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Can One Stone Kill Two Birds? Political Relationship Building and Partner Acquisition in New Ventures

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Abstract

We extend the resource dependence theory to argue for the opposing effects of political relationship building on new ventures' abilities to obtain suppliers and buyers. By signaling endorsement and better access to resources, political connection enhances new ventures' legitimacy and bargaining position. In supply chains featuring high contractual uncertainties, suppliers favor new ventures with higher certainty of payment but buyers can be deterred by new ventures more difficult to control. Hence, paradoxically, political relationship building can exert opposing effects on a new venture's acquisition of suppliers and buyers. We found empirical support through a survey of 337 new ventures in China.

Keywords

entrepreneurship, new ventures, corporate political activities, China

Research has established the importance of corporate political activities (Hillman, 2005; Hillman & Hitt, 1999), and some recent studies have highlighted the contribution of building political connection to entrepreneurship especially in emerging markets (e.g., Ge, Stanley, Eddleston, & Kellermanns, 2017; Tang, Tang, & Katz, 2014; Zhou, 2013). However, this literature has focused on how the business–government relationship affects the firm, such as bringing a new venture legitimacy and access to resources and thus enhancing its growth (Li & Zhang, 2007; Michelson, 2007; Zhou, 2017). Less examined is how building political relationship can affect new ventures' acquisition of suppliers and buyers, arguably the most important types of stakeholders for new ventures' survival. While new ventures attempt to cultivate ties with government to gain important benefits for their survival, they also need to recognize and assess how government relationship building may impact their partner acquisition. New ventures differ from established firms in that they lack resources and legitimacy (Aldrich & Fiol, 1994) and have to prioritize the goal of

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survival by securing relationships with multiple types of stakeholders at the same time. This research gap thus limits our understanding of the important consequences of political ties for new ventures.

In this study, we draw on the resource dependence theory (RDT) to develop a framework on how building relationships with the government can influence new ventures' acquisition of suppliers and buyers, focusing on the different impact on these upstream and downstream partners. For new ventures, engaging the government can provide them with an alternative source of power dependence, which enhances their legitimacy and bargaining power vis-a-vis their supply chain partners. However, given the weak contract enforcement and heightened uncertainties in emerging markets, suppliers and buyers differ in their priority of concerns regarding new ventures and may evaluate differently new ventures' government relationship building. In a supply chain, a new venture serves as a buyer and a supplier respectively for its upstream and downstream partners. For a new venture as their downstream buyer, suppliers are mostly concerned about the uncertainty of payment. Suppliers can be attracted to the politically connected new venture as they are more assured of its survival prospects and ability to pay. In contrast, for a new venture as their upstream supplier, buyers are mostly concerned about being able to control the new venture so as to maintain their bargaining power in price and customization. Political relationship building can make a new venture depend less on its buyers because the alternative resources and support from the government diminishes the urgency of getting cash payment from buyers. The strengthened bargaining position of the new venture may put off some buyers, *ceteris paribus*. Hence, paradoxically, building government relationship can exert opposing effects on a new venture's acquisition of suppliers and buyers.

To validate the mechanisms, we further examine the effects of political relationship building on new ventures with a greater legitimacy deficit and a stronger bargaining position respectively. Given that legitimacy can level off at a high level (Hannan & Freeman, 1984), political connection can enhance legitimacy more for new ventures with lower legitimacy and thus contribute more to their supplier acquisition. As bargaining power can increase continuously and start to pose a threat at a relatively high level, political connection is more likely to make new ventures with a strong bargaining position threatening, thus obstructing their buyer acquisition. Finding these moderating effects can lend support to our main argument that a new venture's political relationship building is assessed favorably by suppliers due to its enhanced legitimacy but unfavorably by buyers due to its enhanced bargaining power.

We test our framework in the context of new ventures' supply chains in China. This is an ideal context for the following reasons. First, given the weak market and legal institutions and the pervasiveness of government intervention in business in China (Ge et al., 2017; Haveman, Jia, Shi, & Wang, 2017; Luo, 2002; Tang et al., 2014), some new ventures have a founding team member dedicated to political relationship building (dubbed as "*gao zhengfu guanxi de*"). Prior research has established the importance of founding team members in signaling new venture's capabilities (Higgins & Gulati, 2006), though the role of political relationship building has not been examined. Second, the supply chains of new ventures in China generally feature greater power of the downstream relative to the upstream (Zhou & Poppo, 2010). The decade after the 1997 Asian Financial Crisis witnessed a growing overcapacity of production in many industries of China, which made post-delivery payment a norm in supply chains. This norm, coupled with weak contract enforcement, increased the risks of payment and resulted in the greater power of the downstream. Although this clearly sets a boundary condition to our findings, such a context allows us to have a comparable environment across firms and to develop arguments given this type of power asymmetry.

We took advantage of a unique survey conducted in 2005 over a sample of small- and medium-sized firms in China, from which we selected all the new ventures (firms that existed for less than 8 years). The survey asked about the new ventures' interfirm contractual relations, and the activities of the founding team at the time of venture founding, including whether a team member was dedicated to building government relationship. This allowed us to establish the time precedence of political relationship building before supply chain partner acquisition.[1] To better understand the concerns of the actors involved, we also conducted 30 open-ended interviews with entrepreneurs and their supply chain partners.[2]

Our study contributes to the literature on political connection of new ventures by developing a broadened view on the impact of new ventures' political relationship building. While prior studies focused on how political connection benefits new ventures' own resource acquisition, survival, and growth (Ge et al., 2017; Li & Zhang, 2007; Tang et al., 2014; Zhou, 2013), we go beyond the dyadic new venture–government relationship, and demonstrate the new venture's dilemma concerning suppliers and buyers. Unlike established firms which have more alternatives to reduce dependence on their environment, it behooves new ventures to have a relatively large number of value chain partners for reducing uncertainties and risks. We reveal that government relationship building can be a double-edged sword, reducing new ventures' risks concerning suppliers but leading to the unintended consequence of their risk exposure on the buyers' side.

In addition, our study contributes to the research on corporate political activities and embeddedness by understanding a new source of the costs. While the majority of studies have focused on the benefits, recent studies have started to note the costs as a result of subjecting firms to policy risks and predatory behaviors of the government (e.g., Siegel, 2007; Sun, Hu, & Hillman, 2016). Our study identifies a different source of the costs: political embeddedness can trigger potential buyers' concern about the difficulty to control and hence hinder buyer acquisition.

Lastly, we extend the resource dependence theory by answering the call in this field to study how reducing dependence on one type of actor can influence the focal actor's power imbalance with other types of exchange partners (Wry, Cobb, & Aldrich, 2013). Our findings suggest that the resource dependence logic can consistently explain a focal firm's relationships with different types of stakeholders, although reduced dependence is less likely to be viewed favorably by all.

Our study has important implications for new ventures. New ventures face arguably the most severe resource constraints, and have to balance multiple types of stakeholders to survive. Is it worthwhile to have a founding team member dedicated to building political relationship? Our study suggests that entrepreneurs need to take a system-based view to evaluate their risk factors. Many new ventures' survival hinges on receiving payment in time from their buyers and thus acquiring more buyers is crucial for reducing payment risks. In these circumstances, entrepreneurs need to be careful about the adverse effect of their political relationship building.

Theoretical Background and Argument

Resource Dependence Perspective on Political Relationship Building in the Literature

The RDT views firms as dependent on their environment (such as government and other firms) for resources (Pfeffer & Salancik, 1978). Such dependence can give rise to uncertainties outside the focal firms' control and thus motivate them to engage in various activities to reduce dependence, such as co-opting members of the powerful party, and absorbing the source of constraints. Subsequent empirical studies have attempted to specify the type of dependence (Pfeffer, 1972), the extent of power imbalance (Casciaro & Piskorski, 2005; Gulati & Sytch, 2007), and the dependence-reducing strategies (Holburn & Zelner, 2010; Pfeffer & Nowak, 1976; Xia & Li, 2013). However, rooted in Emerson's argument on dyadic power relationship (1962), the RDT framework has primarily been applied to the exchange relationship between the focal firm and one type of stakeholders.

A growing literature on corporate political activities applies the RDT to explain firms' engagement with government (Hillman, Withers, & Collins, 2009). According to this research, government is a major source of uncertainty and constraint for firms because government controls critical resources (e.g., land and business permits) and can implement policies that impact firms' survival and performance. Firms thus attempt to reduce dependence on government through corporate political activities, such as co-opting the government by appointing former officials to their boards or cultivating a long-term relationship with government (Hillman, 2005). Most studies in this research stream found positive outcomes of corporate political activities, such as enhanced legitimacy, access to government-controlled resources and better financial performance (Haveman et al., 2017; Hillman & Hitt, 1999), while some recent studies noted that political capital could also be abused for personal gains at the expense of firm interests (Sun et al., 2016) or expose firms to risks of government expropriation (Greve, Man Zhang, & Zhang, 2017; Jia & Mayer, 2017). For new ventures, empirical studies reported that political connection allowed identification of opportunities, protection of property rights, and access to resources, especially for smaller firms in markets with weak institutions (Ge et al., 2017; Li & Zhang, 2007; Tang et al., 2014; Zhou, 2013). What these studies have in common is their focus on the dyadic relationship between firms and government.

A few studies pointed to the possibility that political relationship may have an impact beyond the dyad of government and tied firms. Siegel (2007) found that while government relationship helped Korean firms to obtain overseas alliance partners, the political regime change made such relationship a liability because the firms were tied to the political leaders who lost power and were enemies of the new leaders. Leuz and Oberholzer-Gee (2006) found that government relationship made it more difficult for firms to access international capital market because the creditors were concerned about lack of transparency and potential abuse of power.

An important gap still remains about how building political relationship can impact the focal new ventures' engagement with their value chain partners. As Wry et al. (2013) noted, Pfeffer and Salancik (1978) actually considered power issues beyond dyadic relationships by stressing that organizations need to deal with multiple types of stakeholders. Based on the logic of RDT, establishing alternative types of exchange relationship may strengthen the focal actor's power. Extending this logic to new ventures and their ecosystem, we highlight that building relationship with government can alter the new ventures' power balance with their potential supply chain partners. To reduce dependence, new ventures typically need to obtain a sizable number of partners as they cannot resort to other strategies available to established firms such as acquisition of partners (Holburn, Vanden Bergh, & Bergh, 2014). Hence, it is critical to consider the impact of dependence-reducing strategy aimed at government on other potential partners.

A Broadened RDT View on the Impact of Political Relationship Building

We extend the RDT and the literature on corporate political activities by moving beyond the state-firm focus and considering the impact of such relationships on firms' value chain partnership. Building political relationship can enhance a new venture's legitimacy and bargaining power. Such advantages can alter the power imbalance between a new venture and its potential supply chain partners, and influence the latter's assessment of the new venture and decision about partnership. While both upstream suppliers and downstream buyers of a new venture would desire it to have high legitimacy and low bargaining power, the two types of partners differ in the priority of their concerns given the high contractual uncertainties of emerging markets. With the post-delivery payment norm and weak contract enforcement, suppliers are mostly concerned whether a new venture as their downstream buyer is able to make timely payment, as suppliers depend on such payment for continued existence. A new business venture can be viewed dubiously because of its resource constraints and lack of legitimacy. The government relationship cultivated by a new venture strengthens its position as such a relationship brings government endorsement to its business as well as an alternative supply of resources such as government subsidies and loans from state-owned banks. Suppliers can be more assured of the new venture's survival prospects and certainty of payment.

In contrast, the downstream buyer profits from its upstream supplier's lack of power (Gulati & Sytch, 2007). Buyers are motivated to control a new venture as their upstream supplier in order to obtain competitive pricing and demand customization, as the post-delivery payment norm can partially guard against the risk of default by a new-venture supplier. Political relationship building can reduce a new venture's dependence on its buyers, because the alternative supply of resources from the government alleviates the immediate pressure of getting payment from buyers. Thus, the strengthened bargaining position of the new venture may deter some potential buyers from entering into partnership because of the difficulty of control. Consequently, political relationship building of a new venture can be viewed positively by its upstream suppliers but negatively by its downstream buyers, resulting in an increased number of suppliers and a decreased number of buyers. From the view of RDT, having alternative partners (suppliers or buyers) is crucial for reducing the focal firm's dependency and in turn the risks of loss of control (Pfeffer & Salancik, 1978). Political relationship building thus may expose new ventures to the unintended consequence of risk exposure on the buyer's side.

Hypotheses Development

New ventures face heightened uncertainties and mortality rates because of their severe resource constraints and lack of a proven record (Aldrich & Fiol, 1994; Hannan & Freeman, 1984). They need to build relationships fast with important stakeholders such as government, suppliers, and buyers. New ventures depend on government because government controls valuable resources and administrative procedures and can constrain or facilitate their operations (Hillman & Hitt, 1999). New ventures need to register their business with local government and pass their inspection. In countries where the government controls critical resources such as land, industry permits and licenses, and bank loans, new ventures can spend a considerable amount of time and resources in gaining access to government-controlled resources. In emerging markets where government officials have significant influence over the interpretation and implementation of policies (Hoskisson, Eden, Lau, & Wright, 2000; Zhou & Poppo, 2010), new ventures build relationships with government officials to obtain various benefits (Li & Zhang, 2007).

In some new ventures, significant shares are given to a founding team member who is dedicated to building government relationship. Extant research has established the importance of board members who engage in political activities to advance firm interests (Hillman, 2005; Sun et al., 2016). Political activities of founding team members are crucial as well, and take place in both formal and informal channels (Du, Guariglia, & Newman, 2015). In China, the role of political relationship building in a founding team is usually given to a person with advantaged access to officials due to family background, prior government work experience or social ties.

In our interviews, the team members charged with such tasks described what they did to engage local officials. One respondent from a high-tech startup said, "I used my social networks to identify the key decision-makers in my local government who could make our young company's life much easier. I then created opportunities to be introduced to them, and then invited them to visit our new venture. My efforts really paid off as our venture received substantial government grants for innovation, which really helped us to survive our initial year."

The relationship between new ventures and their suppliers (who are usually component or raw material producers) is characterized by symbiotic interdependence, in which one partner's outputs are the inputs of the other (Pfeffer, 1972). Such symbiotic interdependence can stimulate new ventures to cultivate dependence of their suppliers and to seek alternative suppliers to ensure competitive price and quality of supplies (Gulati & Sytch, 2007). In our context, many of the new venture entrepreneurs we interviewed mentioned price as the most important factor influencing their choice of suppliers, and they expressed a preference for having more suppliers to ensure getting a competitive price.

For suppliers, the single most important concern in evaluating a new venture as a buyer is its ability to pay on time. Given the post-delivery payment norm, suppliers have to wait until after delivery to receive full payment. Although payment terms and default penalties can be specified in a contract, in emerging markets with weak contract enforcement, suppliers rarely rely on contractual protection but instead have to assess the risks of default carefully and cultivate stable exchange relationships (Zhou & Poppo, 2010).

Building political relationship can help new ventures win the confidence of potential suppliers, and enable new ventures to seek alternative suppliers. The fact that a new venture started with dedicated key personnel in government relationship building sends a strong signal that the new venture has controlled a key factor of uncertainty in its survival. This makes its promise to pay more credible. Prior studies have shown that investors evaluate new ventures more favorably if their top management team consists of members with business experiences deemed crucial for commercial launch (Higgins & Gulati, 2006). In a market where government plays a key role in shaping a new venture's survival chances, new ventures with a founding team member dedicated to political relationship building can be evaluated by suppliers as more credible than those that have not. Thanks to the founding team member's continuous focus on the government, these firms usually participate in government-sponsored activities, which introduce them to officials and help maintain these relationships. Through such relationships, new ventures may gain better access to government-controlled resources such as land, loans from state-owned banks, government subsidies and grants. The political resources provide a form of guarantee for payment; access to state-controlled resources can give the new ventures more breathing room.

One entrepreneur of an electronics manufacturing company described how he obtained initial suppliers,

> They (the suppliers) want to sell to us, but were nervous about whether we will pay. I said 'do not worry it is in the contract.' But they said, 'who cares about the contract, the loss is still ours if you shut down tomorrow.' They asked various questions to figure out our cash position. I told them that one of our founders has been building strong ties with the local government, and dropped some names. It definitely helped. At least they knew that our access to bank loans and government subsidies could sustain us longer than other start-ups.

Our interview with one of this electronics company's suppliers confirmed the perception. This supplier said, "I understand that new ventures are usually short of cash, and I can be lenient with time. But I am a small business too, and I cannot afford to wait forever. When I see a customer with strong government backing, I feel better because it probably will not disappear the next day. You do not know how many of my customers disappear (*paolu*)!"

Knowing the ability to pay in time is the top concern of suppliers, politically-connected new ventures can use their enhanced legitimacy to attract multiple alternative suppliers and thereby reduce dependence on any one of them. We hence propose:

Hypothesis 1: *Building political relationships has a positive effect on the number of suppliers new ventures obtain.*

The relationship between new ventures and their downstream buyers is also of symbiotic interdependence, and the buyers (which are usually wholesalers, retailers, or distributors), similarly, are motivated to strengthen the new ventures' dependence on them in order to control the supply. For a buyer, being able to control the supply is a key concern in managing its supply chain relationships (Gulati & Sytch, 2007). Prior studies have shown that downstream buyers exercise control over their suppliers through multiple means. For instance, a buyer can increase a supplier's dependence by demanding the supplier to adapt to the buyer's specific needs (Jun, Jiang, Li, & Aulakh, 2014). A buyer can also acquire the supplier, seek alternative suppliers, or create competition among suppliers to enhance its own bargaining position (Gulati & Sytch, 2007).

Given the importance of controlling the supply, potential buyers see new ventures that have invested in building political relationship as less attractive. With the post-pay norm, downstream buyers are not concerned with the potential payment risks of new ventures. After all, buyers can examine the quality of the delivery from a new venture and decide whether to pay or not. A new venture that has cultivated an alternative source of dependence on government can be less dependent on buyers and hence, more difficult to control.

For one thing, new ventures with an enhanced bargaining position may be less willing to adapt to their buyers' specific needs. Jun et al. (2014) found that suppliers with relatively less power adapted to their buyers' demands more. Our interviews also suggested that politically-connected new ventures resisted some risky customer-specific adaptations. One entrepreneur from the pharmaceutical industry shared, "It is common that some large buyers will invite us to co-develop an R&D project with them, usually for free. We know it is highly risky, but still we have to agree with it, just in case. We do not want the buyer to go to another supplier." Another entrepreneur from a firm that has invested in political relationship building commented on a similar risky project initiated by a buyer, "We feel that we could rely on our strong mountain (*kaoshan*), the local government, to continue to look for customers, rather than bearing the risks of no returns."

For another thing, these new ventures can become more powerful in price negotiation. Gulati and Sytch (2007) found that in the U.S. auto industry, large manufacturers as buyers did not want their suppliers to be too strong in price negotiation and deliberately created competition among suppliers. This suggests that buyers do not prefer suppliers with strong bargaining power. Access to additional resources brought by political relationship building (Haveman et al., 2017), however, allows a new venture to have a greater buffer against the pressure to sell immediately, and hence, to be in a stronger position for price negotiation. One retailer described politically-connected new ventures as being "a bit too bully (*niu*)." He said, "New ventures are usually eager to find a customer. But in our experience, new ventures that have invested in government relations (*gao zhengfu guanxi*) tend to be difficult in price negotiation. In fact, I do not think (their) government relations help us in this case." Hence, buyers may be less inclined to have exchange relationships with such new ventures, especially when alternative suppliers are available.

From the perspective of new ventures, having alternative buyers is instrumental to reducing their dependency on any one of them. Based on the RDT, dependency is a main source of risk and uncertainty. New ventures need to prioritize the goal of survival, even over the goal of efficiency. With just one or a very limited number of buyers, their survival would be at risk if the buyer(s) started to demand unrealistically low prices, delay payment unduly, or even withdraw from the business. As one entrepreneur expressed clearly,

> The employees who handle customer development might prefer fewer buyers to simplify their work, especially after getting some big accounts. But from the business's point of view, it is in our interest to have more buyers. Large buyers are demanding and there is always the risk of them buying up their upstream and not having any need for us anymore. I believe, for a young venture, it is more important to hedge the risks. Many of my peers went out of business because their customers did not pay. I don't mind having a large number of smaller customers. I can charge them higher prices because they demand smaller quantities. And don't forget, they are growing and some of them will become large customers later on.

Despite their desire to attract more alternative buyers, new ventures that have invested in building political relationship can be passed over by some downstream buyers because of their perceived stronger bargaining position. We hence propose:

> ***Hypothesis 2:*** *Building political relationships has a negative effect on the number of buyers new ventures obtain.*

We next consider how the opposing effects of political relationship building on suppliers and buyers can be moderated for new ventures that vary in their legitimacy and bargaining power. New ventures with less legitimacy may benefit even more from political relationship building. For instance, early-stage new ventures typically suffer more from a lack of legitimacy compared with late-stage ones. Mortality rates usually decline after the early stage as new ventures have secured more resources for growth, gained more credibility, and established relatively more stable relationships with stakeholders (Phillips & Kirchhoff, 1989; Timmons & Spinell, 2012). Suppliers may be even more concerned with early-stage new ventures' ability to pay than with that of late-stage new ventures. Political relationship building can boost early-stage ventures' legitimacy more by providing endorsement from a powerful and legitimate entity, that is, the government, and by showing the new ventures' access to state-controlled resources. This can help the young new ventures to overcome the suppliers' doubts about their survival prospects and ability to pay and to establish partnership.

In the case of foreign-invested new ventures, they may suffer from liability of foreignness and hence lack legitimacy in comparison with their domestic counterparts. In emerging markets, foreign owners typically bring more advanced technology and capital to take advantage of the low labor costs and strong demand in the local market) (Luo, 2002). The high growth potential of foreign-invested new ventures can be attractive to the supply chain partners. However, they can be viewed suspiciously because foreign investors may be perceived as not committed to staying for long or their business models viewed as too novel for local stakeholders (Chen & Sun, 2017; Zahra, 2005). Having a local joint-venture partner may reduce some liability of foreignness but not all. Studies show that even large multinational companies (MNEs) have difficulty assessing political risks and navigating regulatory processes, and they deem government endorsement as critical for signaling their legitimacy (Holburn & Zelner, 2010). In some countries, including China, foreign-invested firms are subject to stricter regulatory requirements and monitoring (Luo, 2002). Foreign new ventures thus suffer from joint liabilities of foreignness and newness (Zahra, 2005). Building political relationship can signal to local supply chain partners the foreign new venture's legitimacy and capabilities in accessing government-controlled information and resources. For suppliers, while they may be concerned with the uncertainties of foreign-invested new ventures, they are likely to view political relationship building as overcoming the latter's disadvantage and improving their survival chances. We thus propose:

Hypothesis 3: *The positive effect of building political relationships on supplier acquisition is stronger for new ventures with less legitimacy.*

New ventures with a stronger bargaining position may suffer even more from political relationship building with regard to buyer acquisition. New ventures can vary in their bargaining position as a function of their size, substitutability, and industry profitability, among other factors. Compared with their respective counterparts, large new ventures, those with low substitutability or from high-profitability industries enjoy a stronger bargaining position. That is, when their buyers attempt to negotiate a lower price and demand expensive customization (without due compensation), these new ventures can afford to resist to some extent.

For new ventures with a relatively poor bargaining position, political relationship building is unlikely to improve their bargaining power to the extent of posing a strong threat to potential buyers. Small new ventures and those operating in low-margin industries are highly resource-constrained and need cash flow constantly in order to survive. New ventures with high substitutability have fewer opportunities to develop alternative buyers due to the strong price competition. Since these ventures are more dependent on buyers, political relationship building may not elevate their power to the extent of altering the power imbalance with their buyers. In other words, even with the improved access to state-controlled resources afforded by political relationship, such new ventures are able to gain only limited leverage and their potential buyers are unlikely to view them as too difficult to control.

However, for new ventures with a relatively strong bargaining position, they can use government endorsement to aid their bargaining with buyers. Since these firms are already advantageous in their competitiveness and resources, government backing will likely enhance their bargaining position to a point where buyers cannot effectively control the exchange relationship. The additional resources and support from the government, combined with their own competitiveness and resources, may give them comfortable cushion and lead them to take a tough position on price negotiation, payment terms, shipping windows, and product customization. Consequently, buyers may view new ventures with a strong bargaining position *and* dedicated to political relationship building even more negatively, and some buyers are likely to decide to stay away. We hence propose:

Hypothesis 4: *The negative effect of building political relationships on buyer acquisition is stronger for new ventures with a stronger bargaining position.*

Method

Sample and Data

The data are from the Small and Medium Enterprise Finance Survey (SME Finance Survey) conducted in 2005, jointly sponsored by the World Bank and the Department of Small and Medium Enterprises of China. This dataset is unique in that it contains information about SMEs' supply chains and political activities. Such information is usually hard to obtain for SMEs with limited public exposure. The survey targeted non-listed SMEs defined by the number of employees, sales, and assets value per the national standard in each industry. A quota sampling method was used. First, five cities (Changchun, Taiyuan, Chengdu, Guangzhou, and Taizhou) were selected in three major industrial areas in China: the northeastern rustbelt, the southeastern sunbelt, and the developing Midwest. Each industry was assigned a quota based on the SME presence in this industry. Local SME bureaus then approached SMEs to ensure all the 19 major industrial categories defined by the National Statistics Bureau were covered. The CEO of each SME answered the questions. A total of 1,250 questionnaires were distributed and 980 were returned, with a response rate of 78%.

Given our goal of studying new ventures, we extracted a subsample of new ventures defined by age, that is, firms less than 8 years old, following Li (2001), which also studies Chinese new ventures.[3] Further, we excluded state-owned firms and privately-owned firms that were transformed from state-owned firms (*gaizhi*). This allowed us to gage how political relationship building affects new ventures with no prior institutional linkage to the government. After these two steps, the sample size was reduced to 436. After removing cases with missing values and winsorizing (described in detail in the measurement section), we obtained 337 new ventures for the analysis of suppliers and 280 new ventures for the analysis of buyers (Table 1 for descriptive statistics).

Among the new ventures used in our analyses, 71% are early-stage ventures, that is, less than 5 years old (including 5-year old), 76% are in manufacturing industries, 12% are foreign-invested, 89% were founded by male entrepreneurs, and 71% of the entrepreneurs have a college or above degree. The average value of assets is about 42 million *yuan* (4.92 million U.S. dollars in 2005). Their return on assets (ROA) varies widely from negative values to more than 191, with an average of 6.18.

Measurement

Dependent variables. To measure new ventures' upstream and downstream contractual partners, we used the number of suppliers and the number of buyers (i.e., business/corporate partners, rather than individual suppliers/buyers). These dependent variables capture the extent to which a new venture has alternatives and hence has achieved some control over uncertainty. Based on the RDT, a key means to reduce dependence is to increase alternatives (Emerson, 1962). Studies also suggest that increasing the number of supply chain partners is an important way of increasing bargaining power and achieving control over the supply chain (Gulati & Sytch, 2007). As both dependent variables have extremely large outliers, we winsorized both variables at the top 1%. After winsorizing, the average numbers of suppliers and buyers are 11 and 15, respectively.

Independent and moderating variables. Political relationship building is measured as a dichotomous variable, coded as 1 if a founding team member was dedicated to building government relationship, and 0 otherwise. What is considered a crucial task is usually given to a founding team member, and the person is rewarded with shares of the company for such a task. Based on two survey questions, we could identify whether a founding team member is put in charge of building relationship with government. One question asked for information about the five largest shareholders of a new venture at the founding time as well as at the current time, including their share percentages. The second question asked about the major role each of the five largest shareholders has played in the firm such as financing, operations, or government relations. Based on the share percentage held, we verified whether the shareholder in charge of government relations, if there has been such a role for a new venture, was present as one of the largest shareholders at founding. Using such information, we created a variable indicating whether at least one of the largest five shareholders at founding was dedicated to building relationship with local government, labeled *political relationship building*. In our sample, 54% of new ventures have one or more large shareholders dedicated to political relationship building since founding.

To measure new ventures' legitimacy, we used the stage of the new venture and foreign ownership. According to research on the life cycle of new ventures, new ventures suffer more from a lack of credibility during their early stage, and the early stage was measured differently in

Table 1. Descriptive Statistics and Pearson Correlations.

	Variables	Mean	*SD*	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Num. of suppliers	11.33	24.64	0	256																	
2	Num. of buyers	14.81	27.98	0	200	0.27***																
3	Political relationship building	0.54	0.5	0	1	0.08	−0.07															
4	Early-stage new venture	0.71	0.45	0	1	−0.06	−0.05	0.01														
5	Foreign ownership	0.12	0.33	0	1	0.15**	0.08	−0.02	0													
6	Male	0.89	0.31	0	1	−0.03	0	−0.04	−0.08	−0.07												
7	Owner education	0.71	0.46	0	1	0.06	0	0.13*	0.06	−0.02	−0.02											
8	Assets value	0.42	1.95	0	26.87	0.12*	0	0.09	−0.07	0.01	−0.07	0										
9	ROA	6.18	29.06	−46.5	190.59	−0.01	0.03	0.03	0.10+	0.09	−0.13*	−0.06	0.23***									
10	Liability ratio	0.5	0.29	0	1.36	0.09+	0.14*	−0.09	−0.11*	0	0	−0.12*	−0.01	−0.03								
11	ISO certificate	0.47	0.5	0	1	0.23***	0.19**	0.05	−0.20***	0.08	0.09	0	0.06	−0.01	0.14**							
12	Tangibility ratio	0.32	0.24	0	1	0.09	−0.05	−0.01	0.03	−0.07	0.06	−0.02	−0.06	0.02	−0.06	−0.10+						
13	Product concentration	73.79	26.93	0	99	-0.16**	−0.11+	−0.12*	−0.03	−0.06	0.04	−0.07	−0.02	−0.04	0.02	−0.05	0.08					
14	High competitiveness	0.47	0.5	0	1	0.08	0.20***	0.16**	0.03	0.05	−0.01	0.22***	0.11*	0.03	0.05	0.21***	0.06	−0.04				
15	High-profitability industries	0.11	0.32	0	1	0.03	0.02	0.09	0.04	−0.13*	0.04	0.19***	0.12*	0.08	−0.12*	−0.15**	−0.05	−0.10+	0.06			
16	Marketization	35.18	9.23	25.66	48.86	0.09+	0.09	−0.13*	−0.07	0.25***	0.04	−0.27***	−0.09+	−0.08	0.09+	0.16**	−0.14**	−0.02	-0.10+	−0.23***		
17	Share of three largest suppliers (%)	0.58	0.36	0	1	−0.05	0.05	0.01	0.05	−0.04	−0.05	−0.08	0.01	0.04	0.08	−0.01	0.12*	0.05	0.06	−0.09+	0.01	
18	Industry average num. of suppliers	14.13	3.73	3.1	16.06	0.06	0.03	−0.01	−0.06	0.14*	0	−0.14*	−0.06	−0.03	0.18***	0.22***	0.08	0.06	0.04	−0.53***	0.21***	0.19***

Note. Number of suppliers and the related correlations are based on 337 firms used for analyses of suppliers; number of buyers and the related correlations are based on 280 firms used for analyses of buyers. In this table, we only provide the descriptive statistics of the share of the three largest suppliers and the industry average number of suppliers. the mean and *SD* of the share of the three largest buyers are 0.57 and 0.34, respectively. And the mean and *SD* of the industry average number of buyers are 17.52 and 3.48, respectively.

Significance levels: +.10 * 0.05 ** 0.01 *** 0.001.

different studies (Phillips & Kirchhoff, 1989; Timmons & Spinell, 2012). We coded a dummy variable *early-stage venture* to distinguish early-stage (1 to 5 years, coded as "1") from late-stage ventures (6 years and above, coded as "0"). An alternative cut-point of age 3 was also used in analyses for a robustness check. Based on the argument on the liability of foreignness, foreign-invested firms lack legitimacy, and so we coded a dummy *foreign ownership*, coded as "1" for foreign-invested firms (including both wholly-owned and joint ventures) and "0" for domestic ownership only.[4]

To measure new ventures' bargaining position, we used assets, substitutability, and industry profitability. The larger a new venture's *assets value* (in million *yuan*), the more power it can have in bargaining. To proxy a new venture's substitutability, we used its self-reported *local competitiveness*, a binary variable indicating whether its competitiveness in the local market is high (above average, coded as "1") or low (average or below, coded as "0"). New ventures that are highly competitive are less substitutable by local rivals, and hence, may have more bargaining power. *Industry profitability* was used to proxy the average bargaining power of firms in an industry (Ahern, 2012). High industry profitability can allow new ventures more cushion and potentially more cash flow, thus giving them more bargaining power in dealing with their supply chain partners. Based on all the firms in the survey (not just new ventures in our sample), we calculated the average profitability in 19 industries. We then coded the industries as high- (average or above) versus low-profitability industries. (There were 11% of the new ventures that were in high-profitability industries.)

We created interaction terms between political relationship building on the one hand, and measures of credibility and bargaining position on the other.

Control variables. The survey used broad industry categories based on the National Statistics Bureau industry classifications. We controlled for the industry of a new venture with five broad dummy industry variables: manufacturing (reference category), real estate, retail, service and other. Manufacturing firms accounted for 76% of the sample. Given the substantial variation within the manufacturing industry category with regard to supply chain characteristics, we controlled for *tangibility ratio,* which is the ratio of fixed assets to total assets. This variable accounts for a firm's investment in fixed assets, such as land, factory, and machinery, and hence reflects important differences between heavy and light manufacturing industries. To take into account the supply chain characteristics of the industries, we controlled for the *industry average number of suppliers/buyers* for upstream and downstream analyses, respectively, using all the SMEs from the survey (not just the new ventures). To account for regional differences, we controlled for the development of market-based institutions in the previous year in the province where a new venture was located through the marketization index, which is a composite score to capture the market institutional development (Fan, Wang, & Zhu, 2011).

A firm's financial resources can help obtain partners, and we controlled for *liability ratio* (total debts/total assets), which indicates access to financial resources. Financial performance can also influence a new venture's cash position, and we used ROA to measure such performance. Since high product quality signals improved survival prospects to suppliers and attracts more buyers, we used whether a new venture has obtained an *ISO certificate* to control for the quality of its production. The number of partners can also be affected by the new venture's product portfolio. A firm with a diverse range of product categories may have more suppliers and buyers, while a firm with a high product concentration is likely to have fewer suppliers and buyers. We controlled for *product concentration*, measured by the percentage of total sales accounted for by the primary product. Given that the proportion of supplies provided by suppliers may affect the number of suppliers needed and so is the case for buyers, we controlled for the *percentage of sales volume of the three largest suppliers/buyers* of a new venture. We also controlled for the entrepreneur's characteristics such as *gender* and *education*. These characteristics may affect the firm's social networks and in turn its partners.

To remove extreme outliers in some variables, asset, ROA and liability ratio were winsorized at the top and bottom 1%.

Analysis

Given that our dependent variables, the *number of suppliers* and the *number of buyers*, are count variables, we employed Poisson regression models. We noticed that the equidispersion assumption of Poisson regression was violated in our data, as the conditional variance of both dependent variables exceeded their mean values. Following conventions (Cameron & Trivedi, 2009), we used negative binomial regressions that did not rely on the equidispersion assumption as an alternative estimation method, which we will describe in the robustness check. We chose to report Poisson regression results as the main analysis primarily for theoretical reasons. Negative binomial estimation is sensitive to outliers (Guo & Trivedi, 2002; Gupta & Ong, 2005; Wang, Madhok, Xiao Li, & Li, 2014), which are likely to be the relatively small-volume suppliers/buyers in our case. Based on our argument, it is particularly important for new ventures to obtain more partners, because they need to reduce risks and prioritize the goal of survival. Moreover, the relatively small partners are even more likely to attend to the credibility and power position of new ventures and hence to be influenced by their political relationship building. Therefore, it is theoretically meaningful to account for the long tail of relatively small suppliers and buyers in new ventures' ecosystem, rather than treating them as statistical noise.

Results

Table 1 presents the correlation matrix of the variables. Table 2 presents the results of Poisson models predicting the number of suppliers, and Table 3 for buyers. The model fit statistics are based on comparison with the baseline model. We followed the same order of models for predicting suppliers and buyers. Model 1 was the baseline model with control variables only. Model 2 added the main effect of political relationship building. As the LR test statistics show, both Models 2a and 2b saw a significant improvement in the model fit as compared with the baseline models (Model 1a and Model 1b, respectively), suggesting the importance of considering a new venture's political relationship building in explaining their supply chain partner acquisition. In Models 3a and 4a, we entered the two interactions respectively for predicting suppliers, that between political relationship building and venture stage and between political relationship building and foreign ownership. LR test statistics indicate that the overall model fit of Models 3a and 4a improves over that of Model 2a, respectively (LR χ^2 = 19.48, *df* = 1, *p* = .000; LR χ^2 = 42.56, *df* = 1, *p* = .000). Similarly, for buyers, in Models 3b through 5b, we entered the interactions one at a time, that between political relationship building on the one hand, and assets, local competitiveness, and high-profitability industry on the other. The model fit of each except for Model 4b improves over that of Model 2b (LR χ^2 = 60.39, *df* = 1, *p* = .000; LR χ^2 = .92, *df* = 1, *p* = 0.337; LR χ^2 = 63.77, *df* = 1, *p* = .000). Model 5a and Model 6b were the full models including all hypothesized interaction effects and the overall model fit improves significantly over their respective baseline models (LR χ^2 = 83.78, *df* = 3, *p* = .000, LR χ^2 = 158.67 , *df* = 4, *p* = .000). Two-tailed tests of significance were applied.

Hypothesis 1 predicts a positive effect of political relationship building on the number of suppliers for new ventures. As shown in Model 2a, having a founding team member dedicated to government relationship building has a positive effect on the number of suppliers (β = .167, *p* = .000). Compared with firms without such a team member, having a founding team member in

Table 2. ML Estimates of Poisson Regressions on Number of Suppliers for New Ventures.

	M1a	M2a	M3a	M4a	M5a
Male	−0.390***	−0.378***	−0.370***	−0.467***	−0.458***
	(0.052)	(0.051)	(0.051)	(0.053)	(0.053)
Owner education	0.323***	0.309***	0.331***	0.287***	0.312***
	(0.042)	(0.042)	(0.043)	(0.042)	(0.043)
Assets value	0.070***	0.068***	0.070***	0.068***	0.070***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
ROA	−0.001*	−0.001+	−0.001	−0.001	−0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Liability ratio	0.736***	0.756***	0.757***	0.710***	0.713***
	(0.065)	(0.065)	(0.066)	(0.066)	(0.066)
ISO certificate	0.928***	0.921***	0.919***	0.949***	0.944***
	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)
Tangibility ratio	−0.350***	−0.321***	−0.310***	−0.325***	−0.312***
	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)
Product concentration	−0.010***	−0.010***	−0.010***	−0.010***	−0.010***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
High competitiveness	0.028	0.013	0.004	0.013	0.005
	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
High-profitability industries	0.751***	0.707***	0.724***	0.740***	0.756***
	(0.088)	(0.089)	(0.090)	(0.089)	(0.089)
Marketization	0.018***	0.019***	0.020***	0.017***	0.017***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Share of three largest suppliers (%)	−0.191***	−0.177***	−0.150**	−0.133**	−0.107*
	(0.051)	(0.051)	(0.051)	(0.051)	(0.052)
Industry average num. of suppliers	0.001	−0.001	−0.005	−0.002	−0.005
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Early-stage new venture	−0.069+	−0.069+	−0.263***	−0.065+	−0.255***
	(0.036)	(0.036)	(0.056)	(0.036)	(0.057)
Foreign ownership	0.528***	0.524***	0.539***	0.161*	0.181*
	(0.042)	(0.042)	(0.043)	(0.073)	(0.073)
Political relationship-building		0.167***	−0.038	0.034	−0.164**
		(0.035)	(0.058)	(0.040)	(0.061)
Political relationship-building × Early-stage new venture			0.318***		0.309***
			(0.072)		(0.072)
Political relationship-building × Foreign ownership				0.587***	0.579***
				(0.092)	(0.092)
Constant	1.656***	1.549***	1.649***	1.772***	1.869***
	(0.159)	(0.161)	(0.162)	(0.165)	(0.166)
Log likelihood	−3506.985	−3495.557	−3485.816	−3474.278	−3465.094
LR test vs. M1a		22.85***	42.34***	65.41***	83.78***

(Continued)

Table 2. Continued

	M1a	M2a	M3a	M4a	M5a
Degrees of freedom		1	2	2	3
Number of observations	337	337	337	337	337

Note. Significance levels: +.10 * 0.05 ** 0.01 *** 0.001. Two-tailed test. Standard errors in parentheses. LR test evaluates model fit improvement relative to model 1a.

charge of such efforts increases the predicted count of suppliers by 1.59 when the continuous control variables were taken at mean value and categorical variables were set in specific categories (i.e., late-stage foreign new ventures, without ISO certificate, low local competitiveness, in a low-profitability, manufacturing industry headed by female entrepreneurs without a college degree, same below, calculated with *prvalue* in STATA 15). Hypothesis 1 was supported.

In accordance with Hypothesis 2, Model 2b shows a negative effect of political relationship building on buyers ($\beta = -0.205$, $p = .000$). Having a founding team member in charge of such efforts decreases the predicted count of buyers by 1.65. Hypothesis 2 received strong support. Given that the number of suppliers and the number of buyers for 60% of our sample of new ventures both range from 1 to 6, the change of such partners due to having a founding member dedicated to political relationship building is rather sizable.

Hypothesis 3 posits that the positive effect of political relationship building on supplier acquisition is stronger for new ventures with less legitimacy. In Model 3a, the interaction between political relationship building and early-stage venture is significant ($\beta = .318$, $p = .000$), and this effect remains in the full model. In Model 4a, the interaction between political relationship building and foreign ownership is significant ($\beta = .587$, $p = .000$), and the effect also remains in the full model. Given the concern over the interpretation of interaction effects in nonlinear models (Hoetker, 2007; Norton et al., 2004), we plotted the interaction terms to further clarify their effects. Based on the full model estimates (Model 5a), we graphed the predicted count of suppliers by venture stage and firm ownership when other categorical variables were set at certain values (see note of Figure) and continuous variables set at their means (Figure 1a and b). In Figure 1a, political relationship building increases the number of suppliers for both early- and late-stage new ventures, but the steeper slope for early-stage ventures suggests that the enhancing effect of political relationship building is stronger for early-stage ventures. In Figure 1b, while political relationship building increases suppliers for foreign-invested new ventures sharply, its effect on domestic ventures is rather small. Hypothesis 3 is supported.

Hypothesis 4 argues that the negative effect of political relationship building on buyer acquisition is stronger (i.e., even more negative) for new ventures in a stronger bargaining position. In Model 3b through Model 5b, the interaction of political relationship building with assets, that with local competitiveness, and that with high-profitability industry, respectively, are all negative ($\beta = -0.406$, $p = .000$; $\beta = -0.067$, $p = .336$; $\beta = -1.203$, $p = .000$), and two of them are statistically significant. These effects remain in the full model (Model 6b). This suggests that the negative main effect of political relationship building is strengthened by firms' stronger bargaining position. We graphed the interactions based on the full model estimates (Model 6b). In Figure 2a, the steeper slope for the large new ventures (assets taken at one standard deviation above the mean) indicates that political relationship building reduces the number of buyers much more for large new ventures than for small new ventures (assets taken at one standard deviation below the mean). In Figure 2b, for firms in high-profitability industries, political relationship building reduces new ventures' buyers sharply, but for firms in low-profitability industries, political

Table 3. ML Estimates of Poisson Regressions on Number of Buyers for New Ventures.

	M1b	M2b	M3b	M4b	M5b	M6b
Male	−0.046	−0.067	−0.063	−0.068	−0.059	−0.057
	(0.052)	(0.052)	(0.053)	(0.053)	(0.052)	(0.052)
Owner education	−0.148***	−0.146***	−0.167***	−0.150***	−0.151***	−0.172***
	(0.036)	(0.036)	(0.037)	(0.037)	(0.037)	(0.037)
Assets value	0.002	0.006	0.402***	0.006	0.013	0.391***
	(0.009)	(0.009)	(0.048)	(0.009)	(0.008)	(0.049)
ROA	0.002***	0.002***	0.002**	0.002**	0.002***	0.002***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Liability ratio	0.792***	0.736***	0.721***	0.736***	0.714***	0.703***
	(0.062)	(0.062)	(0.063)	(0.062)	(0.063)	(0.063)
ISO certificate	0.473***	0.473***	0.459***	0.472***	0.478***	0.465***
	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Tangibility ratio	−0.265***	−0.300***	−0.250**	−0.295***	−0.380***	−0.323***
	(0.076)	(0.076)	(0.076)	(0.076)	(0.077)	(0.078)
Product concentration	−0.008***	−0.008***	−0.008***	−0.008***	−0.008***	−0.008***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
High competitiveness	0.765***	0.793***	0.784***	0.824***	0.776***	0.788***
	(0.036)	(0.036)	(0.036)	(0.048)	(0.036)	(0.049)
High-profitability industries	1.613***	1.542***	1.490***	1.527***	1.751***	1.679***
	(0.084)	(0.084)	(0.084)	(0.086)	(0.085)	(0.086)
Marketization	0.023***	0.022***	0.021***	0.021***	0.022***	0.022***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Share of three largest buyers (%)	−1.078***	−1.062***	−1.061***	−1.065***	−1.058***	−1.058***
	(0.048)	(0.048)	(0.048)	(0.048)	(0.048)	(0.048)
Industry average num. of buyers	−0.015	−0.015	−0.013	−0.015	−0.019	−0.018
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Early-stage new venture	0.050	0.056	0.106**	0.055	0.057	0.103**
	(0.035)	(0.035)	(0.036)	(0.035)	(0.035)	(0.036)
Foreign ownership	0.105*	0.112*	0.123**	0.112*	0.101*	0.114**
	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)
Political relationship-building		−0.205***	−0.083*	−0.159**	−0.144***	−0.001
		(0.032)	(0.036)	(0.058)	(0.033)	(0.059)
Political relationship-building × Assets			−0.406***			−0.387***
			(0.049)			(0.049)
Political relationship-building × High competitiveness				−0.067		−0.042
				(0.070)		(0.070)
Political relationship-building × High-profitability industries					−1.203***	−1.155***
					(0.155)	(0.156)
Constant	2.261***	2.450***	2.337***	2.456***	2.487***	2.376***

(Continued)

Table 3. Continued

	M1b	M2b	M3b	M4b	M5b	M6b
	(0.227)	(0.229)	(0.227)	(0.229)	(0.228)	(0.227)
Log likelihood	−3762.512	−3742.262	−3712.066	−3741.801	−3710.375	−3683.178
LR test vs. M1b		40.5***	100.89***	41.42***	104.27***	158.67***
(Degrees of freedom)		1	2	2	2	4
Number of observations	280	280	280	280	280	280

Note. Significance levels: +.10 * 0.05 ** 0.01 *** 0.001. Two-tailed test. Standard errors in parentheses. LR test evaluates model fit improvement relative to model 1b.

relationship building has only a minor negative effect. There is not much difference in the slope for new ventures with high versus low competitiveness (graph not presented here). Hypothesis 4 is largely supported.

With regard to the control variables (based on M2a and M2b), the results are consistent with prior research. Female entrepreneurs are associated with more suppliers. Given that the main concern of suppliers is whether the downstream (new venture) will pay, this finding reflects the general belief that women have lower payment risks. Entrepreneurs' education is associated with more suppliers but fewer buyers. These results indicate that better-educated entrepreneurs may enhance new ventures' credibility and thus attract more suppliers, but such new ventures can take a tough negotiation position and are hence not favored by some buyers. Larger new ventures tend to have a larger number of suppliers. Firms with higher ROA are associated with more buyers. Firms with a higher debt-to-assets ratio are significantly more likely to enlarge their bases of suppliers and buyers, possibly due to their better access to capital. Firms with a higher tangibility ratio are associated with fewer suppliers and buyers. Holding an ISO certificate signals higher product quality and significantly increases new ventures' suppliers and buyers, while product concentration is negatively associated with these partners (i.e., having a variety of products is associated with more suppliers and buyers). Highly competitive new ventures tend to have more

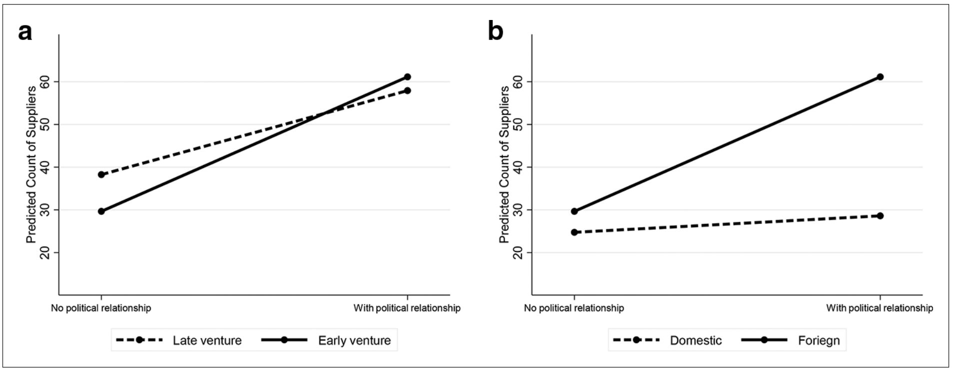

Figure 1. Interaction effects of political relationship-building and credibility and bargaining position on supplier and buyer acquisition.

Note. Figure 1a and b is based on the results from Model 5a in Table 2. Figure 2a and b is based on the results from Model 6b in Table 3. Binary variables are set in specific categories (early-stage foreign new ventures, with ISO certificate, high local competitiveness, in a high profitable manufacturing industry headed by male entrepreneurs with a college degree), and continuous variables at their means.

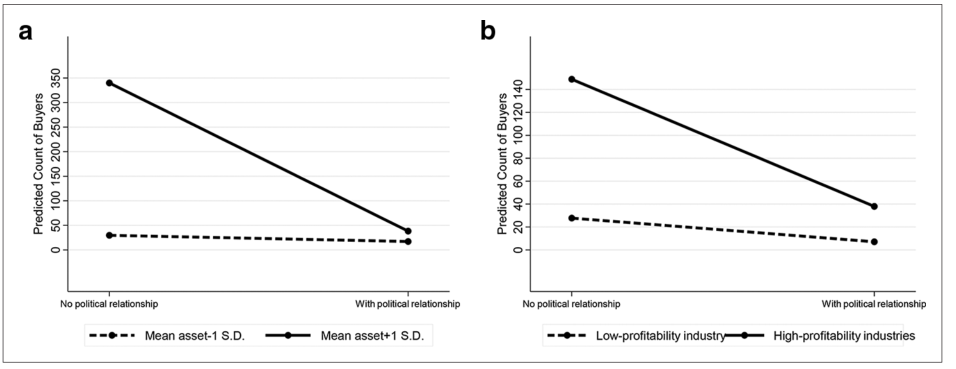

Figure 2. Interaction effects of political relationship building and credibility and bargaining position on supplier and buyer acquisition.
Note: Figure 1a and b are based on the results from Model 5a in Table 2. Figure 2a and b are based on the results from Model 6b in Table 3. Binary variables are set in specific categories (early-stage foreign new ventures, with ISO certificate, high local competitiveness, in a high profitable manufacturing industry headed by male entrepreneurs with a college degree), and continuous variables at their means.

buyers. Firms in high-profitability industries are likely to have more suppliers and buyers. New ventures located in more developed market institutions have more suppliers and buyers. Firms where the top three suppliers/buyers contributed a larger share have fewer suppliers/buyers in total. The main effect of foreign-invested ventures on both types of partners is positive, reflecting the attractiveness of such ventures on average.

Robustness Checks

Since our data came from survey items answered by the same person (the CEO), our results may suffer from common method bias. Following Podsakoff, MacKenzie, Lee, Podsakoff, and Organ (2003), we conducted Harman's one-factor test and found that all the variables were not centered on one single factor. This suggested that common method bias was less likely to be a problem in our study.

Given the overdispersion in our data, we estimated negative binomial models (Cameron & Trivedi, 2009). To cope with the issue of sensitivity to outliers in a negative binomial estimation, we transformed the number of suppliers and buyers by weighting the relatively small ones with their sales percentage.[5] Doing this reduced the extreme values caused by a large number of small suppliers/buyers that contributed to small sales,[6] and allowed the negative binomial models to produce stable and efficient estimates. The results of negative binomial regressions were largely consistent with those from Poisson regressions (results available from authors).

To account for potential omitted variables that could simultaneously affect both the independent and dependent variables, we employed the instrumental variable approach. Following Jia and Mayer (2017), we used a city-level aggregate measure as an instrument, that is, percentage of firms with a founding team member in charge of political relationship building in a city. The prevalence of such firms should not affect acquisition of suppliers and buyers at the firm level, but it was positively related to the likelihood of a new venture having a founding team member dedicated to government relations in that city. We employed two-stage regression (Cameron & Trivedi, 2009), and the results suggested that political relationship building had a significant positive effect on suppliers ($\beta = 3.253$, $p = .000$) and a significant negative effect on buyers ($\beta = -1.487$, $p = .000$), which is consistent with our main analysis.

We used alternative cut-points to define new ventures, such as 7 years, and obtained qualitatively similar results. We also tried an alternative cut-point to distinguish early- and late-stage new ventures, 3 years. Our main findings remained except for the direction and significance levels of the interactions with venture stage. This suggested that age 5 was a clearer cut-point to separate early- and late-stage ventures in our context.

We controlled the functional experience of the team, calculated as the count of all types of functional roles (except for political relation building) assumed by the team members, including financing, operations, marketing, and supply chain management, and the key results remained.[7]

While we emphasized that political relationship building can enhance new ventures' legitimacy for suppliers, buyers can also prefer to work with new ventures with high legitimacy. We included the two interactions related to legitimacy to predict buyers. The positive interaction ($\beta = .608$, $p = .000$) suggested that the negative main effect of political relationship building on buyers was alleviated for early-stage new ventures. This effect indicated the legitimacy-enhancing impact of political ties for buyer acquisition. Nevertheless, the other interaction effects related to bargaining power remained. This suggests that especially for new ventures with a strong bargaining position, buyers were still deterred because of the strengthened bargaining power of the politically-connected new ventures.[8]

An alternative view of political relationship building is that it may provide complementary resources for potential partners. We consider this possibility by including the interaction between marketization and political relationship building. Government may provide different amount and types of resources in regions with different levels of market institutional development. All the results concerning our hypotheses remained.

Discussion and Conclusion

Our study was motivated by the lack of understanding on how building political relationship can affect new business ventures' supply chain partner acquisition. We extend the RDT to develop arguments on the opposing effects of political relationship building on new ventures' abilities to obtain suppliers and buyers. Our empirical analysis of new ventures in China largely supports our arguments. First, new ventures with a founding team member dedicated to political relationship building are associated with more suppliers but fewer buyers, as compared with new ventures without such a member. Second, the positive effect of political relationship building on suppliers is stronger for new ventures with less legitimacy, such as early-stage or foreign-invested new ventures. Third, the negative effect of political relationship building on buyers is stronger for new ventures in a stronger bargaining position, such as those with larger assets or in high-profitability industries. These results are consistent with our explanation that political relationship building provides new ventures with enhanced legitimacy and bargaining position. The enhanced legitimacy assures suppliers of the certainty of payment and thus helps attract suppliers, but the strengthened bargaining position threatens buyers' ability to control and thus deters some buyers.

Limitations and Boundary Conditions

Our study has several limitations. While we took advantage of a unique survey which asked about new ventures' founding team and thus helped to establish the causal impact of political relationship building on new ventures' supply chain partners, the survey prevented us from tracing these new ventures' supply chain change over time. A longitudinal sample could better control for the heterogeneity of new ventures and provide a more rigorous test. In addition, the survey did not ask for detailed information about the new ventures' suppliers and buyers, preventing us from comparing the power of a new venture vis-à-vis a specific supplier/buyer. Furthermore, we examined only the number of suppliers and buyers as the dependent variables. While the number of alternatives is a critical outcome reflecting new ventures' power and risks, political relationship building may also affect new ventures' supply chain in other ways, such as the duration of the relationship, the size of partners, and delivery and payment terms. Future research can gather such data to further ascertain how enhanced legitimacy and bargaining power through political relationship building can influence new ventures' supply chain.

It is important to note the potential boundary conditions of our arguments and findings. First, we examined the interfirm relationship, and the deterring effect of political relationship building on buyers may not apply to individual consumers. As new ventures dealing with a consumer market may need to spend resources building their public image, the concern about legitimacy may be more important than that of bargaining position and political relationship building may be beneficial for attracting individual buyers. Second, the norm of post-delivery payment, weak contract enforcement, and the predominance of price competition have strengthened suppliers' concern about a new venture's payment certainty and buyers' concern about controlling a new venture. Supply chains with these features are prevalent in emerging markets and manufacturing industries. However, in some contexts we may find other perspectives to be more informative. For instance, in knowledge-based or fast-growing industries, it is crucial to develop capabilities through learning from partners, and studies have shown that new ventures focused on developing in-depth relationships with their key customers (Yli-Renko, Autio, & Sapienza, 2001).[9]

Third, given the uncertainties during China's marketization (Zhou, 2013, 2017), new ventures can be particularly motivated to increase alternative supply chain partners. However, a large number of partners may also increase coordination costs and dilute informational benefits (Uzzi, 1996), and future studies can examine directly the survival and performance consequences such as growth and profitability. Lastly, the government may vary in the extent to which it facilitates or exploits new ventures across countries, and caution needs to be taken when generalizing our findings based on the context of China to other countries.

Contributions

Our study contributes to the research on political connections of new ventures by developing a framework on how political relationship building can influence supply chain relationships of new ventures, which are critical for their survival (Jennings, Greenwood, Lounsbury, & Suddaby, 2013). We extend the prior research by understanding the impact of political connections beyond the business–government dyad. Our focus on supply chain partners is particularly relevant to new ventures, which are highly resource-constrained and need to prioritize establishing relationships with ecosystem partners simultaneously to ensure survival.

Paradoxically, while new ventures build political relationships to reduce dependence on the government—which is a major source of uncertainty in their environment—such action can create new sources of uncertainty and risks. Prior research with a focus on the dyadic relationship between businesses and government would not have uncovered such unintended consequences of political activities. Political relationship building can be a double-edged sword, because enhanced legitimacy and bargaining power can lead to different assessment by suppliers and buyers due to their different priority of concerns. By reducing new ventures' dependence on buyers, political relationship building increases new ventures' bargaining power and reduces their attractiveness to potential buyers. The reduced number of buyers in their downstream can later on increase their dependence on a few buyers and thus expose them to more risks, such as not receiving timely payment, having to accept lower price, or more product customization. Indeed, our study highlights a previously neglected consequence of corporate political activities for new ventures' value chain configuration, including the potential adverse influence of uncertainties and risks.

In addition, our study contributes to the literature on corporate political activities and embeddedness by identifying a distinct source of the costs. While some recent studies have noticed the negative consequences of political connections, such as exposure to political regime change risks and government expropriation, loss of firm discretion, or financial drain (Greve et al., 2017; Jia & Mayer, 2017; Siegel, 2007; Sun et al., 2016), nearly none has considered how the structural dependence can be viewed as threatening. Our study suggests that political embeddedness can trigger potential buyers' concern about the difficulty to control and hence hinder buyer acquisition. This means that independent of the government's action to hurt the connected firms' interests, the connection itself can hamper the firms' partnership development when potential partners desire control.

By applying the RDT to understand new ventures' supply chains, our study also extends the RDT in two important ways. First, most empirical studies based on RDT focus on how dependence on one type of actors can lead the focal actor to reduce such dependence; whereas our study empirically demonstrates how reducing dependence on one type of actor can influence the focal actor's power imbalance with other types of exchange partners. Our extension suggests that the resource dependence logic can consistently explain a focal firm's relationships with multiple types of stakeholders. Second, by revealing the downside of dependence-reducing activities (such as political relationship building), we develop the RDT's insights about power in the context of entrepreneurship. Power is at the center of the RDT (Pfeffer & Salancik, 1978). The original theorists considered some costs of power, such as the loss of discretion, as a result of reducing dependence through co-optation. Our study shows that new ventures seeking power can be less attractive to buyers, especially when the power is sought after by those already in a relatively strong bargaining position. Weak bargaining positions are not always without merit, as they attract exchange partners who need to control. Lack of power may thus help start-ups to survive through diversifying risks and reducing uncertainties.

Managerial Implications

Our study has practical implications for entrepreneurs and new ventures. Political relationship building cannot serve the new ventures well in both supplier and buyer acquisition. Entrepreneurs therefore need to carefully assess their risk factors in their ecosystem and adjust their political activities accordingly. Building government connections helps new ventures to gain more suppliers. However, if acquisition of buyers is crucial for survival, entrepreneurs need to be aware of potential buyers' concerns about the new venture's perceived strong bargaining position due to its political relationship building. New ventures already in a relatively strong bargaining position are particularly vulnerable to such a perception and can suffer from a reduced number of buyers.

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Notes

1. The survey also allowed us to observe that new ventures with a founding team member dedicated to political relationship building were more involved in various government-organized activities and more likely to receive government subsidies, confirming the stronger political relationship in such new ventures.
2. We conducted the interviews between 2009 and 2015. During this period, the important characteristics of supply chains such as power imbalance (stronger downstream), overcapacity in production of many industries, and post-delivery payment remained.
3. New ventures founded after the 1997 Asian Financial Crisis would be maximally 8 years old in our data (collected in 2005). The post-Asian Financial Crisis period witnessed the growing overcapacity problem in many industries.
4. Among foreign-invested firms, wholly-owned foreign firms account for around 25%, and the rest are joint ventures.
5. In other words, these variables were calculated as follows: n1 + n2*(1 p), where n1 was the number of largest partners (which could take the value from 0 up to 3), n2 was the number of all the other small partners if existent, *p* is the percentage of sales of the largest partners.
6. Even after winsorizing outliers, the distribution of our original count variables of suppliers and buyers has a long tail. While 75% of the new ventures in our sample have less than 10 suppliers and less than 15 buyers, the maximum number of suppliers for a new venture is 256 and that of buyers is 200. In these two extreme cases, for example, 253 (= 256 – 3) small suppliers other than the top three account for 52% of the sales volume in the upstream, and 197 (= 200 – 3) small buyers other than the top three account for 72% of the sales volume in the downstream.
7. Because the founding team's functional experience was highly correlated with political relationship building, we orthogonalize team diversity in functional experience to cope with multicollinearity (Golub & Van Loan, 1996).
8. Similarly, we included the interactions related to bargaining position in the regression predicting suppliers. These interactions were positive ($p < .05$). This suggests that with the added bargaining power from political relationship building, new ventures in a strong bargaining position can attract even more suppliers. This is consistent with the RDT logic that the downstream firm prefers to have more alternative suppliers in order to strengthen its control over supply. More importantly, the positive interactions with early venture stage and foreign ownership remained highly significant, suggesting the importance of the credibility mechanism for supplier acquisition.
9. The vast majority of our sample consists of manufacturing firms, and by only including SMEs, the survey did not include young ventures that could have grown to be large-scale in a few years.

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