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Institutions and Firm Performance: The Moderating Role of Founder's Social Ties

Preliminary draft

This paper explores the moderating effects of a founder's political ties and managerial ties on the relationship between formal institutions development and firm performance in China. Leveraging a unique sample of 428 newly listed firms on Growth Enterprise Market in Shenzhen Stock exchange between 2009 and 2016, we found that the founder's political ties enhances the relationship between marketization/legal framework and firm performance while the founder's managerial ties only positively moderate marketization and firm performance. Our findings show that the importance role of the founder's social ties even under the improved formal institutions (level of marketization and legal framework), which reveals the essential role of social ties in emerging economies.

INTRODUCTION

The institution-based view has increasingly become a driving perspective in international business research on emerging economies (Peng et al. 2008). Institution-based view addresses that firm-level activities are a reflection of the formal and informal constraints that managers confront with. Given the development of institution-based view in recent decades (Ingram and Silverman, 2002; Meyer and Peng 2005; Peng, 2002; Peng, Ahlstrom, Carraher, & Shi, 2017; Peng, Wang, and Jiang, 2008), there is a general consensus about proposition of “both formal and informal institutions matter” (Chan, Makino, & Isobe, 2010). The interplay between formal and informal institutions and their joint effects on firm’s performance in the context of emerging economies are, however, relatively under-researched (Holmes, Miller, Hitt, & Salmador, 2013). While considerable insight has been derived from the substitutive nature of formal and informal institutions (Peng, 2002; Peng et al. 2008; Xin & Pearce, 1996), it tends to understate the ways informal institutions interact with formal institutions as informal institutions may either improve or undermine the function of formal institutions (Estrin & Prevezer, 2011).

Social ties, as informal institutions, can shape organizational actions (Granovetter, 1985). Drawing from upper echelon theory (Hambrick & Mason, 1984) and social network theory (Burt, 1997; Granovetter, 1983), a large number of studies have confirmed the effects of managers’ social ties on firm’s strategic choices and performance (Haveman, Jia, Shi, & Wang, 2017; Li & Zhang, 2007; Li, Zhou, & Shao, 2009; Peng & Luo 2000; Sun, Mellahi, Wright, & Xu, 2015). Social ties are of special significance in emerging economies where the functioning of formal market-supporting institutions is not well-enforced.

This paper endeavors to answer the following question: how do the entrepreneurial founder’s social ties interact with different formal institutions in influencing the firm’s performance in China? Our analysis focuses on newly listed firms, which are undergoing a major transition from an entrepreneurial firm to a public listed firm. Conventional view suggests that a firm’s founder should cede control to professional managers as the firm’s growth requires extra expertise and resources of its founder can possibly provide (Chahine, Filatotchev, & Zahra, 2011; Daily & Dalton, 1992; Gedajlovic, Lubatkin, & Schulze, 2004; Zahra & Filatotchev, 2004). However, it has

been found that in the majority of newly listed firms in emerging economies, founders typically demand more control and continue to lead the firm either as a CEO or a chairman after the initial public offering (Wang & Song, 2016; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). The widespread prevalence indicates the distinctive role of the founder in emerging economies in leading the newly listed firm compared to the counterparts in developed economies.

This paper makes two contributions. First, we contribute to the institution-based view by proposing the contingent effects of formal institutions (i.e. government-based and legal-based institutions) on firm performance based upon informal institutions. Institution-based view emphasizes the direct effects of either institution on the firm's strategic choices and performance (Peng, 2003; Li, Poppo, & Zhou, 2008). Instead of viewing the firm as an actor who endeavors to fill in the institutional voids with informal institutions, we advocate that political ties and managerial ties, as informal institutions, improve the function of the underdeveloped formal institutional framework.

Second, we contribute to social network theory by explaining the role of social ties in interpreting the environment within emerging economies. Social network theory suggests that social ties lie beyond formal institutional legislation (Granovetter, 1985) and addresses the accessible resources through an actor's network (Ellis, 2011; Ma, Huang, & Shenkar, 2011; Nahapiet & Ghoshal, 1998; Ozgen & Baron, 2007). Social ties have been consistently used to gain access to valuable information and recognize entrepreneurial opportunities in the environment where formal institutions are deficient or absent (Peng, 2003; Peng & Luo, 2000). Though scholars recognized the important role of social ties, the question 'under what circumstance social ties matter' and remains debated (Chen, Chen, & Huang, 2013; Zhang & Zhang, 2006). Gualti and Higgins (2003) argue that the value of ties may change by context and it is essential to understand the role of social ties within the changing formal institutional environment in emerging economies.

HYPOTHESIS DEVELOPMENT

Economic institutionalism has recognized that there are "human devised constraints" behind the firm's practices (North, 1990). Researchers have recognized that

institutional frameworks influence what firm strategies are conceivable and legitimate (Peng et al., 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005). Rather than considering institutions as a background, institution-based view attributes firms' diverse strategies and performance to "humanly-devised constraints" (Peng et al., 2009) and explored the effects of both formal and informal institutions on firms' strategic actions (Holmes et al., 2013; Ingram & Silverman, 2002; Narayanan & Fahey, 2005).

The major role of institutions is to reduce uncertainty by establishing formal and informal constraints to regulate a firm's actions (North, 1990). Formal institutions represent the codified and legally-bound rules that provide authoritative behavioral guidelines to a firm's behavior (Scott, 2013). Informal institutions refer to socially constructed and uncodified rules, which reflect the convention, culture, and norms in a society (North, 1990). Informal institutions embody shared values and define what actions are ethical and socially acceptable (Peng et al., 2008; Helmke & Levitsky, 2004).

Peng (2002) and Peng, Wang, and Jiang (2008) advocate a firm's strategic choices and performances are the outcomes of the interactions between formal/informal institutions and firms. Institution-based view addresses the substitutive nature between formal and informal institutions and states that in situations whereby formal institutions are weak, informal institutions rise to play a larger role in driving firm strategies and performance (Peng, Sun, Pinkham, & Chen, 2009). In other words, indistinct or absent formal institutional boundaries in emerging economies create institutional voids (Khanna & Palepu, 1999). Firms in emerging economies normally rely on informal institutions (Puffer, McCarthy, & Boisot, 2010), such as political ties (Li, Poppo, & Zhou, 2008; Li & Zhang, 2007; Sun, Mellahi, Wright, & Xu, 2015), managerial ties or both (Li, Zhou, & Shao, 2009; Peng & Luo, 2000). The importance of informal institutions in emerging economies, however, may eventually decline as formal institutions become more developed (Hoskisson, Eden, Lau, & Wright, 2000).

Informal institutions can assist formal institutions' influence over the firm's activities (Estrin & Prevezer, 2011). Informal institutions can solve the problem by lowering information, monitoring, and enforcement costs, which makes informal institutions as

a possible solution to a more complex exchange under deficient and malfunctioned formal institutional environment.

There is a broad consensus that well-defined formal institutions lay the foundation for firm's development. In this paper, however, we argue that the formal institutions' influence depends on each individual firm's social ties (see Figure 1). Instead of viewing informal institutions (i.e. social ties) as substitute forces of formal institutions, we assert that a newly listed firm actively interprets the formal institutions according to its founder's social ties.

H1: The founder's political ties, as informal institutions, positively moderate the relationship between marketization/legal framework and firm performance.

H2: The founder's managerial ties, as informal institutions, positively moderate the relationship between marketization/legal framework and firm performance.

DATA AND METHODOLOGY

We manually collected founder-related data from 511 firms listed on the Growth Enterprise Market (GEM) on the Shenzhen Stock Exchange. The sample includes all firms underwent initial public offering (IPO) from 2009 to 2016. Following previous studies (e.g. Daily, Certo, Dalton, & Roengpitya., 2003; Deeds, Mang, & Frandsen, 2004; Lester, Certo, Dalton, Dalton, & Cannella, 2006), founder-related data are primarily obtained from the IPO prospectus. The IPO prospectus is part of the requirements for listing and most of the prospectuses have a standard format. The detailed information about the founder or founding team makes the IPO prospectus the fundamental document for this research. Additional data regarding firm's financial performance, productivity, and institutional factors covering the period 2009-2016 were sourced from the China Stock Market & Accounting Research (CSMAR) database and the China Statistical Yearbook and National Economic Research Institute (NERI) Index of Marketization of China's Provinces 2016 Report.

To construct our unique dataset about the founder(s), we adopted a multi-stage sample collecting procedure. The most challenging task was to distinguish a firm with the founder(s) from those firms without the founding team. Some firms were originally established by governments or reformed from state-owned firms. In other cases, the

founders had retired, resigned, or died. The selection process was based on three criteria: (1) the existence of a founder in the history section of the prospectus, (2) the founder holds a position on the board after the IPO, and (3) the founder holds share ownership after IPO flotation. We triangulated the information from the IPO prospectus with each company's website and other published news to ensure that founder's information was accurate and firms without founding teams were eliminated from the sample. This process left us with 428 firms, out of the initial 511, with the founder(s).

Dependent variable.

Our dependent variable, firm performance is measured by the return of assets (ROA) defined as the ratio of net income to total assets. This performance measure is widely used in management studies (Jaskiewicz, Block, Miller, & Combs, 2017). The data is drawn from the CSMAR database.

Independent variables.

Founder's social ties. We measure founder's social ties by distinguishing the founder's managerial ties with political ties (Li & Zhang, 2007; Li, Zhou, & Shao, 2009; Peng & Luo, 2000; Sun et al., 2015). The managerial ties were measured by the sum of executive positions and board memberships held by the founder outside the focal firm (Filatotchev, 2006). If there are multiple founders, we take the sum of these positions. The importance of the firm's political ties in emerging counties has been investigated in large numbers of studies (e.g. Li et al., 2008; Li, He, Lan, & Yiu, 2012). The effect of political ties was measured as a dummy variable, which is coded as 1 if the founder has political connections - was the member of the National People's Congress or the member of Chinese People's Political Consultative Conference, or worked in the local or central government department or military department, and 0 otherwise.

We emphasize that importance the sub-national (i.e. provincial) level of formal institutions with two different dimensions: (i) the level of marketisation which measures government allocation of resource, the level of government intervention in the business, and government size and (ii) legal framework development which includes the measures of legal institution development, legal environment development and the level of intelligent property protection.

Control variables

We include a number of control variables. We included founder's age, founder-CEO status, board independence, firm size, firm age. In addition, we also control for the time-specific, industry-specific and geographic factors by introducing three sets of dummy variables. We provide the summary statistics in Table 1, indicating that most of the observations are within reasonable limits (i.e. no outliers). Also, the pairwise correlation coefficients show no serious issues of multicollinearity among the variables.

[Insert Table 1 about here]

RESULTS

We present our empirical results obtained by using OLS estimation in Table 2-5. In Table 2, the results are estimated using OLS and the dependent variable is ROA. The interaction results indicate that the founder's political ties and managerial ties show even more compelling roles along with formal institutions' development.

[Insert Table 2-5 about here]

[Insert Figure 1-3 about here]

In order to examine the consistency of the results, we conduct a set of robustness tests. We use ROE as an alternative measure for firm performance. We obtain board similar results shown in Table 3. The main difference of the results of Table 3 compared to Table 2 is that effect of managerial ties appears to be statistically significant and positive. The effect of other explanatory variables, in terms of the sign and significance, is the same.

Also, we apply alternative empirical methods using DID model and FEGLS estimation to check the robustness of the results. The results are essentially unchanged, which are shown in Tables 4 and 5.

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Figure 1 Research Model

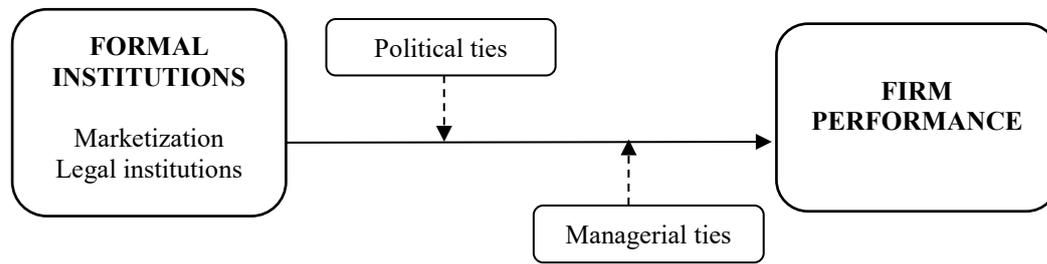


Table 1 Summary statistics

Variable	Mean	SD	Obs	1	2	3	4	5	6	7	8	9	10	11
1. ROA (%)	10.72502	8.649884	1894	1										
2. Political ties	0.2903	0.4540	2034	-0.0674***	1									
3. Managerial ties	6.6758	5.0425	2034	0.0365*	0.3255***	1								
4. Founder CEO	0.5914	0.4917	2034	0.0569**	0.1151***	0.2474***	1							
5. Founder age	53.8237	6.9909	2034	-0.0796***	0.1382***	0.1506***	-0.3168***	1						
6. Board independence	0.3780	0.1018	2034	0.0930***	-0.0057	0.0134	0.0349	-0.0687***	1					
7. Current ratio	5.5911	9.1096	2034	-0.0126	-0.0354*	-0.0144	0.0431**	-0.0171	-0.0099	1				
8. Firm size (log)	20.3998	0.8561	2034	-0.5367***	0.0497***	-0.0634***	-0.0203	0.0238	-0.0752***	0.0169	1			
9. Firm age	11.6500	4.3980	2034	-0.2500***	0.1263***	-0.0943***	-0.0697***	0.2001***	-0.0334	-0.0372*	0.2535***	1		
10. Marketization	7.3782	1.1523	2034	0.1328***	0.0035	0.0765***	0.1057***	0.0059	-0.0038	-0.0163	-0.1507***	-0.0207	1	
11. Legal institution	9.8867	4.2257	2034	-0.0972***	-0.0248	0.0896***	0.0961***	-0.0382*	0.0356	-0.0293***	0.2078***	0.1862***	0.4291	1

Note: *** Statistical significance at 1% level (p value < 0.01); ** Statistical significance at 5% level (p value < 0.05); * Statistical significance at 10% level (p value < 0.1). All pairwise correlations are calculated using the maximum number of observations available in the sample.

Table 2 Social ties, institutions and firm performance (OLS)

	1	2	3	4	5	6	7
<i>Founder:</i>							
Political ties	-1.0789*** (0.3665)	-1.0790*** (0.3661)	-1.0889*** (0.3679)	-12.0448*** (2.6359)	-4.8610*** (0.9052)	-1.0431*** (0.3635)	-1.0713*** (0.3699)
Managerial ties	0.0529 (0.0389)	0.0529 (0.0389)	0.0529 (0.0389)	0.0541 (0.0388)	0.0381 (0.0395)	-0.5159*** (0.1888)	0.0903 (0.0810)
Founder CEO	0.6597* (0.3806)	0.6596* (0.3808)	0.6607* (0.3806)	0.6612* (0.3784)	0.7085* (0.3792)	0.6950* (0.3809)	0.6470* (0.3818)
Founder age	-0.0145 (0.0243)	-0.0145 (0.0243)	-0.0150 (0.0244)	-0.0055 (0.0239)	0.0013 (0.0243)	-0.0145 (0.0243)	-0.0151 (0.0244)
<i>Firm-level factors:</i>							
Board independence	6.3322*** (1.7691)	6.3324*** (1.7696)	6.4204*** (1.7678)	6.8166*** (1.7097)	6.8655*** (1.7070)	6.0757*** (1.8174)	6.4502*** (1.7617)
Current ratio	-0.0474*** (0.0147)	-0.0474*** (0.0147)	-0.0475*** (0.0147)	-0.0505*** (0.0148)	-0.0476*** (0.0146)	-0.0483*** (0.0148)	-0.0474*** (0.0146)
Firm size (total assets)	-3.9683*** (0.2836)	-3.9683*** (0.2838)	-3.9654*** (0.2839)	-3.9524*** (0.2825)	-3.8827*** (0.2838)	-4.0310*** (0.2826)	-3.9690*** (0.2836)
Firm age	-0.1112** (0.0462)	-0.1112** (0.0462)	-0.1107** (0.0463)	-0.1017** (0.0461)	-0.1064** (0.0460)	-0.1189** (0.0466)	-0.1108** (0.0463)
<i>Institutions and interactions:</i>							
Government institutions		-0.0115 (0.5167)		-0.4194 (0.5079)		-0.5544 (0.5452)	
Legal institutions			0.1084 (0.1533)		0.0242 (0.1525)		0.1355 (0.1621)
Political ties* marketization				1.4658*** (0.3440)			
Political ties* legal					0.3698*** (0.0798)		
Managerial ties* marketization						0.0762*** (0.0261)	
Managerial ties* legal							-0.0038 (0.0069)
constant	97.6353*** (5.9834)	97.7281*** (7.5297)	97.2117*** (6.0504)	99.8038*** (7.4654)	96.1868*** (6.0665)	103.2477*** (7.7278)	97.0124*** (6.0815)
N	1894	1894	1894	1894	1894	1894	1894
R2	0.3850	0.3850	0.3852	0.3911	0.3914	0.3872	0.3852

Note: The dependent variable is ROA. Estimation is by OLS with robust standard errors (in parentheses). *** Statistical significance at 1% level (p value < 0.01); ** Statistical significance at 5% level (p value < 0.05); * Statistical significance at 10% level (p value < 0.1).

Table 3 Social ties, institutions and firm performance (Dependent variable: ROE)

	1	2	3	4	5	6	7
<i>Founder:</i>							
Political ties	-1.0718** (0.5335)	-1.0728** (0.5336)	-1.0797** (0.5356)	- 16.7069*** (3.8469)	-4.5498*** (1.2439)	-1.0198* (0.5262)	-0.9785* (0.5304)
Managerial ties	0.1709** (0.0729)	0.1708** (0.0728)	0.0967 (0.2208)	0.1707** (0.0728)	0.1561** (0.0735)	-1.0849*** (0.2738)	0.3581** (0.1473)
Founder CEO	1.1579** (0.5074)	1.1566** (0.5070)	1.1563** (0.5075)	1.1576** (0.5051)	1.2018** (0.5065)	1.2198** (0.5056)	1.0866** (0.5052)
Founder age	-0.0093 (0.0351)	-0.0096 (0.0351)	-0.0096 (0.0351)	0.0039 (0.0344)	0.0051 (0.0350)	-0.0103 (0.0347)	-0.0100 (0.0351)
<i>Firm-level factors:</i>							
Board independence	7.3675*** (2.1375)	7.3905*** (2.1409)	7.4422*** (2.1466)	8.0083*** (2.1195)	7.7966*** (2.1156)	6.8739*** (2.1611)	7.5759*** (2.1326)
Current ratio	-0.1959*** (0.0356)	-0.1958*** (0.0356)	-0.1960*** (0.0356)	-0.1999*** (0.0354)	-0.1958*** (0.0359)	-0.1974*** (0.0354)	-0.1956*** (0.0351)
Firm size (total assets)	-5.6695*** (0.3723)	-5.6688*** (0.3726)	-5.6699*** (0.3723)	-5.6323*** (0.3710)	-5.5839*** (0.3752)	-5.7894*** (0.3694)	-5.6907*** (0.3710)
Firm age	-0.1026* (0.0609)	-0.1025* (0.0609)	-0.1025* (0.0610)	-0.0900 (0.0611)	-0.0994 (0.0608)	-0.1180* (0.0607)	-0.1032* (0.0607)
<i>Institutions and interactions:</i>							
Marketization		-0.4786 (0.7317)		-1.0834 (0.7109)		-1.6877** (0.7884)	
Legal institutions			0.0967 (0.2208)		0.0069 (0.2222)		0.2339 (0.2365)
Political ties* marketization				2.0897*** (0.5000)			
Political ties* legal					0.3441*** (0.1126)		
Managerial ties* marketization						0.1685*** (0.0407)	
Managerial ties* legal							-0.0192* (0.0109)
constant	134.8304** * (7.8487)	138.6389** * (9.7203)	134.5320** * (7.8972)	141.5438** * (9.5878)	133.4891** * (7.9402)	150.6082** * (9.9567)	133.5527** * (7.9743)
N	2031	2031	2031	2031	2031	2031	2031
R2	0.3980	0.3982	0.3981	0.4044	0.4007	0.4036	0.3990

Note: The dependent variable is ROE. Estimation is by OLS with robust standard errors (in parentheses). *** Statistical significance at 1% level (p value < 0.01); ** Statistical significance at 5% level (p value < 0.05); * Statistical significance at 10% level (p value < 0.1).

Table 4 Social ties, institutions and firm performance (DID)

	1	2	3	4	5	6	7
<i>Founder:</i>							
Political ties	-1.2098*** (0.3570)	-1.2094*** (0.3566)	-1.2170*** (0.3582)	-9.9636*** (2.5426)	-3.9548*** (0.8934)	-1.1675*** (0.3522)	-1.1821*** (0.3586)
Managerial ties	0.0112 (0.0365)	0.0112 (0.0365)	0.0112 (0.0365)	0.0131 (0.0364)	0.0016 (0.0370)	-0.6766*** (0.1814)	0.0867 (0.0806)
Founder CEO	0.5532 (0.3643)	0.5541 (0.3647)	0.5539 (0.3644)	0.5557 (0.3632)	0.5896 (0.3646)	0.5959 (0.3640)	0.5263 (0.3657)
Founder age	-0.0283 (0.0235)	-0.0282 (0.0235)	-0.0287 (0.0236)	-0.0209 (0.0233)	-0.0166 (0.0237)	-0.0284 (0.0235)	-0.0288 (0.0235)
<i>Firm-level factors:</i>							
Board independence	5.6177*** (1.7496)	5.6159*** (1.7484)	5.6850*** (1.7475)	6.0333*** (1.6940)	6.0436*** (1.6987)	5.2964*** (1.8088)	5.7385*** (1.7313)
Current ratio	-0.0333** (0.0129)	-0.0333** (0.0129)	-0.0333*** (0.0129)	-0.0359*** (0.0130)	-0.0336*** (0.0128)	-0.0342*** (0.0130)	-0.0331*** (0.0128)
Firm size (total assets)	-2.6046*** (0.3224)	-2.6042*** (0.3227)	-2.6034*** (0.3227)	-2.6197*** (0.3206)	-2.5785*** (0.3218)	-2.6651*** (0.3201)	-2.6065*** (0.3225)
Firm age	-0.0414 (0.0454)	-0.0414 (0.0454)	-0.0411 (0.0454)	-0.0356 (0.0453)	-0.0401 (0.0451)	-0.0499 (0.0456)	-0.0410 (0.0454)
<i>Institutions and interactions:</i>							
Marketization		0.0602 (0.5160)		-0.2714 (0.5081)		-0.5948 (0.5424)	
Legal institutions			0.0804 (0.1511)		0.0206 (0.1502)		0.1349 (0.1600)
Political ties* marketization				1.1707*** (0.3330)			
Political ties* legal					0.2688*** (0.0782)		
Managerial ties* marketization						0.0920*** (0.0252)	
Managerial ties* legal							-0.0076 (0.0068)
Time	-10.3936*** (1.0010)	-10.3265*** (1.1595)	-10.8132*** (1.2784)	-10.3538*** (1.1516)	-10.9568*** (1.2771)	-10.2960*** (1.1528)	-10.8472*** (1.2786)
Treated	8.4983*** (0.8547)	8.4945*** (0.8554)	8.5047*** (0.8559)	8.4590*** (0.8444)	8.4219*** (0.8633)	8.5750*** (0.8552)	8.4916*** (0.8579)
Time*treated	-2.9862*** (0.9029)	-2.9799*** (0.9068)	-3.0008*** (0.9031)	-3.1041*** (0.8984)	-3.1046*** (0.9093)	-2.9963*** (0.9044)	-2.9584*** (0.9065)
constant	72.2681*** (6.5708)	71.7781*** (8.0672)	71.9725*** (6.6437)	74.0122*** (8.0045)	71.8812*** (6.6493)	78.1619*** (8.1502)	71.4930*** (6.6695)
N	1894	1894	1894	1894	1894	1894	1894
R2	0.4366	0.4366	0.4367	0.4405	0.4399	0.4399	0.4370

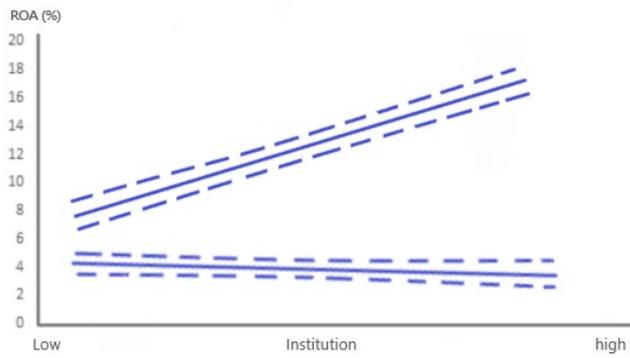
Note: The dependent variable is ROA. Estimation is by Difference-in-Difference (DID) with robust standard errors (in parentheses). *** Statistical significance at 1% level (p value < 0.01); ** Statistical significance at 5% level (p value < 0.05); * Statistical significance at 10% level (p value < 0.1).

Table 5 Social ties, institutions and firm performance (FEGLS)

	1	2	3	4	5	6	7
<i>Founder:</i>							
Political ties	-1.0789*** (0.3856)	-1.0790*** (0.3856)	-1.0889*** (0.3858)	-12.0448*** (2.5539)	-4.8610*** (0.9414)	-1.0431*** (0.3851)	-1.0713*** (0.3877)
Managerial ties	0.0529 (0.0342)	0.0529 (0.0342)	0.0529 (0.0342)	0.0541 (0.0340)	0.0381 (0.0342)	-0.5159** (0.2189)	0.0903 (0.0890)
Founder CEO	0.6597* (0.3583)	0.6596* (0.3584)	0.6607* (0.3583)	0.6612* (0.3566)	0.7085** (0.3566)	0.6950* (0.3580)	0.6470* (0.3595)
Founder age	-0.0145 (0.0267)	-0.0145 (0.0267)	-0.0150 (0.0267)	-0.0055 (0.0266)	0.0013 (0.0268)	-0.0145 (0.0266)	-0.0151 (0.0267)
<i>Firm-level factors:</i>							
Board independence	6.3322*** (1.5774)	6.3324*** (1.5774)	6.4204*** (1.5821)	6.8166*** (1.5736)	6.8655*** (1.5774)	6.0757*** (1.5775)	6.4502*** (1.5833)
Current ratio	-0.0474*** (0.0173)	-0.0474*** (0.0173)	-0.0475*** (0.0173)	-0.0505*** (0.0172)	-0.0476*** (0.0172)	-0.0483*** (0.0172)	-0.0474*** (0.0173)
Firm size (total assets)	-0.1112*** (0.0429)	-0.1112*** (0.0429)	-0.1107*** (0.0429)	-0.1017** (0.0427)	-0.1064** (0.0427)	-0.1189*** (0.0429)	-0.1108*** (0.0429)
Firm age	-0.1112*** (0.0429)	-0.1112*** (0.0429)	-0.1107*** (0.0429)	-0.1017** (0.0427)	-0.1064** (0.0427)	-0.1189*** (0.0429)	-0.1108*** (0.0429)
<i>Institutions and interactions:</i>							
Marketization		-0.0115 (0.4927)		-0.4194 (0.4992)		-0.5544 (0.5334)	
Legal institutions			0.1084 (0.1530)		0.0242 (0.1534)		0.1355 (0.1642)
Political ties* marketization				1.4658*** (0.3375)			
Political ties* legal					0.3698*** (0.0843)		
Managerial ties* marketization						0.0762*** (0.0290)	
Managerial ties* legal							-0.0038 (0.0083)
constant	97.6353*** (5.1603)	97.7281*** (6.5144)	97.2117*** (5.1942)	99.8038*** (6.4998)	96.1868*** (5.1733)	103.2477*** (6.8327)	97.0124*** (5.2124)
N	1894	1894	1894	1894	1894	1894	1894

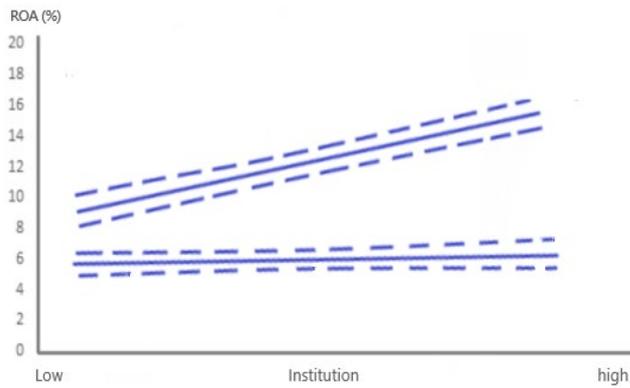
Note: The dependent variable is ROA. Estimation is by Fixed Effects Generalised Least Squares (FEGLS). *** Statistical significance at 1% level (p value < 0.01); ** Statistical significance at 5% level (p value < 0.05); * Statistical significance at 10% level (p value < 0.1).

Figure 1: Marketization and political ties



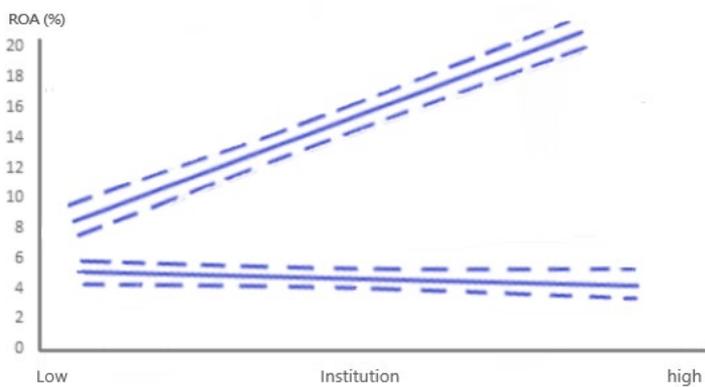
Note: The line above shows the founder with political ties; then blue line on the bottom shows the founder without political ties.

Figure 2: Legal and Political ties



Note: The line above shows the founder with political ties; then blue line on the bottom shows the founder without political ties.

Figure 3: Marketization and Managerial ties



Note: The line above shows the founder with managerial ties; then blue line on the bottom shows the founder without managerial ties.