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Ties to Unbind: Political Ties and Firm Sell-Offs During Institutional Transition

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We examine how formal interlocking political ties between business leaders and political actors affect sell-off strategy of firms in emerging markets. We propose that political ties substitute for underdeveloped institutions and provide firms with market intermediation, influence over political actors, and access to resources. These benefits increase the likelihood that firms with political ties will exit through sell-offs, which is an adaptation strategy in emerging markets. We propose that the effectiveness of political ties in facilitating sell-offs is contingent on the type of political ties and the state of institutional development. Empirically, we evaluate 280 television manufacturers in China between 1993 and 2003. Results show that political ties can help firms exit through sell-offs but that these effects are primarily from ties to actors with executive authority rather than legislative authority. The value of executive ties declines with capital market development, while that of legislative ties increases with legal system development. We show that political ties help firms exit an industry, clarify the conditions under which they are valuable during institutional transition, and improve understanding of the seller's perspective in acquisitions.

Keywords: *political ties; sell-offs; industry exit; institutional transition; emerging economies*

Emerging economies feature new opportunities for businesses through economic growth, deregulation of industries, and privatization of state enterprises (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005; Xu & Meyer, 2013). Such

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development often leads to rapid firm entry, heightened competition, increased uncertainty, and excess capacity. As a result, emerging economy firms frequently reorganize their resources, exiting current industries and entering emerging ones (Hoskisson et al.). However, the current literature on strategy in emerging economies focuses largely on one side of the story—market entry and survival (e.g., Wright et al.)—and pays little attention to industry exit through sell-offs. This gap is significant as entry into new sectors is often correlated with exit from current industries. In addition, firms in most emerging economies are not freely tradable because of substantial government intervention and inefficient markets for corporate control. Examining how firms may utilize their political connections to exit successfully will improve understanding of strategy in emerging economies.

Research shows that a diversified profile can contribute to firm profitability in emerging economies in some circumstances (Chakrabarti, Singh, & Mahmood, 2007; Khanna & Palepu, 1997), which may encourage industry entry and exit. From the perspective of resource restructuring, industry exit by selling the firm offers greater benefits than dissolution and constitutes a major strategic option for firms (Brauer & Wiersema, 2012; Mitchell & Singh, 1993). While a sell-off removes a firm from an industry, it preserves the firm's resources and assets to a substantial degree, allowing the firm to redeploy its resources and assets for more effective use (Brauer & Wiersema; Capron, Mitchell, & Swaminathan, 2001; Fortune & Mitchell, 2012). For example, studying 370 divestitures, Mulherin and Boone (2000) found that the mean abnormal return for assets sales is 3.04%, suggesting that sell-offs can be an attractive strategy for firms.

This is particularly the case in emerging economies, where economic change and restructuring are often compressed into a short period of time. Under such circumstances, selling businesses and preserving resources for entry into emerging fields is a viable adaptive strategy. For example, Li Yunwu, CEO of the large Chinese electronics firm Furi, revealed that "our strategy was to sell our shares in televisions and leave the industry, and try to allocate resources on computers and other IT-related fields" (Chou, 2001).

In this paper, we study how connections to political organizations influence firm sell-offs. Research on political ties shows that politically linked firms benefit from privileged access to information and resources (Claessens, Feijen, & Laeven, 2008; Khwaja & Mian, 2005), which may allow insolvent firms to continue operating (Johnson & Mitton, 2003; Khwaja & Mian). However, the literature on political ties has yet to evaluate the potential role that these ties may play in facilitating industry exit. In emerging economies, firms without political ties may find it difficult to sell off as a result of weak institutional development and strong state control. We argue that firms with political ties may deliberately choose to exit an industry as an adaptation strategy (Burgelman, 1996). This may be particularly important when competition and environmental uncertainty increase and more attractive opportunities emerge in other industries (Brauer & Wiersema, 2012; Fortune & Mitchell, 2012; Mitchell & Singh, 1993).

Engaging resource dependence theory (Pfeffer & Salancik, 1978) and institutional economics (North, 1990), we propose a framework for how political ties facilitate sell-offs. We suggest that political ties increase the likelihood of firm exit through sell-offs by providing market intermediation, influencing politicians' administrative fiat, and providing resources.[1] The effects of political ties also vary according to the linked political actors. Ties that link firms to powerful political actors are likely to be more valuable than connections to marginal

agencies with limited resources. Furthermore, political ties function differently under different institutional conditions. We adopt a nuanced approach that disaggregates the key institutional infrastructure related to sell-offs into capital markets and legal systems and argue that the effects of political ties vary according to the different development rates of these institutions (Acemoglu & Johnson, 2005; Michelson, 2007). This framework allows us to integrate institutional economics and resource dependence theory to inform research on political ties.

We focus on interlocking political ties that arise when a current senior business leader holds or previously held a senior position in a key political or government organization or when a current senior politician or government official holds or previously held a top position in a business. These ties tend to be strong because the same person occupies (or occupied) positions in both business and political spheres (Lester, Hillman, Zardkoohi, & Cannella, 2008). These political ties may coexist with other connections, such as informal ties that result from family and social relationships. Although informal ties can be useful, their effects tend to be more uncertain than formal interlocking ties because they often rely on third-party intermediation between the firm and political power. Interlocking political ties can also be identified reliably since these ties are often disclosed whereas informal ties are not.

We test our hypotheses with a unique data set of the TV manufacturing industry in China for the period 1993 to 2003. Amidst China's rapid economic growth during this period, firms exited from a range of industries, including TV manufacturing, because of heightened competition and more attractive opportunities in other sectors (Krug & Hendrischke, 2008; Xie & Wu, 2003). However, firms were often constrained from selling off because of ineffective markets for corporate control and regulatory restrictions (Huang, 2003; Sokol, 2013). TV manufacturing in the 1990s provides an ideal context for our study because of the importance of political ties in China, many exits from the industry, and substantial institutional change. Although we use China as our empirical context, our results can be generalized to other similar contexts.

We intend to make several contributions. First, we contribute to the literature on emerging economy strategy. Sell-offs have been misunderstood "as mirror images of mergers and acquisitions" (M&As; Brauer, 2006: 752) and have been underexplored as an important firm strategy (Berry, 2010). Although recent studies have explored sell-offs as an adaptation strategy in developed markets (Fortune & Mitchell, 2012), sell-offs may function differently in emerging economies where firms are not freely tradable. We contribute to the emerging economies strategy literature by examining how political ties influence firm exit through sell-offs. Second, we contribute to the literature on political ties (Hillman, Keim, & Schuler, 2004; Lester et al., 2008) by establishing a framework for how business-government ties facilitate industry exit. This issue is critical as current studies often assume that firms prioritize survival and use political ties to reduce their risk of failure (e.g., Faccio, Masulis, & McConnell, 2006). Third, our framework helps to clarify the debate on whether the value of political ties declines or increases during institutional transition. While several studies propose that the value of political ties declines with institutional development (Guthrie, 1999; Nee, 1996), others highlight the persisting value of political ties (Michelson, 2007). We propose a contingent framework that embraces types of ties and institutional components to shed new light on this debate. Finally, we respond to calls for greater attention to firms' exit

strategies (Berry; Brauer & Wiersema, 2012) by evaluating the role of political ties in sell-offs from the seller's perspective (Graebner & Eisenhardt, 2004).

Political Ties and Sell-Offs During Institutional Transition

Sell-Offs

Sell-offs are complex, information- and resource-intensive transactions that heavily rely on market intermediaries (Servaes & Zenner, 1996). Divesting firms need to clarify ownership rights, identify potential buyers, propose a price, and obtain stakeholders' approval. Acquirers need to identify and value the target, negotiate a price, obtain approvals, arrange financing, and seal agreement. These processes are typically intermediated by market institutions, such as investment banks, analysts, brokers, law firms, and stock exchanges. In developed economies, markets for corporate control are relatively well developed, and research has paid little attention to the institutional contexts in which sell-offs take place (Brauer, 2006). We suggest that underdeveloped intermediaries and state intervention in emerging economies create distinct institutional contexts for sell-offs.

Sell-Offs in Emerging Economies During Institutional Transition

Many emerging economies moved towards market-oriented institutions from the late 1970s by reducing regulation and encouraging trade and investment within and across borders (Sachs, Warner, Åslund, & Fischer, 1995). Change, uncertainty, and domestic and foreign entrants typically follow such transition, increasing competition and reducing incumbent firms' profitability (Hoskisson et al., 2000). In particular, former state-owned firms may face particular challenges in adapting to competitive conditions and to the reduction of state support. These firms may choose to exit to avoid actual or prospective underperformance. At the same time, new markets, industries, and opportunities appear during transition, offering firms better prospects than in their current operations. The new opportunities offered by emerging sectors, coupled with growing complexity and uncertainty in their existing industries, often drive incumbent firms to restructure their business portfolios (Guillén, 2000). Firms may choose to sell off existing operations to raise resources for deployment in new sectors. However, underdeveloped market institutions may hinder incumbent firms' sell-off strategies.

Many economies undergoing institutional transition continue to feature substantial state involvement (Xu & Meyer, 2013). The sale of firms is often associated with political control and social agendas (Huang, 2003; Khanna & Palepu, 1997). Sell-offs may be constrained to prevent market concentration, maintain employment, protect public interests, and prevent acquisitions by foreign buyers (Huang; Siegel, 2007; Uhlenbruck & de Castro, 1998). Such intervention provides political actors with substantial discretion (Henisz, Zelner, & Guillén, 2005; Khanna & Palepu). Divesting firms may not be free to choose when and to whom they may sell, and buyers may be restricted to certain targets. Under conditions in which firms are not freely tradable, incumbents may rely on their political ties to initiate and complete sell-offs.

We propose a framework that explains how connections to government and political organizations influence firm sell-offs in emerging economies. Although we evaluate the effects of

political ties under conditions of institutional development in China, our arguments and hypotheses are generalizable to other contexts where government-business ties are common, political power is held by one party over extended periods, there is separation between the executive and the legislative arms of government, and formal interlocking political and business appointments exist. In these economies, firms may benefit from ties with political actors in similar manner to firms in our research context.

Political Ties and Sell-Offs: Intermediaries, Influence, and Resources

We propose that political ties may facilitate industry exit through sell-offs by providing intermediation, influence, and resources.

Intermediation. Institutional economics indicates that the institutional environment shapes firms' strategies and performance by denoting the rules, rewards, and constraints for economic behavior (North, 1990). The set of interrelated rules and norms constructs market intermediaries and shapes how markets function. Research has shown that political ties may be useful in economies with weak financial and legal institutions because they substitute for inadequate market infrastructure, reduce transaction costs, and facilitate exchanges (Peng & Luo, 2000; Xin & Pearce, 1996). We suggest that political ties may serve as market intermediaries in the sell-off process.

Influence. Resource dependence theory proposes that organizations are "constrained and affected by their environment and act to attempt to manage these resource dependencies by setting up different forms of inter-organizational arrangements" (Pfeffer & Salancik, 2003: xxxiii). This theory suggests that political ties may serve as a form of cooptation that provides firms with a channel through which to influence the enactment, interpretation, and implementation of laws, rules, and regulations (Bonardi, Holburn, & Vanden Bergh, 2006; Pfeffer & Salancik, 1978). Firms may also use their political ties to "avoid, defy or manipulate" constraining laws, rules, and regulations or to shun their enforcement (Oliver, 1991: 152). As an example, connected firms may use political ties to influence regulations for lower (or preferential) standards by which they are evaluated. Bonardi et al. demonstrate that connected firms influenced regulatory agencies to obtain rate increases in the electricity industry.

Resources. Resources are tangible and intangible assets that provide competitive benefits (Wernerfelt, 1984). The resource dependence literature suggests that interorganizational arrangements such as board interlocks with important resource providers create conduits for access to such tangible and intangible benefits (Mizruchi, 1996). Firms with successful coopting strategies, such as having a politician on their board, may obtain various resources from political organizations, such as tacit information and bank loans. These benefits facilitate industry exit through sell-offs.[2]

Contingencies of ties and institutions. While institutional economics and resource dependence theory suggest that political ties may facilitate sell-offs by providing intermediation, influence, and resources, the theoretical constructs of heterogeneity of dependence and the

differential rate of institutional change in these theories suggest two contingencies on the functioning and effectiveness of the three mechanisms. First, resource dependence theory suggests that it is important to establish the specific forms of ties or cooptation that can help firms manage their environment (Hillman, Withers, & Collins, 2009). In other words, the theory recognizes that different government agencies or officials may offer different resources, influence, and legitimacy. Lester et al. (2008) find that ex–government officials join corporate boards at different rates because of heterogeneity in their human and social capital. This indicates that firms purposefully seek directors who have the best ability to manage their dependence (Pfeffer & Salancik, 1978). In this study, we highlight the distinction between ties to executive authorities ("executive ties") and ties to legislative authorities ("legislative ties") because of differences in their positional power and status in the political process and in the resources and influences they may provide (de Figueiredo, 2009).

Second, institutional economics highlights the multiple levels of institutional rules that govern contracts and transactions and the path-dependent nature of changes to these rules (North, 1990: 73-104). These characteristics of institutions and institutional change suggest that the institutional environment is multidimensional and that various components develop at different rates (Acemoglu & Johnson, 2005; North, 2005). During institutional transition, some components may move rapidly towards market orientation, while others may lag and some even regress (Makhija, 2004; Nee, 1996; Walder, 1995). Following these insights, we disaggregate the institutional infrastructure to focus on capital markets and legal systems, two institutional dimensions that have substantial influence on sell-offs and that often develop at different rates in emerging economies (Acemoglu & Johnson; Michelson, 2007). This allows us to estimate the impact of institutional development on the value of political ties.

In Figure 1, we present an integrative model derived from institutional economics and resource dependence theory to motivate our hypotheses.

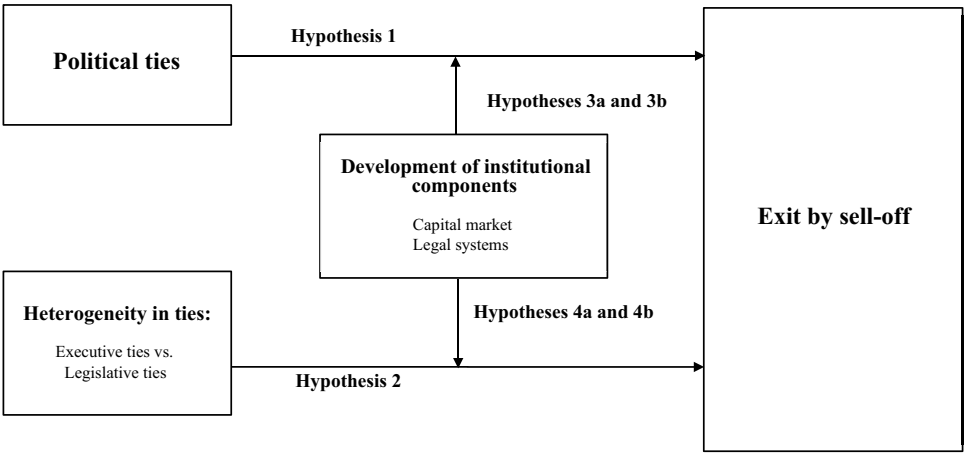
Hypotheses

Ties and Sell-Offs

Building on the framework, we now develop specific hypotheses for how intermediation, influence, and resources provided by political ties facilitate sell-offs. First, political ties may play two intermediation roles in sell-offs: providing market intermediaries and signaling legitimacy, which allow political ties to facilitate sell-offs by reducing both ex ante and ex post market transaction hazards (Khanna & Palepu, 1997). Before a sell-off, political ties may help the divesting firm find potential buyers. Such private information or referrals are particularly useful in emerging economies where information asymmetry is often high (Khanna & Palepu). In our research context of China, the government of Shaanxi Province introduced two potential acquirers to Huanghe Electronics (a large TV maker), and one of the two eventually acquired Huanghe Electronics in 1996. After the firm and buyer reach agreement, political actors may facilitate closure by guaranteeing contractual terms and by approving post-sell-off restructuring (Wang & Han, 2008).

Political ties can also signal legitimacy to potential buyers (Hillman, 2005; Hillman, Zardkoohi, & Bierman, 1999). Association with government or political actors with high levels of legitimacy can provide firms with "spillover" legitimacy (Pfeffer & Salancik, 1978). Buyers are more likely to proceed with acquisitions when selling firms are affiliated with desirable actors, such as prominent investment banks and alliance partners (Podolny,

Figure 1
Impact of Political Ties on Exit by Sell-Offs



1993) because ties to high-status actors serve as observable indicators of attachment or "gestures of approval" (Gould, 2002: 1147). Signals of valuable assets are important during sell-offs, particularly in emerging economies, because of inadequate intermediaries, such as business media, analysts, and other information and credit-checking sources (Khanna & Palepu, 1997).

Second, political ties can help firms to influence political actors to remove obstacles and to complete sell-offs through cooptation. Firms may use their ties to obtain favorable rules, exemption from constraints, or approval of the sale (Brockman, Rui, & Zou, 2013; Oliver, 1991; Wang & Han, 2008), all of which reduce regulatory uncertainty. Brockman et al. show that if an acquisition triggers antitrust investigations, regulatory agencies can help connected firms by relaxing regulatory standards. In China, M&A rules dictate that acquirers shoulder sellers' liabilities, including accrued financial charges. However, according to the Ministry of Commerce in China, in the sell-off of Huanghe Electronics, the seller used political ties to influence state-owned banks to waive the acquirer's interest obligations.

Third, political ties can bring in resources that enhance the attractiveness of sellers and the effectiveness of the sell-off process (Brockman et al., 2013). Political ties can provide tangible resources such as bank loans and the injection of other assets for "window dressing" to make the target more attractive (Huang, 2003). Political ties may also provide information and specific knowledge on regulations and political processes (Jia, 2014), allowing firms to overcome constraints to sell-offs. For an acquirer, a seller's political ties may be a valuable resource, particularly if the acquirer seeks to establish itself in a region or industry. In our research context, Neimenggu Electronics received monetary and other resources provided by the government when the firm was attempting to sell off, which sped up the process of locating a buyer (IRICO Group) and the sale of the firm. Moreover, in the case of Huanghe Electronics, the local government provided eight tailored privileges, including bank loans and tax breaks, according to the Ministry of Commerce, which shortened negotiations and facilitated the deal. We therefore propose the following hypothesis:

Hypothesis 1: Firms with political ties are more likely to exit an industry through sell-offs than through dissolution relative to firms without political ties.

In our hypotheses, we focus on the likelihood of exit through sell-offs relative to exit through dissolution. Meanwhile, studies on political ties have demonstrated that the influence and resources obtained from political ties enhance firm survival (Faccio et al., 2006; Johnson & Mitton, 2003; Zheng, Singh, & Mitchell, in press). We therefore focus on the contrasting effects of ties on sell-offs and dissolution while exploring the impact of political ties on the likelihood of survival relative to exit by dissolution empirically.

The Heterogeneity of Dependence: Executive and Legislative Ties

In terms of intermediation, influence, and resources in the sell-off process, government executives may have the ability to provide greater benefits than legislators. Government executives have greater administrative fiat owing to their control of resources and budgets and the awarding of licenses and permits. These officials typically have considerable latitude in interpreting and implementing policies and regulations, which may not be sufficiently detailed to address the specifics of each business transaction (de Figueiredo, 2009; Okhmatovskiy, 2010). Such authority and control of resources make ties to government executives particularly useful for reducing information asymmetry and transaction costs, influencing the regulatory environment, and obtaining direct access to regulatory privileges. In contrast, legislators focus on designing legislation, laws, and budgets and have weaker influence over state administration and less control of resources (Bonardi et al., 2006; de Figueiredo). Legislative ties will thus provide weaker intermediation, influence, and resource benefits for firms. Faccio (2006: 383) examined political ties in 47 democratic and one-party countries and showed that ties through government officials were associated with a stock price premium of 12.31%, while ties through parliament members were associated with a premium of 1.28%.

For sell-offs, government executives in emerging economies are likely to have substantial discretion, as underdeveloped institutions and the complexity of these transactions make the existence of clear and comprehensive guidelines unlikely (Litwack, 1991). As a result, firms will be more dependent on political organizations with the authority to enforce rules and regulations and the ability to commit resources than on those with weaker or indirect authority (Holburn & Vanden Bergh, 2008). Such dependence will make executive ties more useful than legislative ties in facilitating firms' sell-off strategies. In turn, firms will prioritize the use of executive ties for their intermediation, influence, and access to resources to facilitate sell-offs. We therefore hypothesize the following:

Hypothesis 2: Firms with executive ties are more likely to exit an industry through sell-offs than through dissolution, relative to firms with legislative ties.

Differential Institutional Development: Capital Markets and Legal Systems

Current studies have yet to achieve consensus on how institutional transitions may change the role of political ties. While some (e.g., Guthrie, 1999; Nee, 1996) propose that firms' dependence on political agencies will decline as market alternatives emerge, others argue

that dependence will persist during transition (Michelson, 2007). One possible reason for these inconsistent views is that most studies do not consider that components of the institutional environment may develop at different rates (Nee & Opper, 2010). For example, in the 1980s and 1990s, China installed institutions that liberalized certain markets, foreign investment, and trade, while the legal system and property rights protection lagged (Nolan, 2004).

We conceptualize and operationalize the institutional environment as a set of related institutions rather than as an integrated, single-dimensional entity. We therefore disaggregate the institutional infrastructure to focus on capital markets and legal systems, two dimensions that have substantial influence on sell-offs and that often develop at different rates in emerging economies (Acemoglu & Johnson, 2005). We evaluate how their development affects the value of political ties.

Capital markets. In emerging economies, financial information, credit ratings, asset valuations, risk assessment, and information are less available and more costly (Leff, 1976), hindering access to capital and transactions. Ties to politicians who can influence state-controlled financial institutions help firms to overcome such constraints (Claessens et al., 2008; Khwaja & Mian, 2005). However, as capital markets develop, new market intermediaries are established, rules and regulations for corporate control are formalized, and additional options for raising resources emerge (Nee & Opper, 2010). Firms can resort to new intermediaries, such as stock exchanges, venture capitalists, private investors, and brokerage analysts to raise and dispose assets, to obtain information on potential buyers, to enforce rules, and to facilitate transactions (Čihák, Demirgüč-Kunt, Feyen, & Levine, 2013). Such alternatives may reduce firms' dependence on political agencies and, thus, the influence of political ties. A large-scale survey of financial institutions in 74 countries showed that the development of financial intermediaries reduced information asymmetry and transaction costs and facilitated exchanges (Levine, Loayza, & Beck, 2000). In the case of China, many new intermediaries emerged in banking, securities, insurance, and fund management after the country's establishment of two stock exchanges in the early 1990s. Research shows that with the development of credit markets in China in the 2000s, political ties provided fewer advantages in credit access for connected firms (Nee & Opper). Capital market development thus reduces the impact of political ties in market intermediation and resource access in the sell-off process. We propose the following hypothesis:

> *Hypothesis 3a:* The likelihood that firms with political ties will exit an industry through sell-offs than through dissolution will decline with capital market development.

Legal systems. The development of legal systems has a more complex impact on political ties and sell-offs than that of capital markets. The general understanding is that the development of legal institutions improves property rights protection, reducing the effects of state intervention (North, 1990). Nevertheless, legal systems tend to be deeply embedded in political regimes and are resistant to change (Acemoglu & Johnson, 2005; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Even with overall institutional development, a country's legal system tends to remain closely allied with its political interests and ideology (Michelson, 2007; Potter, 1999), allowing for "frequent discretionary political intervention" (Opper, 2007: 16). In addition, institutional development typically leads to greater elaboration of laws

through the initiation of new legislation and laws, making legal frameworks more complex (Michelson). For example, business leaders in China reported that the legal framework was the most complex and uncertain dimension of change in the environment (Tan & Litschert, 1994).

Specifically, legal system development can affect sell-offs by increasing firms' dependence on political organizations that enact, interpret, and enforce laws and regulations related to sell-offs. Firms may coopt these political organizations to influence the amendment or enactment of specific laws (de Figueiredo, 2009) and to obtain tacit knowledge, private information, and understanding of unwritten rules on the interpretation of such laws and regulations (Tan & Litschert, 1994). Improved understanding of regulations and implicit rules helps firms to reduce uncertainty and transaction costs and to navigate new regulations more effectively (Hillman, 2005; Michelson, 2007; Pfeffer & Salancik, 1978).[3]

Firms may also use ties to influence enforcement in their favor (de Figueiredo, 2009; Sokol, 2013). Though legislators have relatively limited direct power, they can influence officials with executive authority to act or forbear in the enforcement of rules and regulations to facilitate sell-offs. These efforts are likely to increase in effectiveness with legal systems' development, which may increase legislators' bargaining power over executive authority, arising from legislators' ability to amend existing laws or enact new laws. Therefore, legal system development can increase the value of political ties "not only despite, but because of marketization" (Parish & Michelson, 1996: 1045). We propose the following:

Hypothesis 3b: The likelihood that firms with political ties will exit an industry through sell-offs than through dissolution will increase with legal system development.

Heterogeneity of Dependence and Differential Institutional Development

The characteristics of the institutional environment will create heterogeneity in ties' effectiveness in reducing environmental uncertainty and dependence for firms. As different institutional components develop at different rates, they may influence the intermediation, influence, and resources that specific political agencies can provide, ultimately affecting the usefulness of ties to these agencies. We consider the heterogeneity of political ties and the development of component institutions simultaneously and examine whether the effects of executive and legislative ties vary with the development of capital markets and legal systems.

Capital markets. Capital market development reduces firms' dependence on government-controlled financial institutions for capital and intermediation, reducing the value of ties to government officials (Krug & Hendrischke, 2008; Nee & Opper, 2010). Capital market development builds on the introduction of stronger market mechanisms, rules, procedures, and monitoring (Čihák et al., 2013; Henisz et al., 2005) and, thus, limits the resources under government officials' discretion. Alternate sources of resources and intermediation, together with greater constraints and market monitoring, reduce the influence of government executives (Nee, 1996). These moderating effects are likely to be stronger for executive ties, which have direct control over resources, than for legislative ties, which have indirect access to resources.

Nee and Opper (2010) show that the development of credit markets in China in the early 2000s reduced the effectiveness of political ties arising from CEOs who previously held government positions in providing access to financial resources. We thus propose the following:

Hypothesis 4a: With capital market development, the likelihood that firms will exit an industry through sell-offs than through dissolutions will decline more for firms with executive ties than for firms with legislative ties.

Legal systems. Legal system development affects executive and legislative ties in distinct ways. Legal system development requires the enactment of new legal frameworks and the modification of existing ones, tasks that legislative bodies are primarily responsible for (de Figueiredo, 2009). The complexity and newness of legislation, laws, and legal agencies during institutional transition afford legislative bodies considerable discretion in initiating and interpreting laws and policies (Sokol, 2013). The process model of policy and business response indicates that during the initiation and selection stages of new laws or policies, firms may use their legislative ties to prevent the adoption of new laws and regulations or to bargain for limited application and lower assessment standards (Rivera, 2010: 27). Thus, legislative ties may gain in value when legal systems develop. As new laws become institutionalized, the tasks of implementing and enforcing these laws and regulations typically fall under the purview of executive agencies (Rivera). However, as legal system development is often intertwined with political interests and ideology (Acemoglu & Johnson, 2005; Michelson, 2007), institutionalizing these new laws and regulations can be lengthy processes. This may maintain or even increase the value of legislative ties relative to executive ties in facilitating sell-offs. North suggests that the process of institutional change is "overwhelmingly an incremental one" because change typically "consists of marginal adjustments to the complex of rules, norms, and enforcement that constitute the institutional framework" (1990: 83). Such incremental changes in legal system development are likely to enhance the value of legislative ties relative to that of executive ties. Empirical research indicates that the development of more elaborated and complex legal systems, such as those involving property rights protection and contract enforcement, enhance the value of ties to legislative bodies in facilitating firm growth in China (Lu, 2011).

In addition, increasingly open legal systems during institutional transition are associated with greater influence for legislative bodies because of their expanded role and independence in enacting new legislation and in balancing the executive arm of the state (Henisz, 2000). In China, for example, the political structure evolved from a one-party authoritarian system to a more pluralist system, increasing the relative power of the legislative branch (Jia, 2014).

Hence, changes in the legal system as a result of institutional transition will increase the relative value of legislative ties in providing intermediation, influence, and resources. We propose the following hypothesis:

Hypothesis 4b: With legal system development, the likelihood that firms will exit an industry through sell-offs than through dissolution will increase more for firms with legislative ties than for firms with executive ties.

Research Context, Data, and Measures

China and the TV Manufacturing Industry

China liberalized many industries in the 1990s to comply with the membership requirements of the World Trade Organization. At the same time, political actors continued to have substantial influence over the economy (Nee, 1996; Potter, 1999; Sokol, 2013). Communist Party leaders retained control of resources, set agendas for economic development, and participated in the governance of state-owned enterprises (SOEs) and related businesses (McGregor, 2010; Nolan, 2004; Potter). Many managers entered politics to gain access to government officials, while the Communist Party recruited senior business leaders to form the ranks of party representatives, government officials, and legislators (Jia, 2014; H. Li, Meng, Wang, & Zhou, 2008). Such boundary-spanning appointments created interlocking political ties (H. Li et al.; Opper, 2007).

In the meantime, capital markets developed rapidly. According to the *China Securities and Futures Statistical Yearbook*, the number of listed firms grew from 183 in 1993 to 1,287 in 2003, with total market capitalization increasing sevenfold. The legal system evolved through the introduction of new laws and regulations related to industries, companies, and contracts. However, the legal system struggled to keep pace with the development of business and financial institutions and could not provide consistent rules regarding property rights protection and major economic transactions (Sokol, 2013). The system also lacked qualified lawyers and judges and other elements associated with well-functioning legal systems, such as independence and transparency (Michelson, 2007).

Firm sales and acquisitions were heavily constrained for social and political reasons, despite the development of capital markets (Huang, 2003; Sokol, 2013). The sale of SOEs required government authorization, and the sale of private firms was subject to governmental review (China Private Enterprise Exchange, 2012; Shanghai Municipal Government, 2004). As a result, there were few sell-offs prior to the 1990s (Huang). However, economic liberalization increased sell-offs and dissolutions in the 1990s as firms sold off or discontinued operations to redeploy resources in new growth industries (Krug & Hendrischke, 2008). Nevertheless, China's markets for corporate control remained constrained in the 1990s, relative to those of developed economies (Brockman et al., 2013; Huang; Wang & Han, 2008).

The TV manufacturing industry followed a similar path of evolution. The Chinese government abolished most controls in 1992 and allowed greater growth and competition (Xie & Wu, 2003). China's TV manufacturing industry became the world's largest in the 1990s (Xie & Wu). However, excess capacity and intense competition, combined with new opportunities in other sectors, caused many firms to voluntarily exit the industry (Xie & Wu).

Sources

We assembled a unique longitudinal data set to study political ties and sell-offs. We obtained economic and industry data from the *China Statistical Yearbook* and the *China Electronics Industry Yearbook*, which are published by China's National Bureau of Statistics and the Ministry of Information Industry, respectively. We collected firm sell-off and dissolution information from *China Electronics News*, the most comprehensive publication on the electronics industry in China. We verified sell-off and dissolution information through

Table 1
Chinese TV Manufacturing Industry, 1993 to 2003

Year	Total industry sales[a]	Foreign share (%)[b]	Ownership				Total firms	Political ties formed	Dissolutions	Sell-offs
			SOE	Collective	Private	Foreign				
1993	4.91	2.52	78	5	2	2	87	0	1	1
1994	3.60	9.63	93	20	5	4	122	1	3	3
1995	3.87	22.81	112	26	13	5	156	2	8	5
1996	4.45	32.58	121	33	22	9	185	3	14	3
1997	5.32	31.68	120	36	27	11	195	3	15	9
1998	7.38	14.45	112	32	28	9	181	3	2	1
1999	8.39	15.74	120	35	39	16	210	3	22	1
2000	8.55	23.50	115	29	50	13	207	0	35	2
2001	8.71	29.49	94	16	47	13	170	5	30	0
2002	13.07	21.02	60	10	62	20	152	4	5	1
2003	20.45	17.37	51	6	66	20	143	2	0	0
Total									135	26

Note: SOE = state-owned enterprises; Collective = collectively owned enterprises formed by the government and local communities or institutions; Private = privately owned companies formed by Chinese citizens or institutions, including shareholding corporations; Foreign = foreign wholly owned subsidiaries or international joint ventures; Dissolutions = firms that shut down or discontinued their TV manufacturing operations (regardless of whether they continued operations in other businesses); Sell-offs = firms changed ownership.

[a]In US$ billions, converted from renminbi by using year-end exchange rates, and obtained from the *China Electronics Industry Yearbook*.

[b]Foreign manufacturers' share of the TV market in China.

Internet searches. Data on political ties came from a variety of sources, as we explain below. Finally, we obtained other firm data from Wanfang Data Company, a unit of China's Ministry of Science and Technology.

We first identified 330 firms that had operated in the industry since the 1980s. We dropped 50 of these firms for whom data were not available. Our final data set comprised 280 firms whose sales accounted for 90% to 95% of total industry sales over the research period. In total, we have 11 years of data, comprising an unbalanced panel of 280 firms and 1,555 firm-years. Table 1 provides information on our sample, industry, and number and types of exits.

Dependent Variables

Firms in our sample may experience one of three outcomes: sell-off, dissolution, or survival. Our dependent variable thus took three values: 0 if the firm experienced dissolution, 1 if the firm was sold off, or 2 if the firm continued to operate. As we are interested in sell-offs, our analysis focused on the likelihood of sell-offs relative to dissolutions (1 vs. 0) while testing for the effect of survival relative to dissolutions (2 vs. 0). We conducted a content analysis of *China Electronics News* and other sources, identifying 26 exits through sell-offs. All cases involved the sale of more than 50% of firm ownership. We identified only four sales prior to 1993. All firms that were acquired and that continued to operate as independent firms reentered the data set under their new identity. The political ties of these acquired firms were

Table 2
Firms and Political Ties in China's TV Manufacturing Industry

	Firms in the industry at any time between 1993 and 2003	Firms that survived until end of 2003	Firm sell-offs to end of 2003	Firms dissolved to end of 2003
With ties	33 (10.9)	20 (14)	11 (42.3)	2 (1.5)
Without ties	271 (89.1)	123 (86)	15 (57.7)	133 (98.5)
Total	304	143	26	135

Note: Percentages are shown in parentheses.

transferred to the new entity. We did not treat ownership changes of parent corporations as sell-offs because they did not relate directly to the TV manufacturing business. Exit through dissolution was recorded if a firm discontinued its operations in the industry or ceased to exist as a corporation without being acquired by another firm. We identified 135 dissolutions.

Explanatory Variables

Interlocking political ties. We measured political ties through overlaps between each firm's top six management positions and senior positions in key government, political, and legislative organizations. Top management included executives with the following titles, which are typical senior management positions in Chinese firms: CEO, president, chairperson, general manager, marketing manager, and merchandising manager. Appendix A describes how we identified ties between managers and leaders in key units of the government, the Communist Party, and China's two legislative bodies.

Political ties is an indicator variable that took the value of 1 if at least one member of a firm's top management team held a senior position in a political organization during or prior to our study period. We tested an alternate measure, the number of political ties, in robustness tests.

We identified 55 political ties among 33 firms. The relatively small number of ties is consistent with our focus on interlocking ties between top management and senior politicians and with the concentration of power among small, elite groups in politics and business in China (Opper, 2007). We classified 21 ties (38%) as being government/party ties (24% from the government, 14% from the party), which we regard as executive ties, and 34 ties as legislative ties (62%), which primarily involve a legislative authority. Seven firms had both executive and legislative ties. Political ties were distributed approximately equally among firms of various sizes but were more frequent among firms in China's coastal regions.

Table 2 summarizes information on the number and types of political ties and industry exits. The large number of dissolutions relative to sell-offs reflects the competitive nature of the TV manufacturing industry in China. Of the 13 firms with political ties that exited, 84.6% (11 of 13) did so through sell-offs, while only 10.1% (15 of 148) of firms without political ties exited through sell-offs. Political ties also enhanced survival, with 60.6% (20 of 33) of firms with ties surviving until the end of our study period, higher than the 45.4% (123 of 271) of firms without ties.

Institutional development. To measure development in *capital markets*, we adopted three commonly used indicators (Čihák et al., 2013): (1) the ratio of stock market capitalization to total gross domestic product (GDP), (2) the ratio of total domestic credit to GDP, and (3) the number of listed firms. We created a composite measure by calculating an annual index for each item, with 1993 as the base year, and then averaged the three indices, using equal weights. We adopted the same procedure for *legal systems* with three measures: (1) the ratio of business cases submitted to the legal office to the total population (H. Li et al., 2008), (2) the ratio of lawyers to the total population, and (3) the score for legal changes in China based on the average of the Creditor Protection Index and the Shareholder Protection Index (Deakin & Siems, 2010). These measures broadly capture capital market and legal system development.

Control Variables

We controlled for alternate influences on sell-offs. *Size* (the logged total number of employees) controlled for the availability of resources and attractiveness to potential acquirers. *Age* (years since founding) has been found to influence political participation (Hillman et al., 2004) and industry exit (Mitchell, 1994). *State ownership* (percentage of government ownership) accounted for social capital and preferential access to resources that SOEs may enjoy (Okhmatovskiy, 2010). This variable underscores that political ties can exist independently of or in conjunction with state ownership and that these different forms of political connections provide distinct benefits (W. Li, He, Lan, & Yiu, 2012; Okhmatovskiy). For the 41 firms with missing ownership data, we substituted the mean ownership of our sample.

We used a number of controls to address firm characteristics that may influence the likelihood of exit. *Prior growth* (1-year sales growth percentage) controlled for performance, which may influence the desire to exit and the type of exit (Brauer, 2006); profitability was not available for many firms, as our sample included nonlisted firms. Three variables controlled for the possibility that firms focusing on the TV industry may be less likely to exit: (1) *Diversification* counted the number of four-digit Standard Industrial Classification segments outside the TV industry a firm operated in, and this variable also controlled for the propensity of highly diversified firms to sell off (Brauer) and for competitive pressures and firm capabilities that may influence exit (W. Li et al., 2012); (2) a complementary measure, *focused* (0–1), indicated whether a firm operated only in the TV industry or had operations outside the industry; and (3) *affiliated* (0–1) indicated whether a firm was an independent firm or a member of a larger corporation, to control for corporate influences on business-level exits.

We used two industry measures to control for industry influences on exit. *Industry density* measured the number of firms in the TV manufacturing industry each year, while *industry dissolutions* counted the number of firms that dissolved their TV operations in a year. These variables controlled for competitive and other pressures that may influence exit. We lagged all variables by 1 year. Table 3 reports descriptive statistics.

Statistical Analysis

We employ multinomial logit regression to examine how political ties influence the likelihood of sell-offs. We use dissolution as the base group in our analysis. It is possible that

Table 3
Summary Statistics and Correlation Matrix of Key Variables

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Sell-off	1.00																				
2. Dissolution	−.01	1.00																			
3. Political ties (0–1)	.11*	−.06*	1.00																		
4. Executive ties (0–1)	.15*	−.03	.52*	1.00																	
5. Legislative ties (0–1)	.02	−.05*	.85*	.20*	1.00																
6. Capital market development	−.07*	.14*	.03	.00	.03	1.00															
7. Legal system development	−.04*	−.08*	.01	.01	.01	−.22*	1.00														
8. Size (logged number of employees)	.04*	−.09*	.23*	.15*	.20*	−.01	−.01	1.00													
9. Age (years)	.06*	.00	.05*	.01	.04	−.04*	−.01	.33*	1.00												
10. Prior growth (S_t/S_{t-1})	−.01	−.02	.05*	.07*	.03	−.05*	.01	.03	−.01	1.00											
11. State ownership (%)	.08*	.04	−.18*	−.11*	−.20*	−.35*	−.11*	.07*	.30*	.01	1.00										
12. Diversification (number of four-digit SIC)	−.03	−.06*	.05*	.02	.01	.11*	.17*	.22*	.13*	−.03	−.13*	1.00									
13. Focused (0–1)	.03	.06*	−.01	−.04*	.00	−.07*	−.07*	−.13*	−.14*	.03	.05	−.35*	1.00								
14. Affiliated (0–1)	−.03	−.08*	.17*	.07*	.16*	.09*	−.01	.45*	.12*	.01	−.15*	.20*	−.16*	1.00							
15. Industry dissolutions	−.01	.25*	−.04*	−.04	−.02	.45*	−.43*	−.02	−.01	−.01	−.01	−.06*	.03	.03	1.00						
16. Industry density (number of firms)	.02	.16*	−.08*	−.06*	−.05*	.25*	.14*	−.05*	−.02	.00	.15*	.06*	−.00	.00	.57*	1.00					
17. Reformed firms (0–1)	−.02	−.04	.04*	.09*	.04*	.29*	−.05*	−.17*	−.33*	−.01	−.63*	.03	.06*	−.07*	−.04	−.14*	1.00				
18. Permit for export (0–1)	.04	−.04*	.18*	.09*	.18*	.07*	.01	.34*	.20*	.04*	−.03	.22*	−.10*	.31*	.01	.02	.02	1.00			
19. CEO education	−.02	.05	.38*	.27*	.17*	−.04	.01	−.05	.13*	.01	−.05	.14*	−.02	.06	−.10	−.09	.00	.09	1.00		
20. GDP (province) per capita (US$)	−.07*	−.05*	.10*	.06*	.10*	.44*	.08*	−.02	−.14*	−.01	−.43*	.03	.03	.07*	.05*	−.22*	.38*	.12*	.01	1.00	
21. FDI inflow (US$ billion)	−.04	−.02	.07*	.03	.05*	.55*	.06*	−.01	−.05*	−.02	−.42*	.22*	−.03	.08*	−.06*	−.04	.35*	.11*	.04	.60*	1.00
Mean	0.01	0.05	0.10	0.03	0.07	2.70	1.04	6.74	22.29	1.20	0.73	0.89	0.193	0.209	14.01	166.2	0.26	0.18	2	878.5	44.10
Standard Deviation	0.11	0.23	0.29	0.18	0.26	1.16	0.06	1.56	13.88	1.00	0.41	1.24	0.39	0.40	11.76	34.18	0.44	0.38	0.73	704.0	7.53
Minimum	0	0	0	0	0	0.87	0.93	1.60	1	0.02	0	0	0	0	0	87	0	0	1	143.1	27.51
Maximum	1	1	1	1	1	4.46	1.17	11.08	73	9.75	1	8	1	1	35	210	1	1	4	4848	60.63

Note: SIC = Standard Industrial Classification; GDP = gross domestic product; FDI = foreign direct investment.
*$p < .05$.

common unobserved factors may lead to the establishment of political ties and affect firm outcome. We follow Greve and Rao (2012) and use propensity score weighted analysis (Guo & Fraser, 2010) to model firm-specific propensity to form political ties to compare firms with similar propensities on their likelihood of sell-offs relative to dissolution. The process of weighting reduces selection bias by ensuring that firms with and without political ties do not differ on observed covariates, allowing estimation of the effects of ties on sell-offs (Stuart, 2010).

In the first step, we used probit regression to estimate the propensity to establish political ties. We employed all control variables from the main analysis and introduced five additional variables that may influence the formation of political ties but are not directly associated with sell-offs. Including additional variables with this characteristic improves estimates of the propensity to establish ties by making greater use of observed differences between firms (Stuart, 2010). *Reformed firms* (0–1) indicated whether a firm was a private firm, a shareholding firm, or a limited liability company. This identified firms that were not state owned and, hence, more inclined to establish political ties (Chang & Xu, 2008; Nee, 1992; Xin & Pearce, 1996). *Permit* noted whether a firm had the right to export (0–1), which may indicate the ability to form political ties. *GDP (province)* measured the GDP of each firm's home province (US$ per capita), and *FDI inflow* measured foreign direct investments into the province (US$ billions); both measures are associated with the formation of political ties (Jia, 2014). *CEO education* (1 = no bachelor's degree, 2 = bachelor's degree, 3 = master's degree, 4 = doctorate) increases the likelihood of appointment to government or political positions (H. Li, Meng, & Zhang, 2006). For firms without reported information, we assumed a lower educational level for their CEOs, coding them as 1, a reasonable assumption, as high levels of CEO education is a valued indicator and routinely reported in China. We present the results of the first-stage estimation in Model 1 of Appendix B. Results show that *Reformed firm, Permit*, and *CEO education* increase the likelihood of tie formation and that *diversification* reduces this likelihood.

The second step used propensity score weighting (with pscore in Stata) to reweight firms with and without political ties to make them representative of the population they were drawn from (Greve & Rao, 2012; Stuart, 2010). Specifically, with p the propensity score on the likelihood of forming political ties, the weights are $1/p$ for firms with political ties and $1/(1 - p)$ for firms without ties. We then estimated the multinomial logit models on these reweighted samples. This process reduces the risk of selection bias arising from differing propensities to form political ties affecting the likelihood of sell-offs.

We also control for unobserved heterogeneity, following Mundlak (1978), to model unobserved heterogeneity as a function of firm-level means of included regressors. Including the firm-level mean as a control variable, we estimate the likelihood of sell-offs relative to dissolution, using robust standard errors to control for clustering because of repeated measurements by firm.

Results

Table 4 presents the results of the multinomial logit models on the impact of political ties on sell-offs and survival relative to dissolutions. Models 1 and 2 are the baseline models, which show that firms' prior growth and industry dissolution cases reduce sell-offs and industry density increases sell-offs relative to dissolutions.

Table 4
Impact of Political Ties on Sell-Offs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables	Sell-off vs. dissolution	Survival vs. dissolution	Sell-off vs. dissolution	Survival vs. dissolution	Sell-off vs. dissolution	Survival vs. dissolution	Sell-off vs. dissolution	Survival vs. dissolution
Political ties (Hypothesis 1)			4.62**	1.60				
			(1.56)	(1.04)				
Executive ties (Hypothesis 2)					23.77***	15.89***		
					(1.70)	(0.68)		
Legislative ties (Hypothesis 2)							1.48	1.71
							(1.23)	(1.05)
Capital market development	−0.26	0.22	−0.33	0.20	−2.49*	0.24	−0.15	0.19
	(0.42)	(0.27)	(0.52)	(0.25)	(1.16)	(0.27)	(0.52)	(0.25)
Legal system development	−9.50	−0.53	2.98	3.73	−12.40	−0.31	3.40	3.48
	(5.46)	(3.12)	(7.38)	(5.00)	(7.45)	(3.18)	(8.12)	(5.00)
Size	0.56	−0.27	1.22	−0.18	4.08***	−0.26	0.10	−0.19
	(0.33)	(0.22)	(0.86)	(0.21)	(1.16)	(0.22)	(0.41)	(0.20)
Age	−0.03	−0.06***	0.06	−0.05***	0.17**	−0.06***	−0.04	−0.05***
	(0.02)	(0.01)	(0.05)	(0.01)	(0.06)	(0.01)	(0.03)	(0.01)
Prior growth	−1.83**	0.08	−2.25*	0.03	−2.49	0.08	−0.87	0.03
	(0.56)	(0.10)	(1.07)	(0.08)	(1.33)	(0.10)	(0.87)	(0.08)
State ownership	1.34	−0.39	3.02	−0.07	4.86*	−0.37	1.56	−0.07
	(1.28)	(0.31)	(1.72)	(0.41)	(2.10)	(0.32)	(1.23)	(0.41)
Diversification	−0.58	−0.17	−2.12	−0.09	−0.24	−0.15	−0.80*	−0.10
	(0.48)	(0.20)	(1.15)	(0.19)	(0.82)	(0.20)	(0.37)	(0.18)
Focused	0.32	−0.37	0.05	−0.58	1.04	−0.35	0.52	−0.59*
	(0.63)	(0.29)	(0.87)	(0.30)	(0.96)	(0.29)	(0.81)	(0.30)
Affiliated	−0.44	0.72	0.00	0.82*	−0.53	0.75	−1.06	0.80*
	(0.96)	(0.40)	(1.20)	(0.39)	(1.44)	(0.40)	(1.31)	(0.39)
Industry dissolutions	−0.19**	−0.12***	−0.22***	−0.11***	−0.15	−0.12***	−0.27*	−0.11***
	(0.07)	(0.03)	(0.07)	(0.03)	(0.09)	(0.03)	(0.11)	(0.03)
Industry density	0.03*	0.00	0.06***	0.00	0.10***	0.00	0.05*	0.00
	(0.01)	(0.01)	(0.02)	(0.01)	(0.03)	(0.01)	(0.02)	(0.01)
Firm-level means	0.30	0.58**	−0.97	0.44*	−3.40***	0.56**	0.65	0.46*
	(0.32)	(0.20)	(0.93)	(0.20)	(1.00)	(0.21)	(0.45)	(0.19)
Constant	0.90	1.22	−8.47	−2.26	6.19	1.17	−17.56	−2.11
	(6.81)	(3.61)	(11.69)	(5.16)	(11.91)	(3.66)	(12.10)	(5.11)
Observations	1,596	1,596	1,596	1,596	1,596	1,596	1,596	1,596
Log likelihood	−319.6	−319.6	−507.5	−507.5	−409.1	−409.1	−427.7	−427.7

Note: The table presents multinomial logit regression with propensity score weighting; positive coefficients indicate greater likelihood of sell-offs. Year dummies included but not reported. Robust standard errors adjusted for clustering by firm shown in parentheses.
*$p < .05$.
**$p < .01$.
***$p < .001$.

The results for Model 3 show that political ties increase the likelihood of sell-offs relative to dissolutions ($b = 4.62$, $p < .01$), supporting Hypothesis 1: Firms with political ties are more likely to exit through sell-offs than through dissolution. The marginal effect of a political tie on sell-offs with all other variables at their means is 0.15 ($p < .05$), confirming the positive effects of political ties on sell-offs. We plotted the marginal effects of political ties and

associated standard errors against the predicted probability of sell-offs for all firms for all years (Hoetker, 2007; Wiersema & Bowen, 2009). The plot shows that the marginal effect of political ties is positive, with the majority being significant. All plots are available from the authors. These results support Hypothesis 1.

Models 5 and 7 test Hypothesis 2, which concerns the relative effects of executive ties and legislative ties on sell-offs. As firms had different propensities to establish executive and legislative ties (see Appendix B, Models 2 and 3), we estimated separate models using respective propensity score weights, following the procedure described above. The results show a significant negative effect for executive ties ($b = 23.77$, $p < .001$), indicating a greater likelihood of sell-offs relative to dissolution. There was no effect for legislative ties ($b = 1.48$, n.s.). The marginal effect of an executive tie on sell-offs with all other variables at their mean values was 0.93 ($p < .001$). Collectively, these results indicate that executive ties facilitate sell-offs relative to dissolution, while legislative ties have no effect. Hypothesis 2 is thus supported.

Model 1 in Table 5 presents the results of the tests of Hypotheses 3a and 3b, which concern the interaction effects between political ties and the development of capital markets and legal systems. The interaction between political ties and capital market development is not significant ($b = 1.12$, n.s.), indicating that capital market development does not moderate the impact of political ties. The interaction between political ties and legal system development is positive ($b = 13.27$, $p < .001$), indicating legal system development increases the likelihood of exit by sell-offs relative to dissolution. Following Wiersema and Bowen (2009), we computed the marginal effects of political ties on sell-offs at low, mean, and high values of legal system development and found that the effect of political ties on sell-offs increased from 0.05 to 0.52 ($p < .05$) with increasing legal system development. Hypothesis 3a is not supported, but Hypothesis 3b is supported.

Models 3 and 5 evaluate Hypotheses 4a and 4b, which concern the relative effects of executive ties and legislative ties on sell-offs during institutional transition. The results in Model 3 show that capital market development reduces the effects of executive ties ($b = –2.08$, $p < .05$) but not that of legislative ties ($b = 0.30$, n.s.) on the likelihood of sell-offs relative to dissolution. The coefficients of the two interaction terms are significantly different (t test, $p < .01$). The marginal effect of executive ties on sell-offs at low, mean, and high values of capital market development declined from 0.23 to 0.02 ($p < .05$). Therefore, capital market development reduces the effects of executive ties on sell-offs more than that of legislative ties, supporting Hypothesis 4a.

As Model 5 shows, legal system development does not alter the effects of executive ties ($b = –0.56$, n.s.) but increases that of legislative ties ($b = 16.61$, $p < .001$) on sell-offs relative to dissolution, supporting Hypothesis 4b. The marginal effect of legislative ties on sell-offs at low, mean, and high values of legal system development increased from 0.03 to 0.62 ($p < .05$), confirming this result. These results also confirm the importance of evaluating the effects of different types of ties across varying levels of institutional development.

Results Relating to Survival

Our models also evaluate how political ties affect survival relative to dissolution. The results in Table 4 show that political ties (Model 4: $b = 1.60$, $p < .05$) and legislative ties

Table 5
Impact of Political Ties During Institutional Transition

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	Sell-off v. dissolution	Survival v. dissolution	Sell-off v. dissolution	Survival v. dissolution	Sell-off v. dissolution	Survival v. dissolution
Political Ties × Capital Market (Hypothesis 3a)	1.12	1.07***				
	(0.91)	(0.27)				
Political Ties × Legal System (Hypothesis 3b)	13.27***	12.70***				
	(1.08)	(1.01)				
Executive Ties × Capital Market (Hypothesis 4a)			−2.08*	−1.08		
			(1.02)	(1.07)		
Legislative Ties × Capital Market (Hypothesis 4a)					−0.56	1.09***
					(0.92)	(0.30)
Executive Ties × Legal System (Hypothesis 4b)			−0.30	−0.13		
			(0.62)	(0.20)		
Legislative Ties × Legal System (Hypothesis 4b)					16.61***	13.66***
					(1.27)	(0.80)
Political ties	25.01***	21.71***				
	(1.70)	(0.86)				
Executive ties			22.37***	15.11***	18.12***	15.45***
			(1.85)	(0.63)	(1.28)	(1.02)
Legislative ties			−0.82	1.01	19.32***	23.47***
			(1.43)	(1.11)	(1.56)	(0.90)
Capital market	−0.35	0.18	−1.85	0.22	−0.28	0.16
	(0.71)	(0.27)	(1.05)	(0.27)	(0.48)	(0.27)
Legal system	−10.23	−2.03	−5.49	−0.37	−12.51*	−2.09
	(5.36)	(3.07)	(9.33)	(3.17)	(5.16)	(3.00)
Size	1.33	−0.10	4.40***	−0.22	0.59	−0.09
	(0.89)	(0.22)	(1.10)	(0.23)	(0.48)	(0.22)
Age	0.06	−0.04**	0.15**	−0.06***	−0.00	−0.04**
	(0.05)	(0.01)	(0.06)	(0.01)	(0.03)	(0.01)
Prior growth	−2.05	0.04	−2.47*	0.08	−0.22	0.05
	(1.16)	(0.09)	(1.13)	(0.10)	(0.45)	(0.09)
State ownership	3.04	−0.04	5.00*	−0.35	1.94	−0.02
	(1.71)	(0.43)	(2.21)	(0.32)	(1.46)	(0.45)
Diversification	−2.14	−0.04	−0.46	−0.11	−0.21	−0.05
	(1.17)	(0.21)	(0.86)	(0.21)	(0.46)	(0.21)
Focused	0.21	−0.55	1.73*	−0.39	0.66	−0.59
	(0.91)	(0.30)	(0.85)	(0.28)	(0.68)	(0.31)
Affiliated	−0.06	0.74	−0.11	0.76	−1.01	0.72
	(1.20)	(0.39)	(1.36)	(0.40)	(1.53)	(0.39)
Industry dissolutions	−0.24***	−0.12***	−0.13	−0.12***	−0.18*	−0.12***
	(0.07)	(0.03)	(0.09)	(0.03)	(0.07)	(0.03)
Industry density	0.06***	0.00	0.11**	0.00	0.04	0.00
	(0.02)	(0.01)	(0.04)	(0.01)	(0.02)	(0.01)
Firm-level means	−1.05	0.38	−3.23***	0.51*	0.16	0.37
	(0.96)	(0.22)	(0.92)	(0.22)	(0.53)	(0.22)

(continued)

Table 5 (continued)

Variables	(1) Sell-off v. dissolution	(2) Survival v. dissolution	(3) Sell-off v. dissolution	(4) Survival v. dissolution	(5) Sell-off v. dissolution	(6) Survival v. dissolution
Constant	4.14	3.28	−7.84	1.51	0.69	3.29
	(8.80)	(3.73)	(12.26)	(3.72)	(8.08)	(3.66)
Observations	1,596	1,596	1,596	1,596	1,596	1,596
Log likelihood	−492.4	−492.4	−398.4	−398.4	−386.0	−386.0

Note: The table presents multinomial logit regression with propensity score weighting; positive coefficients indicate greater likelihood of sell-offs. Year dummies included but not reported. Robust standard errors adjusted for clustering by firm are shown in parentheses.
*$p < .05$.
**$p < .01$.
***$p < .001$.

(Model 8: $b = 1.71$, n.s.) do not affect survival, but executive ties (Model 6: $b = 15.89$, $p < .001$) increase the likelihood of survival relative to dissolution. These findings indicate that executive ties have a stronger impact on firm survival than legislative ties. Table 5 shows that both capital market (Model 2: $b = 1.07$, $p < .001$) and legal system (Model 2: $b = 12.70$, $p < .001$) development increase the effect of political ties. In addition, capital market development does not affect the impact of executive ties on survival (Model 4: $b = –1.08$, n.s.) but enhances that of legislative ties (Model 6: $b = 1.09$, $p < .001$). Similarly, legal system development enhanced only the impact of legislative ties (Model 6: $b = 13.66$, $p < .001$) on survival relative to dissolution. These findings show that the effects of political ties, particularly that of legislative ties, on survival become stronger as institutions develop, possibly as result of the enhanced role of legislative bodies during such development.

Further Analyses and Tests

Acquirer influences. We evaluated whether acquirer characteristics moderated the effects of political ties on exit mode. For example, non-SOEs or firms without political ties may have stronger incentives to acquire politically connected firms. The 26 sell-offs were acquired by 19 firms, of which 4 had no political ties (21%), 7 had ties (37%), and 8 were SOEs (42%).[4] The acquirers were not overwhelmingly from any particular province. We detected no other significant trends and expect that acquirer heterogeneity limited any systematic bias.

To evaluate whether buyers considered the political ties of the acquired firms to be attractive resources, we checked whether managers with political ties stayed with their firms after the sell-offs. We were able to collect complete post-sell-off management data for 12 of the 26 acquired firms. For these firms, all the managers with political ties remained with the acquired firm for at least 1 year, which is consistent with the argument that acquirers valued the political capital embedded in the acquired firms.

Alternate explanations. We explored alternate explanations to the observed relationships between political ties and sell-offs. For example, managers with political appointments may

spend more time on political matters than on business issues, which might reduce their effectiveness, harm firm performance, and lead to a sell-off. We ran a two-stage model to test whether political ties lead to poorer firm performance and increase the likelihood of industry exit through sell-offs. The results were not significant.

We also tested the interaction between political ties and state ownership. We found that state ownership decreases the effectiveness of political ties, particularly of executive ties, but not that of legislative ties. This result indicates that executive ties and state ownership may be partial substitutes in sell-offs.

Alternate measures and methods. We conducted several sensitivity tests of variables and methods. First, we replaced the dichotomous political ties variable with a variable capturing the number of ties and found broadly similar results. Second, we tested for nonlinear effects by adding a quadratic term for the number of political ties; the quadratic term was not significant. Third, we developed a composite measure of institutional development based on the annual mean of the two indices of capital market and legal system development. The results showed no effects of overall institutional development, confirming the value of decomposing the institutional environment. Fourth, we used a logistic model that compared the likelihood of exit through sell-offs relative to the combined likelihood of dissolution and survival. The model yielded similar results. Finally, we used a conditional logit model (-ASCLOGIT- in Stata), which accounts for firm-level fixed effects, and found consistent main results.

Discussion

Our results show that political ties increase the likelihood of sell-offs relative to dissolution and that this effect is contingent on the type of ties and development of institutional components. In general, political ties facilitate sell-offs relative to dissolution and survival, although this effect is associated with executive ties, not legislative ties. We attribute the limited impact of legislative ties to the responsibilities of legislative bodies. Relative to officers with executive power, legislators have limited ability to provide market intermediation, to exercise authority over matters relating to business activities, or to provide resources. However, legal system development increases the effects of political ties and legislative ties on sell-offs relative to dissolution and reduces the effects of legislative ties on survival relative to sell-offs. Capital market development does not affect the value of political ties, except to reduce the effects of executive ties on sell-offs relative to dissolution and of legislative ties relative to survival.

Capital market development creates alternate market intermediaries and funding sources, reducing the value of executive ties in mediating transactions and providing resources. On the other hand, legal system development enhanced the value of political ties, particularly legislative ties, contradicting the view that the value of political ties declines with institutional development (e.g., Guthrie, 1999) and supporting arguments that the value of political ties endures with institutional development (Michelson, 2007). Legal system development is associated with greater elaboration and complexity of laws and regulations, creating uncertainty and complexity in the institutional environment (Michelson; Sokol, 2013). The speed and extent of legal system development are also likely to lag those of other institutions, allowing government agencies to retain significant control over markets (Potter, 1999). Thus,

some ties remain valuable during transition as a bridge to reconcile markets and political control (Parish & Michelson, 1996). Our findings that political ties remain useful and that legislative ties are enhanced with legal system development support this view.

Our results may differ from those of previous studies because of the nature of our sample. Guthrie (1999) conducted interviews primarily with SOE managers, who benefit from government support and are thus less likely to perceive challenges to the value of political ties. Our study uses a longitudinal sample of both SOEs and private firms in one industry. Our design provides systematic evidence regarding the effects of political ties by controlling for industry influences. We also evaluate possible endogenous effects that may influence the establishment of political ties and their impact, which previous studies do not examine.

An interesting question arises from our results: Why would firms use ties to exit their industry rather than to defend their presence and to survive? Conceptually, firms may choose to exit because their industry is no longer attractive and new opportunities emerge in other sectors. Changes in demand, competition, costs, and capacity may adversely affect industry structure and profitability and drive firms to more profitable opportunities elsewhere (Brauer & Wiersema, 2012; Burgelman, 1996; Fortune & Mitchell, 2012; Mitchell & Singh, 1993). In our context, the entry of a large number of firms in a short period of time, excess manufacturing capacity, and substantial government deregulation increased competition and reduced profitability (Xie & Wu, 2003), encouraging exit. Moreover, firms may use political ties to exit because these ties are unable to provide the resources required to support profitable operations. Political ties may not be able to provide resources that can help firms overcome internal organizational or capabilities failures, leading firms to prefer sell-offs. Zheng et al. (in press) find that political ties can help firms survive but do not improve performance. Firms may therefore choose to sell off to redeploy assets to more profitable opportunities.

While our results contribute to our understanding of the Chinese economy, a number of idiosyncrasies of the Chinese political system may limit the generalizability of our results. However, we believe that our findings are generalizable to other emerging economies with key characteristics similar to those of China, such as Russia, Malaysia, and Mexico. These economies are characterized by (1) underdeveloped institutions and strong government intervention, (2) a separation of power between executive and legislative bodies, (3) political parties in power for long periods, and (4) concurrent appointment of senior leaders to business and government and legislative positions. Our findings are particularly relevant where political ties and power extend beyond the short term and institutions are transitioning towards market models. The influence, intermediation, and resource provision roles of political ties have been documented in research conducted in such contexts. For example, Gomez and Jomo (1997) described how businesses use their political ties to influence political agents with the allocation of administrative favors in Malaysia. Okhmatovskiy (2010) attributed the performance benefits of political ties in Russia to the intermediation role of political ties, which provide competitive advantage in environments with underdeveloped market intermediaries and state control of resources. Khwaja and Mian (2005) and Charumilind, Kali, and Wiwattanakantang (2006) found, respectively, that connected firms in Pakistan and Thailand have privileged access to financial resources. While we take advantage of some unique contextual factors related to China, our research responds to calls to deepen our understanding of specific contexts and to develop a nuanced understanding of firm behavior across the globe (Jack et al., 2013).

Conclusion

Our study makes four contributions. First, we contribute to the literature on strategy in emerging economies (Hoskisson et al., 2000; Xu & Meyer, 2013). Industry exits and sell-offs have been studied in developed economies (Hoskisson, Johnson, & Moesel, 1994) but have attracted limited attention in emerging economies, where markets for corporate control are underdeveloped and state intervention is substantial. Our study contributes to the literature by examining how political ties influence firms' sell-off decisions, viewing sell-offs as "an independent, purposeful strategic option for corporate renewal" (Brauer, 2006: 752). Our results demonstrate the need for further study of sell-offs and industry exit in emerging economy strategy research. Sell-offs are not equivalent to failure and should be treated as an adaptation strategy for firms to address changing competitive environments in emerging economies.

Second, we contribute to the literature on political ties (Faccio, 2006; Hillman et al., 2004; Lester et al., 2008) by highlighting that business-government ties can facilitate industry exit through sell-offs, an important but understudied issue. We engage institutional economics and resource dependence perspectives to propose three means through which political ties may facilitate sell-offs: intermediation of the market, influence over administrative fiat, and access to resources. Our study has further implications for the general social network literature. Our results highlight that political ties can help firms exit an industry, particularly in contexts with heightened competition and underdeveloped institutions. Our study helps to identify and explain the benefits of political ties for industry exit.

We advance understanding of the effects of political ties on firms by identifying how different types of ties may be more or less influential and how their value changes with institutional development. Our study extends the existing literature by examining the sources and effects of different types of political ties, establishing the heterogeneity of ties and their effects on firm outcomes. We suggest that different types of political ties may provide different benefits, depending on political actors' roles relating to intermediation, influence, and resources. Our study furthers understanding of how political ties create value for firms (Lester et al., 2008). More broadly, our findings have implications for the growing literature on nonmarket strategies.

Third, we help to clarify the debate on whether the value of political ties dissipates, persists, or increases as institutions develop (Guthrie, 1999; Michelson, 2007). If political ties substitute for institutional voids, their value should decline as market-supporting institutions emerge. However, change, uncertainty, and complexity during institutional transition may increase the value of political ties. Our findings support both views, varying by the components of the institutional environment. Our findings clarify the conditions under which each view holds. Capital market development reduces the impact of executive ties but not that of legislative ties. More complex legal systems increase the value of legislative ties but not of executive ties. These results reconcile contradictory views in the literature and help to address Nee and Opper's challenge that "assessments of the pervasiveness and sources of political capital advantages need to go beyond aggregate claims of whether political capital is diminished or augmented in departures from state socialism" (2010: 2106). We make a related point with respect to the multidimensionality of the institutional environment. Our evaluation and empirical measurement of two components of the institutional environment demonstrate the value of multidimensional perspectives and measures for studies of institutional change.

They also suggest that institutional change is a more complex and uncertain process than the relatively linear development process often implicitly assumed in studies on emerging economies. Market-oriented institutional change is more realistically characterized by different components evolving at different rates on diverging paths, creating complex and uncertain environmental conditions for firms. Studies adopting this perspective can provide insights into the challenges that firms face in dealing with institutional change.

Fourth, we extend research on sell-offs and acquisitions by adopting the selling firm's perspective in an evolving institutional context. Acquisition research usually adopts the buyer's perspective and has paid little attention to sellers (Graebner & Eisenhardt, 2004). Our study affirms the importance of sellers in acquisitions, which remains an understudied topic in the literature despite calls for more attention to sellers (Brauer, 2006; Graebner & Eisenhardt). Consistent with the view that sellers are active participants in M&As (Graebner & Eisenhardt; Zeng, Douglas, & Wu, 2013), our results show that sellers and their political ties influence the sale of their firms. Our findings help to advance the M&A literature by highlighting the importance of political ties for sell-offs and the seller's perspective.

Our study on the contingent effects of political ties on sell-offs also contributes to our framing theories, resource dependence theory and institutional economics, by building on their complementary explanatory power of political ties. With this, we also expand their application in the political ties literature to improve understanding of how ties and institutional differences influence firm strategy. Resource dependence theory in the context of political strategy has paid limited attention to how institutional differences may influence the effects of political ties. Such heterogeneity is the core emphasis of institutional economics, but this view has not considered how firm-state interactions influence firm-level outcomes. Hence, our work extends the application of resource dependence theory and institutional economics to assess how political ties can lead to different outcomes for different firms in contexts with varied institutional development. In analyzing the phenomenon of sell-offs, we respond to calls to integrate resource dependence theory and institutional economics in management studies (Hillman et al., 2009).

Our results should be interpreted in light of several limitations. First, our focus on interlocking political ties and our reliance on archival data prevent us from accounting for unofficial ties, such as those that arise from family and social relationships. These ties may complement interlocking political ties; thus, it would be useful to incorporate unofficial ties into future research if such ties can be reliably identified. Second, it would be helpful to evaluate the specific means through which political ties affect firm outcomes. Furthermore, future work might conceptualize and measure different aspects of institutions to elucidate their detailed effects on political ties. Although we align with Krug and Hendrischke (2008) and Singh (2007) in not primarily adopting cultural explanations, it might be useful to evaluate how sociocultural or informal institutions influence the effects of political ties. Such an evaluation should include other emerging economies, which may help to build on the means and institutions that we identify here. It would be interesting to examine whether political ties facilitate sell-offs in more developed environments, where more frequent changes to the parties in power may limit political ties' longevity, and whether these ties work through different means than in emerging economies.

With greater visibility of the existence of political ties in emerging economies and growing recognition of their presence in all economies, there is a need for stronger theory and

evidence on the nature of the relationships between firms and the state. This study helps to provide a foundation for such research.

Appendix A

Procedure for the Collection and Coding of Political Ties

First step: Management positions. We first identified the CEO, president, chairperson, general manager, marketing manager, and merchandising manager of each firm for each year of our study from Wanfang Data Company. We followed Fan, Wong, and Zhang (2007) and Nee and Opper (2010) in not including board ties. Boards in China typically did not have the powers or the duties of boards in developed economies during our study period (Allen, Qian, & Qian, 2005; Opper, 2007). Nonlisted firms composed more than half of our sample and did report board details. We randomly selected 10 firms in our sample and found a more than 80% overlap between their top management and board members, which is consistent with prior findings (Lin, 2004). The exclusion of board members from political ties is therefore unlikely to lead to systematic bias.

Second step: Government and political positions. We collected information on senior position holders across four key executive, political, and legislative units in China:

(a) *Government*. Executive branch government agencies in China include the State Council and government ministries. The State Council is equivalent to a cabinet and is at the top of the executive hierarchy in terms of authority. The senior positions in the State Council consist of the premier, vice-premiers, councilors, ministers, the auditor-general, and the secretary-general. Directly under the State Council are government ministries, commissions (e.g., State Development Planning Commission), and bureaus (e.g., State Bureau of Taxation). Each ministry, commission, and bureau has a head, several deputy heads, and a team of principal officials. Our usage of "government" therefore incorporates bodies that other researchers (e.g., Bonardi, Holburn, & Vanden Bergh, 2006; de Figueiredo, 2009) refer to as regulators, the bureaucracy, or administrative agencies. We collected information on these appointments at the central, provincial, city, and county levels; these levels of government had broadly similar structures. We also included additional appointments, such as mayor, vice-mayors, mayor assistants, and secretaries-general. This coverage is broader than that of Faccio (2006), who limits senior positions to ministers and heads of state.

(b) *Communist Party*. We limited senior positions to membership in the Central Committee of the party or the equivalent committee at the provincial, city, and county levels. We did not regard ordinary membership as offering significant ties, as more than 80% of CEOs in China are members of the Communist Party (Opper, 2007).

(c) *National People's Congress (NPC)* and (d) *Chinese People's Political Consultative Conference (CPPCC)*. These legislative bodies are broadly analogous to the lower and upper houses of parliament and are "key bodies of the Chinese political structure" (Jia, 2014: 298). We considered elected membership in these two bodies or their equivalents at the provincial, city, and county levels to be senior positions.

Third step: Identifying ties. We then matched the names across the lists of senior management and senior government and political positions to identify formal position overlaps. This procedure allowed us to include ties that resulted from government and political officials

taking up management positions and ties that were formed by managers who were appointed to government and political positions. We complemented this procedure by searching *China VIPs* (2003) and the Internet to identify the top managers' political backgrounds. This directory lists the names, positions, and backgrounds of 4,828 key personnel in China, including leading government, political, military, and economic leaders. The details of each individual's background allowed us to trace the managers' political histories.

Each current or previous member of a top management team with a current or previous senior political or government appointment was considered to indicate an interlocking political tie and a politically connected firm. We identified 55 political ties, 21 of which were to the government or the Communist Party, which we classified as executive ties. The 34 ties to the NPC and CPPCC were classified as legislative ties. Twenty-nine ties existed at the start of our study period, while the others formed during the study period (see Table 1). Five ties were formed as a result of a change in senior managers. Three ties were formed by former senior managers who were appointed into senior political or government positions after they left their firms. We identified 14 ties that were formed by former senior political or government officials joining firms. The value of ties based on previous appointments tends to persist even after the incumbent departs the formal position in stable political regimes (Lester, Hillman, Zardkoohi, & Cannella, 2008; Michelson, 2007). No ties were terminated during the study period; even if unidentified terminations did occur, these ties would continue to offer value (Lester et al.; Michelson).

Appendix B

Probit Regression Models Predicting the Formation of Political Ties

	(1)	(2)	(3)
Dependent variables	Political ties	Executive ties	Legislative ties
Reformed firms	2.31***	2.66***	9.50***
	(0.64)	(0.77)	(0.51)
Permit	0.62*	0.91*	0.82*
	(0.24)	(0.37)	(0.32)
CEO education	1.05***	0.70***	1.43***
	(0.23)	(0.17)	(0.38)
GDP (province)	0.68	−0.68	0.49
	(0.74)	(0.86)	(0.79)
FDI inflow	0.03	−0.03	0.18***
	(0.04)	(0.03)	(0.04)
Capital market	0.32	−0.79*	0.23
	(0.20)	(0.34)	(0.27)
Legal system	0.89	−2.54	1.93
	(3.64)	(3.09)	(4.59)
Size	0.19*	0.23	0.17
	(0.09)	(0.12)	(0.09)
Age	−0.01	−0.00	−0.00
	(0.01)	(0.01)	(0.01)

(continued)

Appendix B (continued)

	(1)	(2)	(3)
Dependent variables	Political ties	Executive ties	Legislative ties
Prior growth	0.12	0.04	0.05
	(0.08)	(0.04)	(0.06)
State ownership	−3.47**	−0.36	−5.02**
	(0.81)	(0.37)	(1.34)
Diversification	−0.63***	−0.31*	−0.98***
	(0.16)	(0.12)	(0.23)
Focused	0.27	0.23	1.35
	(0.97)	(0.33)	(0.91)
Affiliated	0.12	0.12	0.10
	(0.51)	(0.28)	(0.22)
Industry dissolutions	−0.02	−7.30	0.01
	(0.02)	(0.00)	(0.01)
Industry density	−0.01	−0.01	−0.01
	(0.01)	(0.02)	(0.01)
Constant	−0.10	−0.24	−3.21*
	(4.67)	(1.95)	(1.23)
Observations	1,596	1,596	1,596
Log likelihood	−231.2	−77.11	−222.1
Chi-square	36.10***	30.10***	38.66***

Note: Year dummies included but not reported. Robust standard errors adjusted for clustering by firm are shown in parentheses. GDP = gross domestic product; FDI = foreign direct investment.
*$p < .05$.
**$p < .01$.
***$p < .001$.

Notes

1. While our theoretical arguments and empirical analysis focus on contrasting the likelihood of sell-offs relative to dissolution, we include the likelihood of survival in our empirical analyses. We rely on the well-established literature on the impact of political ties on firm survival to guide this analysis.

2. Our discussion suggests overlap in using ties to exercise influence and to obtain resources. The distinction between these mechanisms is that influence refers to firms' ability to make laws, rules, and regulations more favorable, while resources refer to tangible and intangible benefits they may obtain. Influence may or may not induce resources for firms while resources do not include the capability to shape laws, rules, and regulations. While conceptually distinct, firms are likely to use the mechanisms of intermediation, influence, and resources collectively.

3. It is possible that continued development will eventually result in clearer laws and regulations, and reliable enforcement, reducing the value of political ties. Studies on the persistence of legal systems suggest that the time frame for such development is long (Acemoglu & Johnson, 2005; La Porta et al., 1998) and beyond the temporal range of this study.

4. The existence of ties and state ownership among acquirers raises the intriguing question of the relative power of connections between divesting firms and acquirers: (1) Did divesting firms use their ties to sell off to connected firms, some of whom may have been reluctant acquirers? or (2) Did acquirers use their connections to buy firms with ties, some of whom may have been reluctant to sell off? Our empirical context—a mature, highly competitive industry with a significant number of exits via dissolution and sell-offs—suggests that the acquirers did not face high entry barriers. It is therefore likely that sellers' ties, rather than buyers' connections, were the key driver of sell-offs.

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