The Price of Power: Balancing Growth and Profitability in China's Politically Connected Firms

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Abstract

This study investigates the impact of political connections and firm ownership on the relationship between strategic change and firm performance in China. Drawing on a panel dataset of Chinese industrial firms, we examine how membership in the National People's Congress (NPC), a key marker of political embeddedness, influences the pursuit of market share and profitability following strategic change initiatives. We find that the effect of strategic change on market share and profitability varies depending on a firm's ownership type and political connections. State-owned enterprises (SOEs) with NPC membership prioritize market share over profitability, in line with government objectives. In contrast, private firms, even those with political ties, face pressure to balance growth and profits. The results suggest that political connections serve as a channel for the state to exert influence over firm behavior and align corporate strategies with government priorities in China's institutional context. This study contributes to the literature on political connections, strategic change, and firm performance by highlighting the nuanced effects of political ties on firm outcomes in China. The findings also offer practical implications for managers and policymakers navigating China's unique business environment, emphasizing the importance of considering institutional factors when examining firm behavior and performance in different contexts.

Keywords: political connections, strategic change, firm performance, firm ownership

Introduction

China's remarkable economic growth over the past few decades has attracted significant attention from both academics and practitioners. The country's transition from a centrally planned economy to a more market-oriented system has been accompanied by a unique set of institutional arrangements and government-business relationships (Naughton, 2018; Peerenboom, 2007; Rajwani & Liedong, 2015). This study investigates how these relationships, particularly in the form of political connections, influence firm strategy and performance in China's distinctive institutional context.

Political connections have been widely recognized as a crucial factor in shaping firm behavior and outcomes in various settings (Faccio, 2006; Fisman, 2001; Mbalyohere et al., 2017). In China, the interplay between the government and businesses is especially pronounced, with the state maintaining a significant role in the economy through both direct ownership and indirect influence (Dickson, 2003; Huang, 2008). Historically, the value of political connections has evolved alongside market reforms and, the effects on firm performance have been found to be mixed. For example, early in the reform era, political ties provided privileged access to resources like credit and imports under central planning (Li et al., 2008). As markets opened, connections shifted to provide preferential treatment like favorable regulations and government contracts (Sheng et al., 2011). More recently, political ties confer informational advantages to navigate China's mixed market economy (Liu et al., 2021). On the other hand, excessive political ties, can reduce flexibility and performance as reforms deepen. Rent-seeking behavior also has the potential to create inefficiencies like over-investment and excess capacity (Chen et al., 2011). Therefore, to better understand the underlying dynamics contributing to this profound phenomenon, this study posits a theory that political connections between the government and business firms in China skew private firm objectives away from profit maximization and towards government goals. This alignment effect is predicted to be most pronounced among state-owned firms and private firms with direct political ties.

Drawing on a panel dataset of Chinese industrial firms from 2003 to 2013, this study examines how membership in the National People's Congress (NPC), a key marker of political embeddedness, affected the pursuit of market share and profitability following strategic change initiatives among Chinese firms during that period. By considering both state-owned enterprises (SOEs) and private firms, we aim to provide a nuanced understanding of how political ties shape firm objectives and performance in China's evolving institutional landscape. Results indicate that the Chinese government's ability to maintain market control is at least partially attributable to the co-opting of interests and incentives of business leaders. The intertwining of political and business elite produces connections which emphasize government influence rather than corporate maximum financial return.

Priorities of the Chinese Government

The Chinese government places great importance on maintaining high levels of employment to ensure social stability and political control (Organisation for Economic Cooperation and Development [OECD], 2023; Park & Luo, 2001). With China's massive population, the government has historically relied on state-owned enterprises (SOEs) to provide lifelong "iron rice bowl" jobs to placate the populace (OECD, 2023). Even as China's economy has transitioned towards a more market-based system since the 1970s, SOEs remain a key tool for the government to fulfill its employment goals (OECD, 2023; Park & Luo, 2001).

Several factors contribute to the Chinese government's emphasis on using SOEs to maximize employment. First, China has a huge youth demographic entering the job market each year. In 2003, nearly 1.9 million students graduated from Chinese universities, ballooning to over 5.3 million in 2009 (Chen, 2012). The rapid growth in graduates has continued unabated. In 2023, a record 11.6 million students graduated from university in China (*The Economist*, 2023). SOEs provide a vehicle for hiring more workers regardless of actual labor needs (Li et al., 2008),

Second, the government views high unemployment as a potential source of social unrest. Maintaining social stability is a top priority to sustain the political control of the Communist Party (OECD, 2023). By directing SOEs to focus on hiring rather than profitability, the government creates jobs that help maintain social order (Park & Luo, 2001).

Finally, market share and scale have been strategic objectives for SOEs as they align well with the goal of maximizing employment (OECD, 2023). Pursuing greater market share requires more workers to serve larger customer bases and expand into new markets. In contrast, goals like increasing return on assets could lead SOEs to reduce staffing to improve profit margins.

Priorities of Private Firms

Private firms play an extremely important role in the Chinese economy. China's economic rise has been driven by unleashing the entrepreneurial private sector. Private enterprises, focused on maximizing profits, became the most productive segment of the economy during the period in which data were collected for this study, accounting for most of the employment, tax revenue, GDP, and innovation in China by 2008 (Ahlstrom et al., 2004; Li et al., 2008; OECD, 2005).

The importance of profits for firms aligns with foundational concepts in microeconomic theory. According to standard models, firms are profit maximizers that make output and pricing decisions based on marginal analysis to optimize profits (Varian, 1992). Profits incentivize firms to produce goods and services that consumers value, leading to an efficient allocation of resources (Besanko & Braeutigam, 2020). Research in Western contexts confirms the central role of profit maximization in driving firm behavior and finds evidence that firms adjust outputs and prices in response to profit incentives (Genesove & Mullin, 1998; Slade, 1986). The profit motive shapes critical business decisions like entry, exit, investment, and innovation (Aghion et al., 2005; Geroski, 1995). While some theorists have argued that managers may pursue alternative objectives like sales growth over pure profit maximization (Baumol, 1959), the empirical literature finds that profitability overwhelmingly dominates other motives over the long run, as competition weeds out less profitable firms (Mueller, 1986). Private firms that consistently fail to prioritize profits eventually go out of business.

The situation for private firms in China is similar, but these firms must balance the goal of profit maximization with alignment to government priorities to operate successfully (Li et al., 2008; Park & Luo, 2001). The government recognizes the importance of private firms and has vowed to support them but expects alignment with state priorities (Li et al., 2008). Firms seen as greedy, noncompliant or a threat to the government face potential backlash (OECD, 2005).

Role of the National People's Congress

China's National People's Congress (NPC) serves as the national legislature, with nearly 3,000 delegates elected from across society (National People's Congress of China, 2023; U.S. Congressional Research Service, 2000). The NPC is structured to represent a diverse crosssection of China. However, the Communist Party maintains tight control over the selection process, with around 70% of delegates being Party members (Manion, 2016).

Many prominent business leaders have served as NPC delegates over the years (Wee, 2018): Pony Ma of Tencent, Robin Li of Baidu, and Lei Jun of Xiaomi. Leaders of state-owned enterprises who have served as delegates in the NPC over the years include Fu Chengyu, former chairman of China Petroleum & Chemical Corp (Sinopec), Wang Yong, current chairman of Sinopec, and Guo Shuqing, former chairman of the China Construction Bank. In 2018, the Hurun Report estimated there were around 100 billionaires in the NPC, with a combined wealth of $650 billion (Wee, 2018). Their presence highlights the symbiotic relationship between the Party and the business elite in China's state capitalist system. The Party wants successful executives to provide expertise and signal confidence in China's economic policies. Executives view NPC membership as an opportunity to connect with top officials, advocate for favorable policies, and further business interests. At the same time, business leaders on the NPC are expected to follow the Party line rather than act fully independently. Their role is to provide legitimacy and expert guidance.

Political Connections and Firm Behavior in China's Institutional Context

Government and firms can influence each other through political ties. This duality can create complex incentives for politically connected executives (Li et al., 2008). The primary direction of influence differs between countries with varying institutional arrangements. In some contexts, the power dynamic allows for the imposition of government objectives on firms, therefore political connections serve as a means for the government to shape business behavior in alignment with national priorities (Shi et al., 2018). In contrast, connections in other contexts often aim to enable corporate influence over government policies. Firms strategically cultivate ties to shape regulations and government treatment in their favor (Akey, 2015; Claessens et al., 2008). In these situations, ties are typically used to gain a competitive advantage rather than to impose government control. The direction of such influence also differs depending on a firm's ownership. For example, state-owned firms are subject to more direct government influence, while private firms also face pressure to align with government goals (Dickson, 2003). Politically affiliated executives in private firms may shift company strategy towards government priorities in exchange for access to resources and preferential treatment (Han et al., 2022).

China's economic system contains elements of both dynamics. The Chinese government maintains significant influence over major firms despite the introduction of market-oriented reforms. The state exerts control through both direct ownership in key sectors and political connections with private firms (Dickson, 2003). These connections are prevalent at the highest levels, with corporate executives serving as delegates to China's National People's Congress. Within the context of China's institutional framework, political ties are expected to align firm objectives with government goals such as social stability and employment. These effects are likely to be present in both state-owned and private enterprises.

Other research contemporary to the period emphasized in this study provides evidence of government influence over Chinese firms through political connections. Fan et al. (2007) found that political connections may distort managerial incentives and lead to suboptimal decision-making, as connected managers may prioritize political objectives over profit maximization. The findings suggest that political ties can be detrimental to the profitability and efficiency of Chinese firms, particularly in the absence of strong corporate governance mechanisms.

Connected state-owned firms have also been found to aggressively expand market share in line with government objectives, despite low returns (Sheng et al., 2011). Ties between government and business elites enable the government to shape firm behavior to serve its interests (Sheng et al., 2011; Shi et al., 2018).

Hypotheses Development

In this study, return on assets (ROA) and market share were selected as the primary indicators of firm performance. ROA measures a company's profitability relative to its total assets, evaluating the efficiency of asset utilization. Market share is determined by dividing a firm's sales by the total industry sales, reflecting the company's competitive position and strategic impact. This study aims to examine how strategic change affects a firm's internal efficiency and profitability (ROA) as well as its external competitiveness and market positioning (market share), especially how political connections and firm ownership moderate such relationships.

Business leaders with strong political ties in China face a potential trade-off between priorities. They are expected to maximize profits but also need to consider the government's economic objectives of promoting growth and employment. This situation creates a tension where these leaders must balance pursuing profitability and aligning with the government's goals. The central issue arises from the potential pressure to prioritize market share over individual company profits. Membership in the National People's Congress (NPC) represents a prominent form of political connection for business leaders in China, which may influence firm strategy to align more closely with government priorities. Firms without these connections likely face less direct pressure to conform to government objectives.

Research on companies with political ties suggests that these firms often prioritize projects and initiatives aligned with government agendas rather than focusing solely on maximizing profits. Faccio & Hsu (2013) found that politically connected private equity firms create more jobs at target companies compared to non-connected firms, especially during election years and in contexts with weaker institutions. Wang (2023) showed that politically connected firms in China engage in more corporate social responsibility activities, with the effect being more pronounced for private enterprises.

By channeling resources toward initiatives endorsed by political leaders, these firms can strengthen relationships with government officials, even if these efforts do not represent the most profitable opportunities. Thus, for corporations closely tied to the government, cultivating political capital may sometimes take precedence over pure profit motives. We posit:

H1a: Politically connected private firms will have higher market share after strategic change compared to private firms without political connections.

H1b: Politically connected private firms will have lower return on assets after strategic change compared to private firms without political connections.

For state-owned firms, the influence of government priorities is inherent in the ownership structure itself but may be amplified by direct connections to the NPC. NPC ties are unlikely to substantially shift the objectives of state-owned firms, which are already closely aligned with government goals. Representation of state-owned firm leaders on the NPC may instead result in greater relative success of strategic initiatives that are consistent with government priorities, due to networking benefits. Therefore:

H2: Politically connected state-owned firms will have higher market share after strategic change compared to state-owned firms without political connections.

When comparing outcomes of strategic change between politically connected private and state-owned firms, the direct government oversight of state-owned firms is expected to skew results toward market share and away from profits, relative to private firms. The greater necessity for private firms to emphasize profitability is likely to be evident when comparing politically connected private firms to politically connected state-owned firms. Thus:

H3a: Politically connected state-owned firms will have higher market share after strategic change compared to politically connected private firms.

H3b: Politically connected private firms will have higher return on assets after strategic change compared to politically connected state-owned firms.

Methods

Sample

This study utilizes firm-level panel data from China's National Bureau of Statistics (NBS) spanning the years 2003 to 2013. The NBS conducts mandatory annual surveys of all state-owned enterprises as well as private firms with annual sales exceeding 5 million RMB (roughly equivalent to USD 762,000 based on exchange rates during the sample period). On average, the survey covers 321,722 firms per year across 37 industries, capturing the vast majority of China's industrial activity. The dataset contains detailed yearly information on various financial and operational metrics for each firm, as well as 4-digit industry classification codes which are used to define industry boundaries. This dataset has been used in many studies focusing on Chinese firms (e.g. Brandt et al., 2012; Yang et al., 2024). The period from 2003 to 2013 is particularly noteworthy because it encompasses Hu Jintao's tenure as the President of China (2003-2013) and as the General Secretary of the Chinese Communist Party (late 2002 to late 2012). This decade is believed to have fostered a relatively open and competitive business environment in China, laying the foundation for the country's current economic development and growth. Unlike the recent decade (2013-2023), Hu's leadership style during his time in office is generally viewed as collective and consensus based. He aimed to promote socio-economic equality through the Scientific Outlook on Development, which defined development as the primary task of the Party. As Hu stated, "development is very important to the Party in governing and rejuvenating the country. It must stay committed to the central task of economic development and focus on building the economy and driving growth to unleash and develop the productive forces" (The Scientific Outlook on Development, 2021). Under this development plan, Hu's business policies focused on promoting private enterprises, privatizing state-owned enterprises, implementing market-oriented reforms, and creating a more welcoming environment for foreign businesses. He significantly increased the number of business deputies in the congress by over 60%, from the 10th NPC to the 11th NPC. The focus on this decade allows for studying the interplay of economic and political power from a different yet valuable perspective.

To examine the role of political connections, data on firms' senior executives serving as members of the National People's Congress (NPC) was collected. NPC membership represents a key marker of political connectedness in China, as the NPC is the country's highest legislative body with broad authority. Its members are elected from various regions and important institutions. Membership provides direct access to government networks and officials (Fralich & Fan, 2018). Senior executives, defined following prior literature as CEOs, presidents, vice presidents, chairpersons, and secretaries, were matched to their firms using NPC demographic data cross-referenced with company websites and online sources to ensure accuracy. This process identified 366 firms in the sample with one or more senior executives serving on the NPC.

We then augmented the NBS dataset by incorporating information on firms' senior executives serving as NPC members. Leveraging data from the NPC website and executive demographic information, we identified 366 firms in our sample with one or more senior executives holding NPC membership. To ensure the accuracy of our executive-firm matches, we cross-referenced the NPC demographic data (including name, age, and education) with company websites and reputable online sources such as Baidu Encyclopedia. After addressing missing data and removing outliers resulting from data entry errors, our final sample comprises 1,587,857 firm-year observations. The sample captures a significant portion of China's industrial activity while allowing for examination of the impact of political connections.

Measures

Return on assets (*ROA*) was calculated as a company's net income divided by its total assets, adjusted for industry average changes, in accordance with common practices in the field.

Market share was operationalized as a firm's revenue divided by the total revenue of the top 20 companies within its industry. This approach is consistent with prior research (e.g., Schuler et al., 2002).

Political connection was measured using a binary variable, where 1 indicates that the company has a senior executive serving on the NPC, and 0 indicates no senior executive representation on the NPC.

Firm ownership was also represented by a binary variable, with 1 denoting privately-owned companies, and 0 representing state-owned enterprises.

Strategic change was measured using a composite index constructed based on four dimensions: advertising intensity (advertising expenditure/sales), research and development intensity (R&D expenditure/sales), non-production overheads (selling, general, and administrative expenses/sales), and inventory levels (inventories/sales). This approach aligns with previous studies (e.g., Finkelstein and Hambrick, 1990; Haynes and Hillman, 2010; Zhang and Rajagopalan, 2010). Each company's resource allocation was compared to its previous year's values and industry norms. Due to data limitations, the dimension of fixed assets intensity was excluded from the index.

Several control variables were included in this study to account for factors that previous research has shown to influence resource access and firm performance. First, *firm size* was controlled for using the natural logarithm of total assets. This is because larger firms often enjoy better access to government grants and other strategic resources compared to their smaller counterparts (Li et al., 2008). Moreover, strategy research has emphasized the importance of firm size relative to industry peers, as it has implications for firm survival and performance (Dobrev & Carroll, 2003).

Second, a composite *rule of law index*, adapted from Fan et al. (2017), was used to control for institutional development across Chinese provinces. This index comprises three components: the development of intermediate institutions, the extent of legal and judicial reform, and the level of intellectual property protection. The index ranges from 0 to 10 for each province, with higher scores indicating a stronger rule of law.

Third, *government market control* was accounted for by measuring the proportion of total assets held by state-owned enterprises (SOEs) within each industry. This ratio reflects the degree of SOE dominance in a given industry. Prior studies have demonstrated that SOEs receive preferential treatment in obtaining government subsidies and other critical resources (Kang & Kim, 2012), making it more challenging for private firms to secure such support in SOE-dominated industries.

Finally, *industry concentration* was controlled for by calculating the ratio of the total assets of the top 20 firms to the overall industry assets. Lower concentration levels indicate more competitive industries, while higher levels suggest oligopolistic or monopolistic market structures. Previous research has shown that firms in more concentrated industries are more likely to engage in political strategies due to the potential for larger payoffs (Schuler et al., 2002). Furthermore, recent findings by Dobrev et al. (2021) highlight the impact of industry-level factors, such as growth, volatility, and the number of NPC-connected firms, on executive NPC membership and reappointment likelihood. Consequently, controlling for industry structure is crucial when investigating the effects of political embeddedness.

Results

Table 1 presents the descriptive statistics, including the mean, standard deviation, and correlation matrix for each construct.

Tables 2 and 3 display the results of the analysis conducted to test the hypotheses. Hypothesis 1, which proposes that politically connected private firms will experience higher market share but lower return on assets (ROA) after strategic change compared to private firms without political connections, is partially supported. As shown in Table 2, when market share was the dependent variable, the interaction between strategic change and political connection was not significant ($b = -.001, p > .05$). However, the interaction between strategic change and firm ownership was significant ($b = -.009, p < .001$), indicating that the effect of strategic change on market share was additively dependent on the two moderators [$R^2\Delta = .004$, $F(2, 157847) = 36.69$, $p < 0.001$]. Similarly, when ROA was the dependent variable, both interaction terms were found to be significant ($b=.021, p<.001$ for SC * Political Connection; $b=.001, p<.001$ for SC * Firm ownership), suggesting that they additively moderated the relationship between strategic change and ROA [$R^2\Delta = .03$, $F(2, 157847) = 244.60$, $p < 0.001$]. As shown in Table 3, the slope test revealed that for private firms with political connections, their ROA ($b = .010, p > .05$) is lower than those without political connections ($b = .10, p < .001$) following strategic change. Contrary to our hypothesis, the combination of private ownership and political connection does not help firms gain market share.

Our results do not fully support Hypothesis 2, which argues that for state-owned firms, the effect of strategic change on market share will be stronger for those with political connections than those without. Instead, the difference between effects is very small, indicating that state-owned firms overall demonstrate strong market dominance after strategic change, regardless of whether they have political connections ($b = .010, p < .001$) or not ($b = .011, p < .001$). However, as Figure 2 shows, even though we did not find support for H2, politically connected state-owned firms overall have higher market share than state-owned firms without any political connection.

Hypothesis 3 was supported. As Table 3 shows, for politically connected firms, state-owned firms demonstrate higher market share ($b = .010$, $p < .001$). One the other hand, although the effect of strategic change on ROA for politically connected private firms is not significant, the same effect for politically connected state-owned companies is negative ($b = .069$, $p < .001$). We also plotted the moderating effects in Figure 2 to better illustrate the results.

Discussion

This study examines the impact of political connections and firm ownership on the relationship between strategic change and firm performance in China's unique institutional context. Our findings suggest that the effect of strategic change on market share and profitability varies based on a firm's ownership type and political connections. State-owned enterprises (SOEs) with NPC membership prioritize market share over profitability, aligning with government objectives. In contrast, private firms, even those with political ties, face pressure to balance growth and profits. These results indicate that political connections serve as a channel for the state to influence firm behavior and align corporate strategies with government priorities in China's institutional framework.

Theoretical Contributions

This study contributes to the literature on political connections, strategic change, and firm performance in several ways. First, we extend research on the role of political ties in shaping firm behavior and outcomes by examining the interplay between political connections and firm ownership in China's distinctive institutional context. Our findings highlight the complex effects of political ties on firm performance, demonstrating that the impact of connections varies depending on the type of firm ownership and the specific performance metric considered (i.e., market share vs. profitability).

Second, we advance the understanding of how political connections influence firms' strategic decision-making and resource allocation. By examining the impact of NPC membership on firms' responses to strategic change initiatives, we shed light on how political ties can lead firms to prioritize certain objectives (e.g., market share) over others (e.g., profitability), particularly in the context of state-owned enterprises. The findings suggest that politically connected SOEs prioritize market share over profitability, in line with government objectives. In contrast, private firms, even those with political ties, face pressure to balance growth and profits. This insight contributes to the ongoing debate on the efficiency and sustainability of China's state-led growth model (Lardy, 2014; Tsokhas, 2019).

Third, our study contributes to the literature on state capitalism and the role of government in shaping firm behavior. We show how the Chinese government, through political connections and state ownership, influences corporate strategies and aligns them with national priorities. This finding highlights the importance of considering the institutional context when examining firm behavior and performance in countries with significant government involvement in the economy.

Practical Implications

Our findings offer several practical implications for managers and policymakers navigating China's unique business environment. First, managers of private firms in China should be aware of the potential trade-offs associated with cultivating strong political ties. While political connections may provide access to valuable resources and preferential treatment, they can also create pressure to prioritize government objectives over firm profitability. Managers must carefully balance the benefits and costs of political ties and ensure that their firms maintain sufficient focus on financial performance.

Second, for state-owned enterprises, our results suggest that political connections may reinforce the prioritization of market share over profitability. SOE managers should be mindful of the potential long-term consequences of pursuing market dominance at the expense of financial returns, as this strategy may not be sustainable in the long run. Policymakers should also consider the implications of this behavior for the overall efficiency and competitiveness of state-owned firms.

Third, our findings highlight the importance of considering institutional factors when designing policies and regulations aimed at promoting fair competition and efficient resource allocation in China's economy. Policymakers should be aware of the potential distortions created by the close ties between the government and business, particularly in industries dominated by state-owned enterprises. Efforts to level the playing field and encourage private sector development may require reforms that reduce the influence of political connections on firm behavior and performance.

Limitations and Future Research

This study has several limitations that offer opportunities for future research. First, while we focus on NPC membership as a key indicator of political connectedness, there may be other forms of political ties (e.g., connections to local government officials) that influence firm behavior and performance. Future studies could explore the impact of different types of political connections on firm outcomes in China.

Second, our analysis is based on data from 2003 to 2013, a period characterized by significant economic reforms and growth in China. As the institutional environment continues to evolve, the nature and impact of political connections may also change. Future research could examine the role of political ties in shaping firm behavior and performance in more recent years, particularly in light of the increasing emphasis on state control and the changing global economic landscape.

Third, our study focuses on the context of China, which has a unique institutional environment. Future research could explore the impact of political connections on firm behavior and performance in other emerging economies or compare the effects of political ties across different institutional contexts to develop a more comprehensive understanding of the relationship between business and government in shaping firm outcomes.

Conclusion

In conclusion, this study provides new insights into the complex relationship between political connections, firm ownership, and strategic change in shaping firm performance in China's evolving institutional context. Our findings highlight the nuanced effects of political ties on firm outcomes, demonstrating that the impact of connections varies depending on the type of firm ownership and the specific performance metric considered. By examining the role of NPC membership in influencing firms' responses to strategic change initiatives, we contribute to the literature on political connections, state capitalism, and firm behavior in emerging economies.

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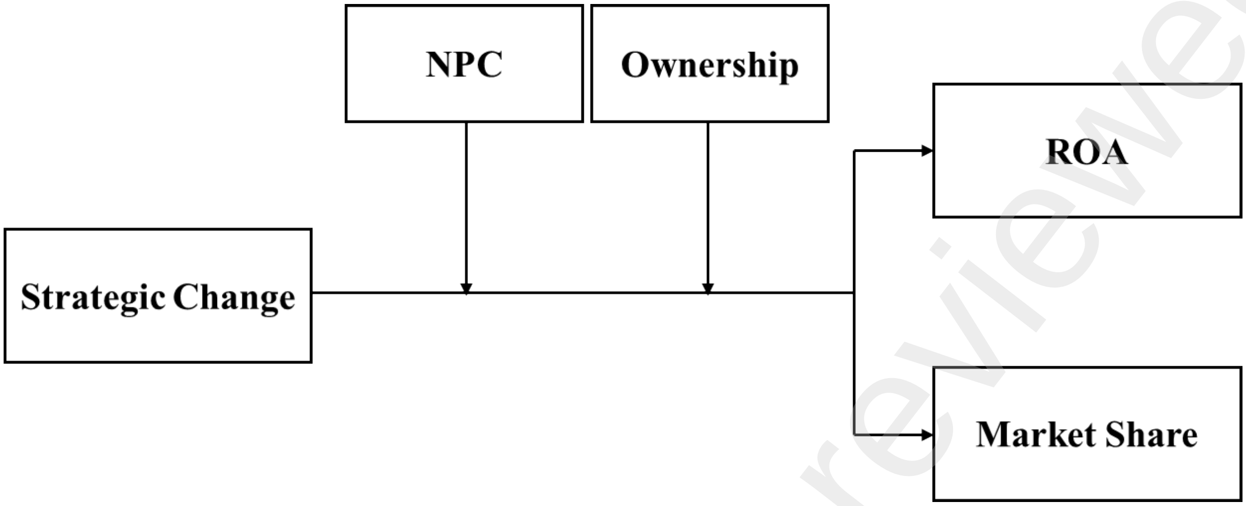

Figure 1. Conceptual model

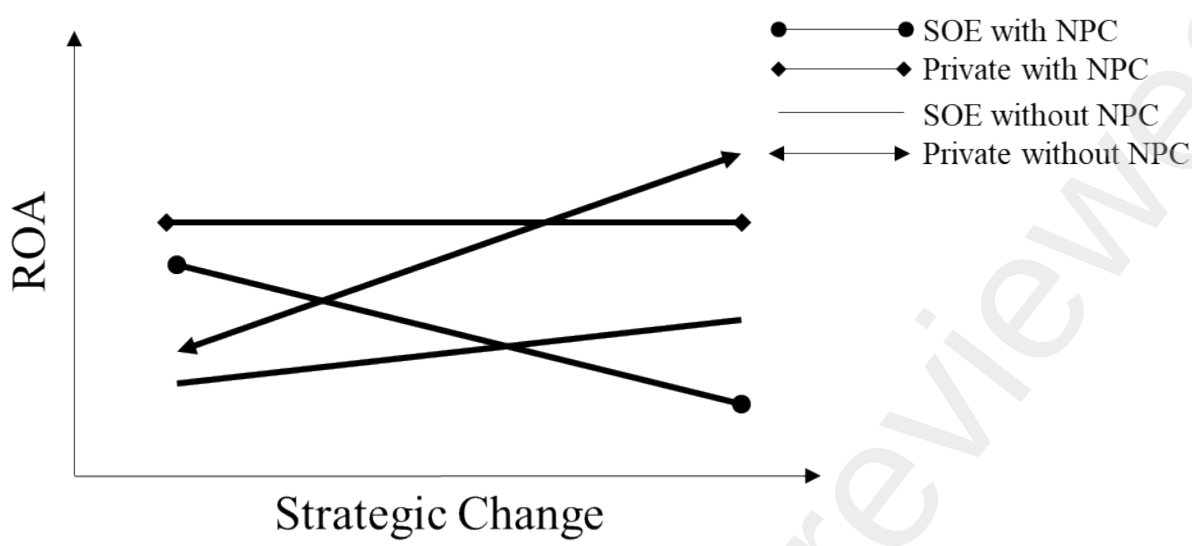

Figure 2a. Results of moderating effects when ROA is the dependent variable.

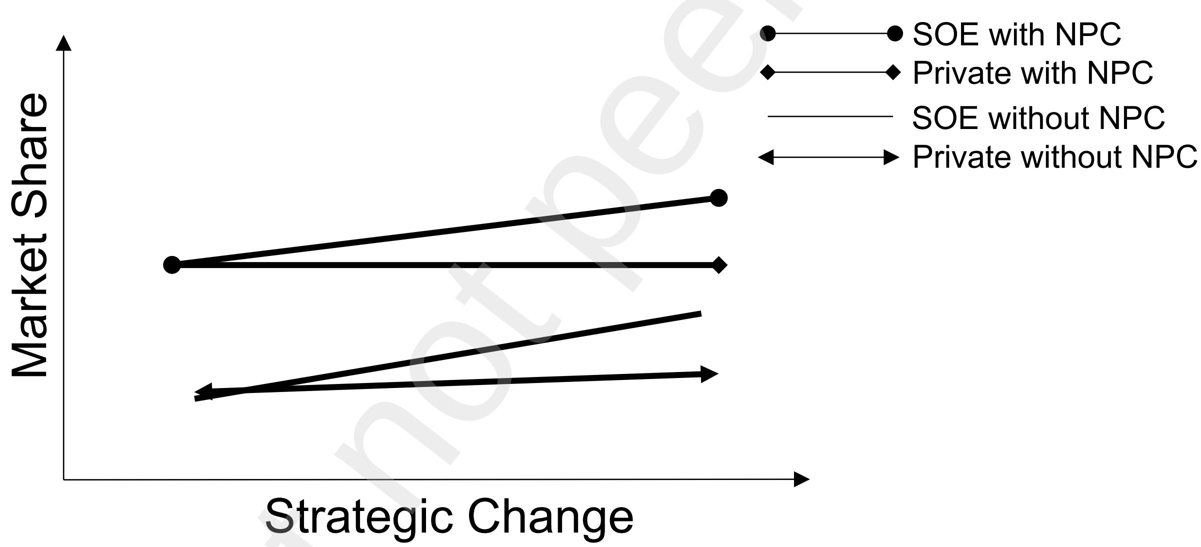

Figure 2b. Results of moderating effects when market share is the dependent variable.

Table 1. Means, standard deviations, and correlations.

	Mean	S.D.	1	2	3	4	5	6	7	8
1. ROA	0.108	0.169								
2. Market share	0.013	0.032	.055**							
3. Firm ownership	0.964	0.186	.043**	-.110**						
4. Political Connection	0.011	0.104	-.009**	.187**	-.072**					
5. Strategic Change	-0.033	0.303	.165**	.035**	-.005*	.005*				
6. Rule of Law	8.320	3.655	-.071**	-.052**	.108**	-.074**	-.117**			
7. Government Market Control	0.052	0.104	-.035**	.006*	-.442**	.024**	-.015**	-.187**		
8. Industry Concentration	0.219	0.143	-.011**	.240**	-.130**	.056**	.026**	-.087**	.218**	
9. Firm Size	11.456	1.547	-.059**	.410**	-.269**	.210**	-.006*	-.006**	.157**	.129**

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
***. Correlation is significant at the 0.001 level (2-tailed).

Table 2. Additive Moderation Results

Variable	DV = Return on Asset				DV = Market Share			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Controls								
Rule of Law	-.003***	-.003***	-.003***	-.003***	.000***	.000***	.000***	.0004***
Government Market Control	-.055***	-.055***	-.040***	-.040***	-.034***	-.033***	-.037***	-.036***
Industry Concentration	-.007*	-.008*	-.007*	-.007*	.046***	.046***	.046***	.045***
Firm Size	-.006***	-.006***	-.005***	-.005***	.008***	.008***	.008***	.008***
Step 1: Independent Variable								
Strategic Change (SC)	.088***	.096***	.019**	.024***	.003***	.003***	.011**	.011***
Step 2: Moderators								
Political Connection	--	-.005	--	-.004	--	.029***	--	.029***
Firm ownership	--	--	.025***	.025***	--	--	-.004***	-.004***
Step 3: Multiple Additive Moderation								
SC * Political Connection	--	-.091***	--	.021***	--	-.002	--	-.001
SC * Firm ownership	--	--	.073***	.001***	--	--	-.008***	-.009***
R2	.035	.037	.036	.038	.217	.225	.218	.226
F	1132.98***	859.22***	842.7***	695.732***	8747.68***	6563.89***	6276.55***	5162.38***

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
***. Correlation is significant at the 0.001 level (2-tailed).

Table 3: Conditional effects of the focal predictor at values of the moderator(s):

Firm Ownership	Political Connection	Dependent Variables	
		ROA	Market Share
State-Owned	*No*	.024***	.011***
State-Owned	*Yes*	-.069***	.010***
Privately-Owned	*No*	.10***	.002***
Privately-Owned	*Yes*	.010	.0001

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
***. Correlation is significant at the 0.001 level (2-tailed).