题频繁吗？最经常解决什么问题？有什么例子？
5. 在理论上，人们常把中国的社交网络分为两个大的种类，一个是企业与企业之间的关系，一个是企业与政府之间的关系，您觉得对您的企业来说，哪种关系更重要？运用得更频繁？为什么？
6. 建立和维持与政府的社交网络或与企业的社交网络有没有什么不同？
7. 您的私人社交网络对公司的决策有什么影响？例如融资、投资长期项目、获取资源、土地等？
8. 您觉得在中国目前的商业环境，运用关系来解决问题对企业来说有什么好的或不好的影响？为什么？
9. 关于政治参与，您觉得成为中共党员、人大代表或政协委员对您的企业有什么帮助吗？会不会让您的企业得到更多人或政府的肯定？为什么？