Executive DBA, Université Paris-Dauphine

Political Connection, Government & Market Orientation and MSEs Performance ——Evidence from China

(Application for Executive DBA, Université Paris-Dauphine)

Enrolled Year: 2014

Applicant: LI Huajun

Supervisor: ZHU Wuxiang

22th April, 2019

CONFIDENTIALITY AND AUTHORIZATION

All information provided by the interviewees and his/her institution will be kept confidential. Therefore, the information and other materials offered in this paper would resort to certain measures in a bid to protect interests of the participants. Identified as a classified document, this paper is subject to the relevant non-disclosure policy of Université Paris-Dauphine.

Moreover, I am fully aware of Université Paris-Dauphine's rules on the reserve and access of this dissertation, that is, the university has the right to retain copies of the dissertation and allows it to be read and borrowed by others; the university is entitled to disclosing all or part of the dissertation, and is allowed to keep it by means of photocopy, reduction printing or other forms of duplicates.

Signature:_____ Date:_____

Supervisor's signature:_____ Date:_____

ABSTRACT

Although small and micro enterprises have made great contributions to economic growth, employment increase, technical innovations and sustainable development, they are confronted with various troubles including lack of capital and difficulty in raising fund, meager profits and constraints in obtaining tax benefits, and low legitimacy etc., all of which lead to hovering mortality rate among the small and micro enterprises. Therefore, how to improve their performance stands as a common concern of the whole society.

The unique Chinese context should be fully considered when exploring the management issues faced by the Chinese small and micro enterprises. Under a transitional economy, the Chinese government controls huge amounts of rare economic resources, and the economic growth figure is in the matrix for determining how well the government does its job, thus leading to motivation and capability of the government to enlarge its economic functions and to deeply involve in the economic activities. In order to obtain support and help from the government, it is quite a common phenomenon for enterprises to establish political connection with the government. Until now, however, there still exist certain unfilled areas or disputes among the academics and the theorists about the influence of political connection upon enterprise performance. Therefore, this paper explores the process and mechanism of how political connection exercises such influence.

This paper takes the strategic orientation of enterprises as the starting place, sorts out relevant literature on the classification of strategic orientations, and fully includes the unique transitional economy scenario in China. On such a basis, the author considers the existing classification method of the strategic orientations fails to fully explain the role played by the government under China's transitioning economic system. For this reason, the author names a new category of strategic orientation—the governmentorientation, and defines it as "a strategic guideline rolled by the enterprise at its inception, when it adapts to the environment and obtains contracts and relevant resources from government by paying attention to the policy-related information and by maintaining certain relationship with the government while achieving the organization's goal by means of timely resource allocations and management behavior adjustments". Starting from two crucial stakeholders in the transitional economic environment—the government and the market, the author adopts the AMC (Awareness, Motivation, Capability) analysis framework and explores the respective antecedents and outcomes of the strategic orientation utilized by both stakeholders, and proposes four pairs of (eight) assumptions. The author conducts empirical tests with data collected from questionnaires completed by 1737 small and micro enterprises from a nation-wide sample and by matching them with the enterprises'

performance data in the credit loan database for MSEs, and all of the assumptions developed are supported by the results. By replacing the variables and the empirical test tools, the author also carries out robustness test and finds that the conclusion generated proves to be fair and sound.

There are four key research findings in this paper. Firstly, political connection influences strategic orientation: small and micro enterprise owners with political connection can be better aware the importance of the government-orientation to beat others in competitions, and they are more motivated to adopt such strategy orientation and demonstrates stronger capability to implement it; yet they have weak market-orientationawareness, motivation and capability, and are therefore less likely to choose the market orientation approach. Secondly, both strategic orientations can help to improve enterprise performance: small and micro enterprises that adopt the government orientation can not only obtain more information about government policies, but enjoy direct government support, also their enterprise legitimacy can be improved, and all of these advantages can improve their performance partially; and those who adopt the market orientation approach usually display deeper understanding of existing and potential customer demands, their competitors' capability and strategies, the channels' status quo and the trend, and the market environment, so that they can more quickly adjust their resource portfolios to obtain advantages in competition and to improve their performance partially. Thirdly, the anti-corruption measures moderate the positive relationship between strategic orientation and enterprise performance: anti-corruption measures not only reduce enthusiasm of small and micro enterprises in maintaining the government orientation, also increase their costs and reduce the expected return; on the other hand, however, anti-corruption efforts reduce the government's interference with the market, enhance the role of market in resources allocation, and bestow larger advantages on those small and micro enterprises who understand the customer need and the competitors better. Fourthly, the strategic orientation approach plays a role as the mediator between political connection and enterprise performance: in a stable market environment, enterprises with political connection are more likely to prefer the government-orientation to the market-orientation, yet both of which can improve enterprise performance.

The research conducted here are of great theoretical and practical significance.

Theoretically, first of all, in this paper the concept of government orientation is first raised and put under empirical test, which enriches the classification of strategic orientations and can help scholars understand the transitional economy in China. Secondly, the research findings of this paper can help unveil the black box of how political connection influences enterprise performances and explain why disparate conclusions were drawn in the previous studies (what needs to be specifically stated is that although some empirical models generally support the conclusions, some of them have low explanatory power. Thirdly, in this paper the research paradigm of

"character—behavior—performance"is inherited, an untapped variable in personal traits—political connection—is explored, and the research scope of the upper echelons theories is expanded. Moreover, the AMC model is applied here to analyze the avant-garde competitive behavior between the enterprises and the unspecified competitors, enlarging the application scope of the AMC model.

In terms of real-world practices, firstly, personal identity of the small and micro enterprise owners could exert influence upon their strategic decision and enterprise performances, so enterprise owners should choose the appropriate decision model according to the environment and avoid negative impact due to decision inertia. Secondly, in a transitional economy both the market orientation and the government orientation approaches can help to improve enterprise performance, and when the marketization process is accelerating, the former approach can become a facilitator while the latter's influence would be rapidly diminished. Therefore, to obtain long-term sustainable competition, enterprises should swift their strategic focus to the market-orientation. And last but not least, the paper offers some references to the policy makers, that is, to promote the transition towards marketization and globalization, help Chinese enterprises to integrate into the world market, and enhance their international competitiveness, the government should further cut its economic functions and reduce direct and indirect interference in the economic activities and allow the market to play a greater role.

Key words: small and micro enterprise, political connection, strategic orientation, enterprise performance, empirical research

ACKNOWLEDGEMENT

My study for doctoral degree is coming to an end, and my thanks first goes to domestic and French professors.

Arigorous and earnest attitude, as well as excellence and meticulous scientific spirit of professor Bernard Fernandez, Pierre Romelaer, Jean-Pierre Segal and Herve Alexandre inspires me deeply during doctoral study and dissertation writing process.

This paper is completed under the encouragement and guidance of my thesis supervisor Prof. ZHU Wuxiang, who made strenuous efforts in guiding me choose topic, carry out research design, data collection and empirical analysis, and spared no effort to help polish my dissertation.Prof. Zhu is a good teacher and helpful friend, his rigorous academic scholarship, vast knowledge and expertise, respectable work style, innovative thinking and noble morality have influencedme a lot. During my doctoral study over the past few years, Prof. Zhu has fully recognized my research work, given me a lot of opportunities to study and exchange, and developed my ability to do scientific research independently. I hereby express my sincere thanks and heartfelt blessing to my supervisor Prof. ZHU Wuxiang.

Ialso appreciate this learning opportunity presented by EDBA, Université Paris-Dauphine. Enterprise management and personal development require continuous learning. The EDBA project fully integrates theory and practice and focuses on solving business problems. It contributes to my personal development and enterprise management. Thanks to all the members who have worked for the EDBA, Université Paris-Dauphine.

Finally, I want to thank my families for their support and understanding during my study for doctoral degree. Thanks again!

CONTENTS

ABSTRACT I
ACKNOWLEDGEMENT IV
CONTENTS V
TABLES IX
FIGURES X
Chapter I Introduction 1
1.1 Research Background Briefing 1
1.1.1 MSEs Status Quo 1
1.1.1.1 Lack of Capital and Difficulty in Gaining Access to Funding 2
1.1.1.2 Extremely Low Profits and Difficulty in Obtaining Tax Benefits 3
1.1.1.3 Weak Legitimacy and Low Recognition 4
1.1.2 The Issue of Political Connection 6
1.1.2.1 Influence of Political Connection on the Enterprise—From the Perspective of Practical Level 6
1.1.2.2 Influence of Political Connection on the Enterprises—on the Theoretical Level 9
1.2 Proposal of the Research Topic 10
1.2.1 Summary of MSEs Status Quo 10
1.2.2 Comment on Literature about Political Connection 11
1.2.2.1 Variables Selection 11
1.2.2.2 Logical Inferences 12
1.2.2.3 Theoretical Boundary 13
1.2.3 Proposing the Research Question 14
1.3 Research Content and Structure Arrangement 15
Chapter II Literature Review 18
2.1 Economic Function of the Chinese Government in the Transitional Period 18
2.1.1 Theoretical Foundation for the Government's Economic Function 18
2.1.2 Evolution of the Chinese Government's Economic Functions 19
2.1.3 Status Quo of the Chinese Government's Economic Function 22
2.1.4 A Brief Summary of Economic Functions of the Chinese Government in Transformation Period 26
2.2 Strategic Orientation 28
2.2.1 The Concept of Strategic Orientation 28
2.2.1.1 The Perspective of Resource and Capability 28
2.2.1.2 The Direction Perspective 29
2.2.1.3 Organizational Behavior and the Process Perspective 31
2.2.1.4 Researches from Other Perspectives 33
2.2.1.5 Summary of the Concept of Strategic Orientation 33
2.2.2 Decisive Factors of Strategic Orientation 37
2.2.2.1 External Environment Factor 37
2.2.2.2 Senior Executives 38
2.2.2.3 Organizational Culture 40
2.2.3 Influence of Strategic Orientation on Organizational Performance 41

2.2.3.1 Strategic Orientation Directly Influences Organizational Performance 41
2.2.3.2 Indirect Influence of Strategic Orientation on Organizational Performance 43
2.2.4 Summarization of Literature Regarding Strategic Orientation 44
2.3 Awareness-Motivatioon-Capability (AMC) Model 48
2.3.1 Introduction to Awareness-Motivation-Capability (AMC) Model 48
2.3.2 Summarization of the AMC Model 50
Chapter III Theory and Hypotheses 52
3.1 Theoretical Extension of Strategic Orientation 52
3.1.1 Theoretical Progress of Strategic Orientation Research 52
3.1.2 Theoretical Extension of Strategic Orientation 53
3.2 Political Connection and Strategic Orientation 57
3.2.1 Political Connection and Government Orientation 58
3.2.2 Political Connection and Market Orientation 61
3.3 Strategic Orientation and Enterprise Performance 64
3.3.1 Government Orientation and Enterprise Performance 64
3.3.2 Market Orientation and Enterprise Performance 69
3.3.3 Moderation Effect of Anti-Corruption on the Relationship Between Strategic Orientation and Enterprise Performance 72
3.3.3.1 Moderation Effect of Anti-Corruption on the Relationship Between Government Orientation and Enterprise Performance 74
3.3.3.2 Moderation Effect of Anti-Corruption on the Relationship Between Market Orientation and Enterprise Performance 76
3.4 Political Connection and Enterprise Performance: Mediation Effect of Strategic Orientation 78
3.4.1 Political Connection and Enterprise Performance: Mediating Effect of Government Orientation 79
3.4.2 Political Connection and Enterprise Performance: Mediating Effect of Market Orientation 81
3.5 Summary 82
Chapter IV Research Design 84
4.1 Data Collection 84
4.1.1 Questionnaire Design 84
4.1.2 Questionnaire Distribution 85
4.1.3 Collecting and Data Processing of Questionnaires 85
4.2 Variables 87
4.2.1 Dependent Variables 87
4.2.2 Independent Variables 87
4.2.3 Mediator 89
4.2.4 Moderator 90
4.2.5 Control Variables 91
4.2.5.1 Control Variables in the Study of Relationship Between Political Connection and Strategic Orientation 91
4.2.5.2 Control Variables in the Study of Relationship Between Enterprise Performance and Strategic Orientation 94
4.2.6 Conclusion of Variables 94
4.3 Descriptive Statistics 96
4.4 Correlation analysis 98

Chapter V Empirical Analysis 102
5.1 Political Connection and Strategic Orientation 102
5.1.1 Model Building 102
5.1.2 Regression Analysis 102
5.1.2.1 Political Connection and Government Orientation 102
5.1.2.2 Political Connection and Market Orientation 106
5.2 Strategic Orientation and Enterprise Performance 108
5.2.1 Model Building 108
5.2.2 Regression Analysis 108
5.2.2.1 Government Orientation and Enterprise Performance 108
5.2.2.2 Market orientation and enterprise performance 117
5.3 Political Connection, Strategic Orientation and Enterprise Performance 127
5.3.1 Mediation test methods 127
5.3.2 Empirical Analysis 128
5.4 Interview Data Analysis 131
Chapter VI Research Conclusions 139
6.1 Research Conclusions 139
6.1.1 Background Overview 139
6.1.2 Research Findings 140
6.1.2.1 Political Connection Affects Strategic Orientation 140
6.1.2.2 Strategic Orientation Affects Enterprise Performance 142
6.1.2.3 Anti-Corruptionmoderates the relationship between Strategic Orientation and Enterprise Performance 144
6.1.2.4 Strategic Orientation Plays a Mediation Role between Political Connection and Enterprise Performance 146
6.2 Theoretical Contributions of this Research 147
6.2.1 Suggesting the Concept of Government Orientation and Diversifying the Categories of Strategic Orientation 147
6.2.2 Help to Unveil the Black Box of How Political Connection Influences Enterprise Performances 149
6.2.3 Expanding the Upper Echelons Theory's Research Area 151
6.2.4 Expanding the Scope of AMC Model's Application 151
6.3 Practical Value of this Research 152
6.3.1 The Identities of Small and Micro Enterprises' Owners Can Affect Their Strategic Decisions and EnterprisePerformance 152
6.3.2 Both the Market Orientation and Government Orientation Are Necessary for Enterprises during Economic Transformation 154
6.3.3 Referential Significance for Policy Makers 155
Chapter VII Discussion: Weaknesses and Improvement Directions 157
7.1 Data Sources 157
7.2 Variable Measurement 157
7.3 Theory Extraction 159
7.4 Research Conclusions 160
7.5 Literature Review 161
APPENDIX A China's MSEs Criterion 163
APPENDIX B Questionnaire 165
APPENDIX C Respondent Statistics 168
REFERENCE 170

STATEMENT..... 195
Resume & Academic Papers Published During Academic Years 196

TABLES

Table 1 Categorization of Strategic Orientation from the Direction Perspective 30
Table 2 Summary of Literature Regarding Dominant Research Perspectives of Strategic Orientation 35
Table 3 Conceptual Framework of AMC Model 49
Table 4 Sample Enterprises Distribution 86
Table 5 Name and Description of Variables 94
Table 6 Descriptive Statistics of Variables 97
Table 7 Pearson correlation statistics 100
Table 8 Regression Analysis of Political Connection on Government Orientation 105
Table 9 Regression Analysis of Political Connection on Market Orientation 107
Table 10 Regression Analysis of Government Orientation on Enterprise Performance- 2011 110
Table 11 Regression Analysis of Government Orientation on Enterprise Performance- 2012 111
Table 12 Regression Analysis of Government Orientation on Enterprise Performance- 2013 114
Table 13 Regression Analysis of Government Orientation on Enterprise Performance- 2014 115
Table 14 Regression Analysis of Government Orientation on Enterprise Performance (2011- 2014) 116
Table 15 Regression Analysis of Market Orientation on Enterprise Performance- 2011 119
Table 16 Regression Analysis of Market Orientation on Enterprise Performance- 2012 120
Table 17 Regression Analysis of Market Orientation on Enterprise Performance- 2013 123
Table 18 Regression Analysis of Market Orientation on Enterprise Performance- 2014 125
Table 19 Regression Analysis of Market Orientation on Enterprise Performance (2011- 2014) 126
Table 20 Calculation of Regression Coefficient for Mediation Test 129
Table 21 Mediation Test Results 131

FIGURES

Figure 1 Research Framework 17
Figure 2 Government-market relation index in selected provinces (1997-2007) 23
Figure 3 Overview of Antecedent Variables of Strategic Orientation 40
Figure 4 Framework of strategic orientation literature 47
Figure 5 Research Framework of This Thesis (PC-SO) 51
Figure 6 Calculation of government officials dismissed at provincial level from 1993 to 2015 74
Figure 7 The Political Connection-Strategic Orientation-Enterprise Performance Model 83
Figure 8 Distribution of Founding Year of Sample Enterprises 97
Figure 9 Mediation test method proposed by Baron and Kenny (1986) 127
Figure 10 Sobel's (1982) Mediating Role Test Method 128