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ABSTRACT

This study examines how political ties maintained by a firm with rival political parties affect the firm's entry into new industries. Drawing on the social network research, resource dependence theory, and corporate political strategy literature, we argue that the impact of a firm's portfolio of political ties on market entry depends on the distribution of political power among rival political parties and the concomitant interdependency between the focal firm and its political partners. A diverse portfolio of political ties may facilitate entries when the political parties are relatively evenly matched in political power, but may induce adverse effects when there is substantial power distance between political parties. Moreover, the impact of portfolios of political ties on market entry is contingent on the internal resources of politically connected firms. Using the context of political ties maintained by Taiwanese business groups from 1998-2004, we find strong support for the proposed effects. The findings have implications for research on the corporate political strategy, contingencies of social relationships, the expansion of multi-business firms, and the organization of government.

Recent studies have indicated that political actions of the firm is an important component of the overall strategy formulation and has substantial impact on firms' behavior and performance in developed as well as emerging economies (Baron, 1995; Hillman, Zardkoohi, and Bierman, 1999). However, the existing corporate political strategy literature primarily focuses on business-government (administration) interactions, and relatively less attention has been paid to another important power segment—the political parties. Although some research has indicated that firms often adopt various political tactics, such as campaign contributions and constituency building, to support their favored political parties (Epstein, 1984; Keim and Zeithaml, 1986; Zeithaml, Keim, and Baysinger, 1988), we know little about how firms decide to target their political tactics at which political parties to achieve desirable goals. To the extent that political parties play an important role in the landscape of political power by setting policy agendas, nominating candidates for officials and legislators, monitoring the work of elected representatives, and controlling government institutions and policies if they win the elections (Schlesinger, 1991), the overlook of interface between business and political parties makes our understanding of the political strategies of firms incomplete[1]. Moreover, since party competition holds important implications for the organization of governments which substantially affects the policy making processes and results through interactions between executive and legislative branches (March and Olsen, 1989; Scott, 2001), scholarly understanding of the efficacy of firms' political strategies targeting the government will be further improved when the relationships between firms and political parties are taken into consideration.

Given the limited resources of firms, it is important to understand how firms can maximize the value received from interactions with political parties by targeting the right

[1] A few studies included a firm's ties to political parties in its pool of political ties (e.g. Faccio, 2006; Johnson and Mitton, 2003), but they did not differentiate ties to political parties from other types of political ties (e.g. ties to government officials and legislators) and thus provided limited insight about how the interplay between firms and political parties influences political strategies of firms.

political parties at the right time. This study seeks to address this agenda by examining how a firm's portfolio of political ties to different political parties affect firm's diversification strategy such as entries into unrelated industries. Specifically, we investigate how the rivalry between political parties, as seen in many political systems (Huntington, 1968; Pasuk and Baker, 1995; Wad, 2002), affect the behavior and outcome of politically connected firms. We also explore the configuration of optimal portfolios of political ties that promote the expansion of business scope by politically connected firms. Integrating the insights from research on portfolios of network ties, resource dependence theory, and corporate political strategy literature, we argue and show that when political power is evenly distributed among political parties as a result of party competition, a diverse portfolio of political ties facilitate market entry. However, when there is substantial power distance (or popularity in terms of vote) between political parties, a diverse portfolio can inhibit entry into new markets. In addition, the effectiveness of political ties is contingent on the characteristics of the focal firm such as firm resources. The internal resources of the firm weaken the relationships between political ties and market entries.

A political tie here refers to a personal relationship between a business executive and a party leader. A portfolio of political ties hence is a collection of political ties between the focal firm and different (and even opposing) political parties. Borrowing from the network literature the concept of egocentric network, which encompasses the focal firm (ego), its set of partners (alters), and their connecting ties (Wasserman and Faust, 1994), we call this egocentric portfolio of political ties. We choose to focus on the portfolio of political ties rather than single, independent dyadic ties for two reasons. First, the composition of portfolio reflects how the focal firm targets its political tactics at political parties. Specifically, a diverse portfolio composed of ties with different political parties implies that the focal firm targets multiple political parties, while a homogeneous portfolio suggest that the focal firm concentrates its political tactics on a single or a few political parties. Despite the widespread belief that political ties are an important channel for the interaction between business and polity (e.g. Hillman, Zardkoohi, and Bierman, 1999; Peng and Luo, 2000; Siegel, 2007; Xin and Pearce, 1996), the political tie literature has largely focused on the impact of individual dyadic ties and regarded each political tie as an isolate conduit rather than an interdependent component in a portfolio of ties. The current literature has achieved limited success in explaining how political ties maintained by a firm as a collectivity may shape the firm's strategy and profitability.

In regard to the network literature, the value of portfolio of ties is mainly conducted in the context of alliance network where firms share common goals and create value through resource sharing and co-development of products, services, or technologies (Gulati, 1998). This line of research suggests that the value created by the focal firm from network ties depends not only on individual ties, but also on the portfolio of ties as a whole due to the interdependencies between ties (Bae and Gargiulo, 2004; Baum, Calabrese, and Silverman, 2000; Lavie, 2007). Investigating portfolios of political ties thus enables us to fully account for the impact of political ties on firm's new market entry. Moreover, due to the unique nature of portfolios of political ties, this study also enriches the network literature by examining outcomes of portfolios of ties which involve competition between alters of the focal firm and punitive actions taken by alters on the focal firm.

We situate the theoretical arguments using business groups in emerging economies. Business groups are sets of legally-independent firms, operating in multiple industries which are under a common administrative and financial control through various formal and informal relationships within groups (Chang and Hong, 2000; Granovetter, 1995; Khanna and Rivkin, 2001). Business groups are ubiquitous in virtually all emerging economies, producing a significant portion of the national GDP and hiring a substantial number of employees

(Khanna and Palepu, 1997; Khanna and Rivkin, 2001). Business groups suit this study for several reasons. First, entry into new industries has been a major response of business groups in emerging economies to market-oriented transitions sweeping these countries since the 1980s (Hoskisson, et al., 2004). Groups usually diversify into unrelated industries by taking advantage of their superior ability to set up and manage projects in diverse industries (Amsden and Hikino, 1994; Kock and Guillen, 2001). Moreover, business groups often maintain extensive political ties to political parties in their countries (Agrawal and Knoeber, 2001; Johnson and Mitton, 2003). Group leaders and political actors interact with each other intensively for exchange of information and resources. In addition, after the "third wave" of political democratization in many emerging economies, the establishment of new political parties is allowed, leading to intense party competition and even rivalries (Huntington, 1991; Sachs and Warner, 1995).

We use the 250 largest Taiwanese business groups (1998-2004) as the empirical setting for four reasons. First, Taiwanese business groups have undertaken extensive entry activities since the economic liberalization of Taiwan in the late-1980s (Chung and Mahmood, 2006). Second, embedded in a relationship-based society, leaders of Taiwanese business groups keep extensive personal relationships with party leaders. Third, with the establishment and growth of new political parties since 1986, the dominant role of the Nationalist Party, the KMT, in the politics of Taiwan has been challenged. The competition among political parties in the presidency and legislative campaign was intense during 1998-2004. Finally, the clear-defined group boundaries of Taiwanese business groups enable us to accurately track the entry activities of group affiliates and political ties maintained by group leaders (Luo and Chung, 2005).

This study makes three major contributions to the existing literature. First, it contributes to the corporate political strategy literature by examining the political portfolio that firms can adopt to shape the political environment when facing rivalry between political parties. Specifically, we identify the conditions under which firms should (or should not) develop a diverse portfolio of political ties. We hence establish the direct and contingent conditions under which political ties facilitate or hinder the entry of business groups into new industries. Second, it contributes to social network research by exploring the optimal portfolio of network ties by considering how the rivalry among network alters and the interdependencies between the focal firm and alters affect the strategy of focal firms in the context of political networks. It shows that the desirable properties of portfolios of network ties depend on the nature of relationships among network partners. Further, this study broadens the market entry literature by highlighting the contingent value of political ties and showing how the political capital and internal resources possessed by a firm jointly affect its market entry. By adopting a holistic approach, we are better able to see the hitherto unobserved connections between the market entry literature and corporate political strategy research. This study also provides supportive empirical evidence to the theoretical argument that the capability of business groups to exploit their political capital in emerging economies facilitates their expansion into unrelated industries (Kock and Guillen, 2001).

RIVAL POLITICAL PARTIES, THE PORTFOLIO OF POLITICAL TIES, AND MARKET ENTRIES

Current alliance research shows that impacts of alliance portfolio on the focal firm depend on the attributes of partner firms, the nature of relationships between the focal firm and its partners, and the relationships among its partners (Baum, Calabrese, and Silverman, 2000; Stuart, Hoang, and Hybels, 1999; Lavie, 2007). This line of literature suggests that the focal firm benefits from an alliance portfolio composed of prominent partners (Stuart, 2000; Zaheer and Bell, 2005), partners with heterogeneous resource profile (Burt, 1992; Hargadon and Sutton, 1997; Rodan and Galumi, 2004), partners which are not competitors of the focal firm (Brandenburger and Nalebuff, 1996; Lavie, 2006), and partners competing with each other (Lavie, 2007).

Building upon these insights, we further develop a theoretical framework of the efficacy of portfolios of political ties by taking into account the prominence of connected political parties, the nature of relationships between the focal firm and connected political parties, as well as among political parties in its portfolio. It intends to provide insights into the design of portfolios of political ties.

Party competition and distribution of political power

The political science literature defines a political party as a team "seeking to control the governing apparatus by gaining office in a duly constituted election" (Downs, 1957). In many political systems, we see two or more political parties compete for the control of government institutions. In democratic contexts, the competition is carried out through periodic general elections. The party (or coalition of parties) winning the majority of votes gains control of the government institutions until next election. However, in democratic nations with distinct electoral systems, the relationship between the executive branch and legislative branch is different, and thus the distribution of political power between parties controlling certain government institutions vary across nations[2]. The following discussion about party competition uses presidential systems as the institutional context.

Presidential elections and legislative elections are the major battlefields of party competition (Hungtington, 1968). When it wins the majority votes in the presidential election, a political party or coalition gains executive authority and becomes the ruling party. When it

[2] For instance, in parliamentary countries, such as the United Kingdom and Canada, the executive branch is typically a constituent part of the legislative branch (Moe and Caldwell, 1994). The majority party which wins in the legislative election controls both the executive and legislative branches. In presidential countries, such as the United States, however, there is a significant separation of political power between the executive branch and the legislative branch (Hillman and Keim, 1995). Political control of the legislature does not guarantee a party control of the executive branch since the chief executive is elected separately and may be from another party. To the extent that the political power is more concentrated in parliamentary systems than in presidential systems (Hillman and Keim, 1995), the theoretical framework developed in this study which focuses on the strategic interaction of firms and rival political parties closely applies to firms operating in countries with presidential systems.

wins the majority seats in the legislative election, a political party or coalition achieves legislative authority. If a political party controls both legislative and executive authority, it dominates domestic politics and has a mandate to political power. The government is thus under unified party control which often leads to cooperation between the president and his colleagues in the legislative branch (Sundquist, 1988; Cox and Kernell, 1992). If different parties control the legislature and executive branches, the political power is relatively evenly distributed among the ruling party (executive) and the opposition party (legislature). The government under divided party control is referred to as a divided government (Cox and Kernell, 1992). As a result, there may be less opportunity for the majority party or coalition in the legislature to control policy making and the legislative agenda (Alt and Lowry, 1994). In United States, for example, the result of competition between the Democratic and the Republican parties in presidential elections and congressional elections determines presidential-congressional relations (Oleszek, 1984).

The distribution of political power determines the prominence of political parties or coalitions as alters in a focal firm's political networks. In a unified government, the ruling party which controls both legislative and executive branches is the most prominent partner for the focal firm as it shapes the competitive environment faced by the firm through enacting policies, and monitoring regulatory agencies, bureaus, and judiciary (Hillman and Hitt, 1999; Holburn and Vanden Bergh, 2008; Keim and Zeithaml, 1986; Schuler, Rehbein, and Cramer, 2002). In contrast, the opposition parties without control over the legislative branch are the least attractive alters as they are not able to exert significant influence on public policies and implementation. Comparatively, in a divided government, the ruling party with executive authority and the opposition party with legislative authority are moderately prominent alters because they are able to influence policymaking and implementation to certain extent. Opposition parties without any political power are least prominent alters. Furthermore, the distribution of political power among parties in the focal firm's political networks also influences the relative bargaining power of the focal firm and thus the outcomes of its portfolio of political ties.

Bargaining power and efficacy of portfolios of political ties on market entry

Studies on interfirm network suggest that being connected to diverse alters benefits the focal firm by providing heterogeneous information and resources, thus enabling the firm to achieve desirable goals such as improved performance, successful implementation of strategies, and higher growth rate (Beckman and Haunschild, 2002; Burt, 2000; Powell, Koput, and Smith-Doerr, 1996; Reagans and Zuckerman, 2001). In the context of political networks, however, maintaining political ties with multiple political parties may not be always beneficial primarily because powerful political parties have punitive power over the focal firm and are able to levy retaliation costs, which are the additional costs beyond withdrawing some existing benefits supplied to the focal firm (Lawler and Bacharach, 1987). A firm having political affinities with opposition parties often becomes the target of retribution by the ruling party (Siegel, 2007). In addition, the prominence of connected political parties may change dramatically as a result of general elections or forced regime changes (Leuz and Oberholzer-Gee, 2006).

We argue that the benefits and costs derived from a diverse portfolio of political ties hence hinge upon the focal firm's relative bargaining power *vis-à-vis* political parties in its portfolio, which determines the extent to which it can refrain from retribution by powerful parties and the value it can receive from political ties. Through political ties, the focal firm exchanges votes, campaign contributions, and policy support for information, resources, and administrative privileges with political parties[3]. (Baron, 1995; Benson, 1975; Hillman and

[3] Political ties originating from a common political ideology do not necessarily involve exchanges between the focal firm and its political partners, and thus the bargaining between them. However, this type of political ties may indirectly affect market entry by inducing retribution by powerful parties embracing ideologies different from that of the focal firm, or by influencing the bargaining power of the focal firm relative to other political parties. We discuss the impact of this type of political ties in detail when developing Hypothesis 3, Hypothesis 4a and Hypothesis 4b.

Hitt, 1999; Persson and Tabellini, 2000). Bargaining power refers to the ability to favorably change the terms of agreements, to obtain accommodations from partners, and to influence the outcomes of negotiations (Schelling, 1956; Yan and Gray, 1994). When the focal firm is in a stronger bargaining position, the cost of taking punitive actions by powerful political parties is high because the focal firm may consequently come up with unfavorable agreements to political parties which may lead to their failure in political elections. Hence, powerful political parties are unlikely to employ their punitive capability. Moreover, the focal firm is more likely to gain desirable outcomes from negotiations with political parties by taking advantage of its strong bargaining power. When the focal firm has relatively weak bargaining power, however, powerful political parties may use punitive tactics without bearing much cost because the focal firm is unlikely to withdraw the existing benefits supplied to political parties given its high dependence on them. At the same time, the benefits the focal firm can explore from political ties with congenial parties are likely to decrease given its inferior position in negotiations.

Resource dependence theory indicates that bargaining power derives from the interdependence between the focal firm and its partners (Pfeffer and Salancik, 1978). The bargaining power of the focal firm in a bargaining relationship depends on two dimensions of interdependence: (1) the stake it has in the exchange; (2) the availability of alternatives (Bacharach and Lawler, 1984). The lower the stake in a relationship and the more alternatives the firm has, the more bargaining power the firm has over its partners in the relationships.

In the context of political networks, the bargaining power of the focal firm derives from its stakes in the political ties, and the availability of alternative political ties. As indicated in Figure 1, the bargaining power of the focal firm relative to both the ruling party and the opposition party is likely become stronger when the distribution of political power gets dispersed. First, when the ruling party and the opposition party are equally powerful, the stakes of political parties increase as the competition between them for electoral campaigns contributions and votes intensifies. Each party engages in gaining support from connected firms, which is more critical for them to succeed in the intense party competition. Without the support from the business, political parties would be in inferior positions and may not be able to win elections. As a result, political parties become more dependent on their business partners, leading to their weaker bargaining position relative to the focal firm. In fact, it is found that under this situation, political parties are more willing to satisfy the demands of the focal firm so as to obtain its support which is critical to their winning in the election (Baron, 2001). In contrast, when the ruling party dominates political power, the stakes of political parties get lower primarily due to the fact that political parties are likely to request for fewer electoral resources from connected firms considering the great disparity in strength between the ruling party and the opposition party. To the extent that the superior access to information, resources, and favorable policies provided by political parties is always beneficial to the focal firm, the stake of the focal firm remain unchanged no matter how political power is distributed. Hence, the focal firm enjoys more bargaining power on the dimension of stakes in the political ties when political power is evenly distributed.

Second, when political power is distributed dispersedly, each party is able to provide some desirable resources, information, and public policies with the focal firm in exchange for its support. The focal firm enjoys more alternative political parties to pursue similar objectives. For instance, when the ruling party dominates politics, the focal firm may be forced to accept requests made by the ruling party if it wants to gain favorable policies. In contrast, when the opposition party controls the legislative branch, leaving only executive branch to the ruling party, the focal firm can resort to the opposition party to pursue similar or substitutable policies if the requirements put forward by the ruling party are not acceptable.

The availability of more alternatives reduces the dependence of the focal firm on connected political parties and thus endows more bargaining power to the focal firm.

Based on the foregoing discussion, we may draw the conclusion that, when the distribution of political power gets dispersed, the focal firm is likely to gain more bargaining power while the political parties tend to enjoy less bargaining power. Consequently, the focal firm will be in a stronger bargaining position relative to its political partners in negotiations. We briefly summarize how the bargaining power of each party in the political network changes in response to different distributions of political power in Table 1.

************ Insert Table 1 about here ************

Portfolios of political ties maintained by firms have important implications for their market entries. They may facilitate entries into new markets by providing access to valuable information and resources not available through the arm-length relationships (e.g. trends of industrial policies), and favorable policies and treatments (e.g. entry permits to regulated industries) with firms. However, they may also deter market entries when firms become victims of political struggles between political parties. Hence, to maximize the benefits drawn from portfolios of political ties while refraining themselves from retaliations imposed by powerful political parties, firms need to get connected to prominent parties, and leverage their bargaining power to derive desirable resources from them and at the same time to inhibit punitive tactics taken by political parties.

In summary, our framework suggests that the value of portfolios of political ties derived by firms depends on the distribution of political power among political parties in the portfolios, which consequently determines the prominence of political parties and the interdependencies between firms and their political partners. Firms need to construct and adjust the configuration of portfolios of political ties in response to the changing political environment so as to enter into new markets. Figure 1 depicts our conceptual framework of how portfolios of political ties affect market entries by politically connected firms.

************ Insert Figure 1 about here ************

The intense party competition and the concomitant changes in distribution of political power around 2000 in Taiwan provides a rare setting near natural experiment for us to examine the validity of our theoretical framework.

PARTY COMPETITION IN TAIWAN FROM 1998-2004

The KMT Nationalist Party dominated Taiwan's politics and economy from its retreat from Mainland China in 1949 until 1987 (Gold, 1985; Wade, 1990), when the greatest wave of political democratization in Taiwan's modern history took place (Tien, 1989). Martial law was lifted in 1987 and new political parties, labor protests and private mass media were allowed. The establishment of the major opposition party, the Democratic Progressive Party (DPP) intensified the competition in political elections. Losing the monopolistic status in politics and facing severe challenges from DPP, KMT started seeking campaign contributions and votes from business groups. The relationship between business groups and KMT had turned from top-down to a more balanced strategic partnership. Before 2000, KMT had been the ruling party of Taiwan. It also controlled the Legislative Yuan, the Taiwanese equivalent of Congress, government agencies, and judiciary by assigning a large number of its party members to key positions.

In the election for the 10th-term President of the Republic of China, Chen Shui-Bian from the DPP was elected president, putting an end to more than half a century of KMT rule in Taiwan. Chen Shui-Bian was re-elected in the 2004 presidential election. Since Taiwan adopts the presidential system, DPP's success in presidential election did not guarantee its control of the Legislative Yuan. It turned out that KMT still possessed a majority of the seats in the Legislative Yuan after DPP came into administrative power. The separation of legislative and executive authority in Taiwan induced intense competition and conflicts between KMT and DPP.

Table 2A and Table 2B show the changes in distribution of political power among major political parties in Taiwan from 1998 to 2004. Table 2A is about the party competition in presidential elections. It shows that DPP won the presidency in both 2000 and 2004. With regard to the legislative election, DPP won fewer seats than KMT in three consecutive elections took place in 1998 (31% vs. 55%), 2001 (39% vs. 51%), and 2004 (40% vs. 50%) respectively.

************ Insert Table 2A and Table 2B about here ************

In summary, the political power in Taiwan was dominated by KMT before 2000, making opposition parties powerless and the power distribution highly uneven. This situation changed dramatically since DPP came into power in 2000. Political power was dispersed with DPP controlling the executive and KMT governing the legislative until 2008 when KMT again controlled both the administrative agencies and the legislative arm.

HYPOTHESES

Political ties and entry into new industries

Recent research indicates that being tied to powerful politicians greatly enhances the effectiveness of a firm's non-market strategy such as lobbying and campaign contribution (Bonardi, Holburn, and Bergh, 2006). We argue that due to ruling party's control of executive authority, political ties to leaders of the ruling party can facilitate firms' entry into new industries by providing three substantive benefits.

First, political ties to the ruling party enable firms to enjoy information advantage and acquire resources that are under ruling party's control. The information transferred through political ties keeps firms updated about the changes in economic policies and regulations and helps them foresee changes in the policy environment (Schuler, Rehbein, and Cramer, 2002). Such information is particularly valuable in emerging economies where information asymmetry is prevalent (Khanna and Palepu, 1997), and policies and regulations change constantly (Keister, 1998; Khanna and Palepu, 1999). Moreover, when the ruling party has discretion over how policies and regulations are interpreted and implemented based on its political ideology (Kalt and Zupan, 1984) and the preferences of relevant voter constituents that affect its electoral success (Vanden Bergh and de Figueiredo, 2003), the information obtained from political ties with the ruling party is richer and more accurate than that acquired from other sources (Frye and Shleifer, 1997; Potter, 2002; Li and Zhang, 2007). The information advantage help politically connected firms envisage future directions of economic growth (Chu, 1994), detect industrial policies in advance (Fields, 1997) and identify novel market opportunities (Luo, 2003). Ties to the ruling party may also provide groups with access to resources that are crucial to their expansion into new industries. For example, when the banking sector of Taiwan opened up for private firms in early 1990's, the Ministry of Finance set the minimum capital requirement for the establishment of a new bank at NT$10 billion (equivalent to US$375 million). Consequently, all the 15 newly-established banks in 1991 were backed by large business groups, 79% of which were politically connected to KMT, which provided financial support with the business groups through state banks (Chu and Hung, 2002; Chung, 2004).

Second, firms tied to the ruling party may have superior access to licenses, permits, administrative privileges, privileged regulatory treatments, and favors, which makes their market entry easier. Ruling party members often use their power in public policy making to steer preferential treatments toward firms with which they have political ties. For example, in our research context, KMT bureaucrats favored 6 telecommunication firms co-invested by 20 largest business groups in their bid to acquire 8 wireless telecommunication licenses in 1997 because of their social ties with the top management teams of these firms (Wealth Magazine, 1998). In Columbia, political ties were found critical for businesses to obtain contracts and licenses, which in turn provide firms with opportunities to enter new markets (Rettberg, 2001). Kock and Guillen (2001) suggest that “contact capability”, which is the ability of firms to link to domestic regulators for resources and permits, as well as to foreign providers of technology and markets, enables business groups to expand into unrelated industries.

Third, political ties to the ruling party promote the legitimacy of firms. Institutional theorists have found that when a firm develops ties to organizations with high legitimacy, it obtains enhanced legitimacy and status because the ties imply its conformance to taken-for-granted institutional prescriptions (Baum and Oliver, 1991; Meyer and Rowan, 1977; Scott and Meyer, 1983; Oliver, 1991). The enhanced legitimacy in turn facilitates the firm in its attempts to acquire important resources for survival and effectiveness (Pfeffer and Salancik, 1978; DiMaggio and Powell, 1983; Rao, 1994). For example, Peng and his colleagues (2005) argued that network ties to dominant institutions confer useful resources and legitimacy that are critical to business group diversification. Baum and Oliver (1991) demonstrated that firms with linkages to government agencies and regulatory commissions had a survival advantage conferred by its increased legitimacy and enhanced ability to acquire resources. Since the ruling party is an organization with high legitimacy in the fields of business and economic matters, business groups tied to the ruling party are likely to enjoy increased legitimacy, which facilitates resource acquisition and confirms its rights and competence to provide new products and services.

When the ruling party simultaneously controls the executive and legislative branch, political ties with the ruling party are even more beneficial. Taking advantage of its overwhelming political power, the ruling party is able to provide a larger pool of resources and information that connected business groups can tap on. Without disturbance from opposition parties in the legislation process, the ruling party is more able to endow favorable treatments and privileges to connected business groups by proposing and passing laws, rules, and regulations. In addition, the legitimacy of the ruling party is likely to be higher when it has both executive and legislative authority. Business groups connected to the ruling party hence enjoy higher legitimacy and thus an extra boost to their market entries. Therefore, we propose that:

Hypothesis 1: *The more political ties to the ruling political party, the more entries into unrelated industries by business groups in emerging economies.*

Political ties with the opposition party which has legislative authority are also conducive to market entries by firms. Legislators affiliated to the opposition party may offer bills favorable to the connected firms (Shaffer, 1995). They may also modify existing rules and regulations to improve the competitive position of connected firms by disproportionately raising the costs of their rivals, lower or get rid of entry barriers to connected firms, and indirectly steer resources in the direction of connected firms through regulations on banks and other institutions (Frynas, Mellahi, and Pigman, 2006; Siegel, 2004). Entry into the petroleum industry of Taiwan by Ho Tung Group in 2001 demonstrates the benefits of such political ties. Before 2001, the petroleum industry was monopolized by two large petrochemical corporations due to their ability to meet the requirement of daily oil-refining volume specified in the Petroleum Management Law. To get into this profitable industry, a small-scale chemical business group, Ho Tung, utilized its political ties with KMT legislators to reduce the required daily oil-refining volume and successfully entered into this industry (Wealth Magazine, 2001). In addition to taking advantage of the power of the opposition party over legislation, connect firms are also likely to enjoy enhanced legitimacy to the extent that the dominant party at the legislature is regarded as a highly legitimate organization. We thus hypothesize:

Hypothesis 2: *The more political ties to the opposition party with legislative authority, the more entries into unrelated industries by business groups in emerging economies.*

In contrast, being connected to an opposition party which has little political power may impede the expansion of business groups into unrelated industries. Opposition parties which do not have control of the legislature are unable to provide business groups with resources and information that facilitate entries into new markets because they do not have the power to set laws and regulations, to influence public policy making through passage or veto of statutes, and to steer resources in the direction to connected business groups.

Instead, being tied to powerless opposition parties may induce discrimination and retribution by the ruling party, leading the connected groups to be victims of political rivalry. From the perspective of the ruling party, groups connected to opposition parties are discontent or even objective to its rule. To reinforce its governance, the ruling party often takes retaliatory actions to undermine the growth of business groups connected to opposition parties. Empirical studies show that firms connected to political enemies of those in power are less able to form cross-border strategic alliances with foreign firms which possess advanced technological and managerial know-how because of the resource exclusion and discrimination imposed by politicians in power (Siegel, 2007). The Chi-Mei Group in Taiwan is a well-know adherent to DPP since KMT dominated the politics of Taiwan in 1949. In the early stage of its development, Chi-Mei Group suffered from the short of capital because the state banks controlled by KMT either rarely provided bank credits to it or offered loans on unfavorable terms (Ju, 2003).

Moreover, the legitimacy of business groups may be damaged if they are connected to opposition parties without political power because such parties suffer from lower level of political popularity. The impaired legitimacy of connected groups is likely to hurt their ability to maintain steady resource flows from external environment (Meyer and Rowan, 1977; Cattani, Ferriani, Negro, and Perretti, 2008). It is difficult for them to exploit the "contact capability" of combining the local market and supply of resources with foreign technology in new industries (Kock and Guillen, 2001). In line with this discussion, we hypothesize:

> ***Hypothesis 3:*** *The more political ties to the opposition political party without political power, the fewer entries into unrelated industries by business groups in emerging economies.*

Diversity of portfolios of political ties and entry into unrelated industries

A diverse portfolio of political ties induces both benefits and costs to business groups' entry into unrelated industries. Business groups may benefit from ties to multiple political parties by having access to diverse resource pools and information that are applicable to a number of unrelated industries. Moreover, a diverse portfolio of political ties protects the group from political risk resulting from unexpected regime changes. When business leaders befriend politicians of different parties, the connected group is less likely to be negatively targeted by the new ruling party, whose key members have social ties with the group. As such, the connected group is able to maintain a relatively stable flow of benefits derived from its portfolio of political ties regardless of the outcomes of party competition. Diverse political ties enhance the political flexibility of the focal group.

A case in point is Formosa Plastic, one of Taiwan's largest business groups. It used to keep connections with KMT, but it gradually diversified its political ties by befriending DPP leaders with the rise of DPP. Wang Yung-Ching, the founder of Formosa Plastic, often accepted dinner invitations from the Chairman of DPP, Chen Shui-Bian when KMT was still in power (Wealth Magazine, 2002). After DPP came into power in 2000, Formosa Plastic continued to operate smoothly, successfully avoiding the adverse impacts of regime change.

By contrast, maintaining good relations with only one political party may hurt the connected group by reducing its political flexibility. Empirical and anecdotal evidence has indicated that being loyal to the ruling party may make firms victims of discrimination and retribution by an opposition party that comes into power (Byun, 2004; Siegel, 2007). Due to the KMT's political dominance in Taiwan for over half a century, many business groups were over-embedded with KMT. Taiwan Cement, one of the largest business groups in Taiwan, was closely tied to KMT by having its founder Koo Chen-Fu serving as a member of KMT Central Standing Committee from 1982 to mid-1990s and playing golf with the 4th KMT president of Taiwan, Lee Teng-Hui since 1992. After DPP came into power in 2000, however, its net income dropped from 38th in 1999 to 51st in 2001. The number of industries it entered dropped from 8 in 1998 to 0 in 2004 and anecdotal evidence indicates that this maybe due to the lack of financial support from the DPP government (Wealth Magazine, 2004).

However, there are also disadvantages of maintaining a diverse portfolio of political ties. First, business groups have to bear relatively higher maintenance costs in the form of campaign contributions, joint investment with party-run businesses, gifts and banquets (Yang, 1994). Second, being friendly to all the political parties may reduce the level of trust obtained from each party, making political ties less effective in acquiring scarce and valuable resources and tacit information. It also signals the disloyalty of the group to each political party, which may induce discrimination and retribution by powerful political parties.

We argue that the net effect on market entry by the focal group is contingent on the distribution of political power among the rival political parties. Specifically, when political power is dominated by the ruling party which has control of both executive and legislative authority, the other political parties have little political maneuver. To the extent that the benefits accessible through political ties is a function of the prominence of connected political parties (Adler and Kwon, 2002; Gabbay and Leenders, 1999; Lin, 1999), the political ties to powerless opposition parties are redundant to the focal group as they do not provide resources and information conducive to the expansion of business scope. The potential benefits of tapping into the diverse resource profiles of different political parties by maintaining a diverse portfolio of political ties can hardly be realized.

Moreover, the relative bargaining power of the focal group tends to be weak when political power is disproportionately concentrated on the ruling party. The ruling party does not face challenges from the powerless opposition parties and it has tight control over economic resources and the competitive environment (Bonardi, Holburn and Bergh, 2006). The focal group has to depend on the ruling party to a great extent so as to construct a favorable external environment, while the ruling party depends less on the group for its support in elections as it already possess an advantageous position in party competition. The weak bargaining power of the focal group not only undermines its ability to acquire resources and information, but also makes it easily become the target of retribution by the ruling party, making its entry into new industries difficult.

In addition, when the ruling party has dominant political power, the chance of unexpected change in political regime are relatively small because the ruling party is able to reinforce its rule by obtaining electoral advantages and suppressing opponents with its political power. As a result, the value of political flexibility by maintaining a diverse portfolio of political ties is greatly depreciated. Therefore, we propose that:

> ***Hypothesis 4a:*** *The more diverse political ties to political parties, the fewer entries into unrelated industries by business groups in emerging economies when the ruling party has dominant political power.*

When political parties are equally powerful, a diverse portfolio of political ties facilitates market entry of the connected group. Since each political party controls either administrative agency or legislative branch and thus has certain resources, information and privileged treatments to allocate, getting connected to multiple political parties provides business groups with opportunities to exploit diverse and abundant benefits from its political partners. Moreover, party competition is likely to intensify when political parties are evenly matched in political power. The intense political competition drives political parties to rely on business groups for campaign contributions, votes and information (Mueller, 2003). Consequently, business groups enjoy stronger bargaining power which makes politicians more willing to “trade” policy favors, valuable resources, and information for support in elections (Baron, 2001). Business groups connected to distinct political parties can thus expand into unrelated industries easily by taking advantage of their diverse resources and non-redundant information.

When political parties are evenly powerful, the chance of political regime change is great. The benefit of obtaining political flexibility by maintaining good relations with rival parties becomes significant. Political flexibility ensures security of access to critical resources and information no matter which party comes into power. This is particularly important for the expansion into unrelated industries which usually requires large amount of investment and stable flows of complementary assets (Siegfried and Evans, 1994).

Additionally, when political power is evenly distributed, groups with a diverse portfolio of political ties are not likely to be discriminated or retaliated by political parties because of their stronger relative bargaining power. Equally powerful parties competing with each other for support from business groups are less motivated to impose punitive measures against groups which keep connections with their political enemies. Accordingly, we hypothesize that:

> ***Hypothesis 4b:*** *The more diverse the political ties to political parties with political power, the more entries into unrelated industries by business groups in emerging*

economies when the political power is evenly distributed between the ruling party and one of the opposition parties.

Contingencies imposed by group debt ratio and group experience of market entry

After articulating the overarching relationship between diversity of portfolios of political ties and the entry activities of connected business groups, we argue that such relationship is likely to vary across business groups with different internal resource profiles. To enter new markets, business groups need to employ a large amount of resources, including both internally accumulated ones and externally derived ones from political ties. As groups are endowed with distinct internal resource profiles, their dependence on political ties to acquire resources for market entry is likely to differ from each other. Thus, we expect the effects of portfolios of political ties on market entry to vary across business groups with distinct internal resource endowments[4]. Specifically, we examine how groups with different levels of debt ratio and experience of market entry are influenced by their political ties when entering into new markets. These contingent factors each exert their effects by either enhancing the benefits of diversity and flexibility or exacerbating the costs of retribution.

Debt ratio as a contingency

Debt ratio of a business group indicates its dependence on external financial resources (Baker, 1990; Pfeffer, 1987). Highly-leveraged groups are more dependent on external financial resources relative to counterparts with low debt ratios. Existing literature has demonstrated that political ties serve as an important channel for firms to acquire financial resources. Faccio (2006) finds that politically connected firms have easier access to debt financing and enjoy lower taxation. Khwaja and Mian (2004) find that politically linked firms borrowed twice as much as non-connected firms from public banks in Pakistan. Johnson and

[4] The contingent effects of internal resources may also be applicable to dyadic political ties examined in H1-H3. However, we focus on portfolios of political ties instead because our major interest is to explore how political ties as an external source of resources may affect market entry jointly with internal resources possessed by business groups.

Mitton (2003) shows that connections to politicians in power serve as critical conduits for government subsidies in Malaysia. Therefore, political ties to the political parties which control financial resources are more valuable to highly leveraged groups than to groups with low debt ratio.

The ruling party controls the government and thus has power to allocate financial resources by using its influence on government-owned banks. It is found that 42% of the total assets of the 10 largest banks in 92 countries are controlled by the government-controlled banks (La Porta, Lopez-de-Silanes, and Shleifer, 2002). Since banks operate across the whole economy rather than in a defined industry, politicians of the ruling party have great opportunities to channel funds to favored firms so as to maintain and increase their political power (Rajan and Zingales, 2003). Dinç (2005) shows that, in both emerging and developed economies, government-owned banks increase their lending in election years as compared to private banks so as to obtain votes from the business. It was reported that the DPP President of Taiwan, Chen Shui-Bian, provided large amounts of preferential loans through government-controlled financial institutions to firms which supported him in the Presidential Election in 2000 (Wealth Magazine, 2003). The opposition party with legislative authority may also indirectly provide financial resources with connected firms by favorably altering regulations regarding raising funds through bank loans, stock issuance, and venture capital.

When the ruling party has dominant political power, its politicians are likely to reward allies and punish opponents by providing bank credits with groups connected only to it but not those tied to both the ruling party and opposition parties. Opposition parties are not able to provide financial resources due to the lack of political power. As a result, a diverse portfolio of political ties negatively affects the expansion of businesses scope. However, this negative effect tends to be greater for groups with higher debt ratio because they need the financial resources more urgently than those with low debt ratio to move into the new markets. Without the financial support by the government-controlled banks, they are unlikely to raise sufficient capital for expansion.

When political parties are evenly matched in political power, groups with connections to multiple parties have opportunities to tap on multiple sources of capital. Moreover, due to their high dependence on the groups, both the ruling party and opposition parties are unlikely to exclude groups tied to their political enemies from the list of financing. Hence, a diverse portfolio of political ties has a positive effect on the market expansion of business groups. Groups with higher debt ratios are likely to benefit more from the diverse political ties because the diverse and abundant financial resources acquired through these ties relax its resource constraints and enable them to make investments in more unrelated industries. Thus, we propose:

Hypothesis 5: *The higher the debt ratio of business groups, the stronger the hypothesized relationships in H4a and H4b will be.*

Experience of market entry as a contingency

Experience of market entry is a valuable resource which enables business groups to be less dependent on political ties to obtain information and resources for expansion. Since market entry is a learning-by-doing process (Nelson and Winter, 1982; Amsden and Hikino, 1994), groups with rich experience of market entry are likely to develop a superior capability of detecting the trend of economic growth and industrial development, understanding economic policies and regulations, and thus identifying market opportunities timely. Moreover, compared to those with focused business portfolios, experienced groups in market entry tend to have multiple external sources to acquire various resources supportive to entries into new markets. It is found that diversified Indian business groups form strategic alliances with foreign providers of technology and finance more easily than single-business firms mainly due to their good reputation for honesty and reliability (Khanna and Palepu, 1997).

Diversified Taiwanese business groups, such as Formosa Plastics and Ta Tung, established systematically more external linkages with foreign companies and venture capitalists than less diversified counterparts (Sheng, 2003). Taking advantage of their long-established relationships with suppliers, customers, investors, and foreign partners, groups undertaking market entries frequently may enjoy diverse and abundant resources derived externally. In addition, to the extent that business groups in emerging economies often enter into new industries by applying imported foreign technologies and managerial skills to local market (Hikino and Amsden, 1994; Kock and Guillen, 2001), groups which expand frequently are able to unpack and assimilate foreign technologies and management expertise efficiently, and thus enjoy advantageous competitive positions and more opportunities to penetrate into new markets.

When the ruling party dominates political power, groups experienced in market entry may be hurt less than less experienced ones by maintaining a diverse portfolio of political ties. To the extent that experienced groups are equipped with a superior capability in identifying, collecting and integrating resources from various origins, the discrimination and retaliation imposed by the ruling party are less likely to impede the groups to expand their business scope. These groups are still able to expand by resorting to their ability to identify market opportunities, internalize advanced foreign knowledge, and pool resources from diverse conduits.

By the same token, when political power is distributed evenly, experienced groups are likely to benefit less from their diverse political ties mainly due to their access to heterogeneous information and resources through various channels. Moreover, the political flexibility derived from a diverse portfolio of political ties tends to be less valuable to experienced groups as they can still successfully enter new markets by taking advantage of their superior capability in establishing and managing new plants even if they are negatively targeted by any political party after political regime changes. In line with discussions above, we hypothesize:

> ***Hypothesis 6:*** *The more experience of market entry business groups have, the weaker the hypothesized relationships in H4a and H4b will be.*

DATA AND MEASURES

Data source and sample

The empirical analysis is based on the data of the largest 250 business groups in Taiwan in two periods: 1998-2000 and 2004-2006. Since the DPP won the presidency and replaced KMT as the ruling party in 2000, we collect information about political ties in 1998 and 2004 to capture the distinct rivalry situations where the ruling party and the opposition party switched places. We further explain the market entry activities of business groups during 1998-2000 and 2004-2006 based on their political ties established by 1998 and 2004 respectively.

The major data source of entry activities by business group is the Business Groups in Taiwan (BGT) directory, compiled by the China Credit Information Service (CCIS) in Taipei. CCIS is the oldest and most prestigious credit-checking agency in Taiwan and an affiliate of Standard & Poor's in the United States. The BGT directory collects information on the top 250 groups in sales and is confined to groups whose principal firms are registered in Taiwan[5]. CCIS defines a business group as "a coherent business organization including several independent enterprises." Since its second edition (which was published in 1974), BGT has consistently maintained the following criteria in its selection of business groups: (1) more than 51 percent of the ownership must be native capital; (2) the group must have three or

[5] The number of business groups included in the BGT directory differs slightly across years. It collects information about the largest 180 business groups in 1998 and 250 business groups in 2004 respectively.

more independent firms; (3) the group must have more than NT$5 billion in total sales[6] and (4) the core firm of the group must be registered in Taiwan. This directory is the most comprehensive and reliable source for business groups in Taiwan. Several previous studies rely on this source (Khanna and Rivkin, 2001; Luo and Chung, 2005).

For each business group, the directory provides information about its top management, size, history and financial performance. For each member firm, it provides information about its line of business, based on which we identify its industry. Since there is no ready-to-use industry coding in the BGT directory, we assigned the firm a two-digit industrial code following the 2000 version of the *Standard Industrial Classification* published by the Taiwanese government. After aggregating the industry information of all member firms to the group level, we compared the industrial profile of the group between *t* and *t+1*. We considered industries with different 2-digit SIC codes to be unrelated industries. Groups entered unrelated industries if distinct 2-digit industries which were not present at *t* appeared at *t+1* in their business portfolios.

To track the entry activities of the largest 250 business groups, we collected information on their industrial portfolio every two years (i.e. 1998-2000 and 2004-2006). The two-year window spans a moderate time period which is likely to capture entries into unrelated industries. To track the change of industrial portfolio over time, we only included groups which were present in two consecutive issues of the BGT directory. The sample of 1998 consists of 167 observations and the sample of 2004 contains 227 observations.

According to social structure and the principles of how political ties operate in Taiwan (Hsu, 1991), we used different methods to collect two different types of political ties: formal position interlocks and informal ties. For the formal position interlocks, we collected data on key position holders in both business groups and the political circle. We then cross-checked

[6] This number changes over years as business groups become bigger.

the names of business groups with the names in the major political institutions to identify position interlocks. With regard to informal political ties, we focus on family and social relationships between group executives and prominent political figures. Specifically, we coded three major types of informal ties: 1) familial and marital ties, 2) close friendships and same-hometown relationships, and 3) trade associations and social club memberships. After combining formal and informal political ties, we came up with the political ties with each political party by referring to the party affiliation of connected political actors. The specific data sources and coding schemes used to measure political ties are discussed in the Appendix.

Compared to the measure of political ties in prior research, our approach of measurement is an improvement in two aspects. First, instead of adopting indirect approaches by using subject ratings, indexes and reports collected by other agencies (e.g. Fisman, 2001; Bertrand, et al., 2004), this paper uses a more direct approach that locates specific ties between business executives and politicians. Second, almost all existing studies have adopted synchronized research designs, examining political ties and firm strategy within the same period. We collected data of political ties for two time periods (1998 and 2004), enabling us to identify the role of political ties at different levels of rivalry between connected political parties and address the issue of reverse causality. In addition, we referred to the *Largest Corporations in Taiwan* by CCIS to collect the sales and ROA at industry level.

Table 3A shows the characteristics of Taiwanese business groups in our sample. There are 167 groups in the 1998 sample and 227 groups in the 2004 sample. The total number of group-year observations is 394. Among the sample groups in 1998, 62% are politically connected. In the sample of 2004, however, only 45% of the groups were embedded in political networks. With regard to the size of sample groups, the number of group affiliates increased over time, rising from 11 affiliates in 1998 to 34 affiliates in 2004.

************ Table 3A about here ************

Dependent variable: Entry into new industries

To test the proposed relationships between political ties and entry activities, we counted the number of entries into new 2-digit SIC in a 2-year span (1998-2000, 2004-2006).

Independent variables

We use the number of ties between a group and the political parties as the measure of political ties (including both formal and informal political ties). We distinguish between ties with KMT and ties with DPP. Moreover, we measure the diversity of portfolios of political ties using a variation of the Herfindal-Hirschman index:

$$D=1-\sum_{i=1}^{k} P_i^2 ,$$

where *D* is the diversity measure and *P* is the percentage of political ties with KMT or DPP. This index ranges from 0 to 1. The closer it is to 1, the more diverse the portfolio of political ties.

Control variables

Following previous studies (Chang, 1996; Khanna and Palepu, 2000), we controlled for a set of group characteristics that may also affect the entry activities of the group: group size, group age, group profitability, group debt ratio, group diversification, group experience of market entry and group main industry. *Group Size* is measured by logged total group assets, adjusted by the 2000 consumer price index (Taiwan Statistical Data Book, 2000: 179). *Group age* is the number of years since the first member firm of a group was established. *Group ROA* refers to the annual group return on assets. *Debt ratio* is the ratio of liability to total assets of the group. *Group diversification* has been found to enhance group performance by promoting economies of scope (Amsden and Hikino, 1994; Khanna and Palepu, 1997). We use the following formula to measure it: $\sum P_j \times \ln(1/P_j)$, where P_j is defined as the percentage of group sales in industry sector *j* (Palepu, 1985). The identification of industry sector is based on 4-digit product categories defined in the *Standard Industrial Classification* published by the Taiwanese government in 2000. *Experience of market entry* is measured as the stock of market entries conducted by the group since 1990, which was the onset of large-scale economic liberalization in Taiwan. Since the value of previous experience depreciates as market conditions change, we used a 20% depreciation rate to calculate the stock of market entries over time. We also controlled for the main industry of the group across 12 industries[7]. The industry with the largest proportion of group sales was coded as the major business line[8]. To the extent that the entry and exit activities are correlated to each other[9] (Chang, 1996; Chung and Luo, 2008), we controlled for the number of exits from incumbent 2-digit SIC industries. We also controlled for the total number of political ties (the sum of KMT ties and DPP ties) when examining the effects of the diversity of political ties.

Additionally, to the extent that industry attractiveness is critical to explain firms' entry into certain markets rather than others (Porter, 1980), we created two industry-level variables to capture the influence of industry attractiveness on market entry. *Industry Profitability* is the aggregation of the ROA of industries that business groups entered weighted by the percentage of group sales in the entered industries. *Industry Sales*, which indicates the industry attractiveness in terms of volumes of sales, is measured as aggregate sales in industries that groups entered, weighted by the percentage of group sales in the entered industries.

Model specification

We use the following baseline specification to test the relation between political ties and entry into new industries by business groups:

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[7] These industries are agriculture, food, textile, wood, chemical, non-metallic, metals, machinery, electrical/electronic, construction, real estate and financial services and retail.
[8] On average, the major business line contributed 67% of group sales.
[9] For example, business groups may exit less profitable industries and enter promising ones.

*Entries into new industries = β + β_1 (a vector of political tie variables) + β_2 (a vector of group internal resources variables) + β_3 (political tie variables*group internal resources variables) + β_4 (industry-level and group-level controls) + ε*

EMPIRICAL ANALYSIS

Descriptive statistics

Table 3B reports summary statistics of variables included in the analysis. It shows that there is significant variance in the entry activities of business groups as well as their political ties with KMT and DPP. The mean of diversity of political ties is 0.10, implying that the majority of sample groups maintains political ties with only one political party Indeed, out of the 103 politically connected business groups in our sample, 90 groups were connected only to KMT and none of them maintained ties only to DPP as of 1998. In 2004, among the 103 business groups with political ties, 36 groups were tied solely to KMT and 16 groups were connected only to DPP. Table 4A to Table 4C report the correlation matrix of variables in 1998, 2004 and the combined two years respectively.

*********** Table 3B, Table 4A-4C about here *************

Regression results

We used the negative binomial model to test the empirical implications. The negative binomial model is appropriate for analyzing count data when over-dispersion of the conditional mean and variance functions violates the assumptions of Poisson regression (Greene, 1993).

Table 5 reports the pooled regression results of the effect of political ties on business groups' entry into new industries. The left-half of the table shows the results in 1998 and the right-half of the table indicates the results in 2004. Model 1 and Model 7 contain only control variables, serving as baseline models. The inclusion of the two variables for political ties in

Model 2 and Model 8 improves the overall model fit over the baseline models (d.f.=2, P<0.01for Model 2 and P<0.05 for Model 8). In Model 3 and Model 9, we added in the diversity of political ties while controlling for the total number of political ties. In Model 4 and Model 10, the addition of the interaction term between diversity of political ties and debt ratio improves the overall fit compared to Model 3 and Model 9 respectively (d.f. =1, P<0.01). Similarly, including the interaction term between diversity of political ties and experience of market entry in Model 5 and Model 11 improves the model fit relative to Model 3 (d.f. =1, P<0.01) and Model 9 (d.f.=1, P<0.05) respectively. Model 6, which is a fully specified model, also shows enhanced overall fit compared to Model 4 (d.f.=1, P<0.05) and Model 5 (d.f.=1, P<0.05). Similar result regarding Model 12 is found when it is compared with Model 10 (d.f.=1, P<0.05) and Model 11(d.f.=1, P<0.01).

Hypothesis 1 predicts that political ties with the ruling party will facilitate business groups' entry into new industries. The results in Model 2 show that the coefficient of political ties with KMT in 1998 displays the expected positive trend and is statistically significant (P<0.01). Similarly, as shown in Model 8, the coefficient of political ties with DPP in 2004 is also positive and statistically significant. These results are consistent with the prediction in Hypothesis 1. In a negative binomial regression, a unit change in an independent variable X leads to changes in the expected count, Y, by a factor of *exp*(β), holding other variables constant. As shown in Model 2, an increase of one political tie to KMT is related to a 1.5% increase in the number of unrelated industries entered in 1998 (β=0.015, [*exp*(0.015)*1-1] =0.015). One more political tie to DPP is associated with a 12.5% increase in the entry into unrelated industries in 2004.

Hypothesis 2 proposes that political ties with the opposition party with legislative authority promote market entry. In Model 8, the coefficient of KMT tie is positive, but not statistically significant. Hence, Hypothesis 2 is not supported. Hypothesis 3 predicts that political ties with opposition parties which do not have any political power will impede the entry activities of business groups. Consistent with our expectation, political ties with DPP in Model 2 are negatively related to groups' entry into unrelated industries (P<0.05). One more DPP tie is related to a 22% decrease in the number of unrelated industries entered in 1998. Model 3 and Model 9 test the impact of a diverse portfolio of political ties on entries. The results show that diverse political ties had a negative effect in 1998 (P<0.05), but had a positive effect on group expansion in 2004 (P<0.01). Hence, Hypothesis 4a and Hypothesis 4b, which predict the contingent effects of diverse portfolios of political ties, are supported. One standard deviation of increase in diversity of political tie is associated with a 29% decrease in the number of entries into unrelated industries in 1998 and a 27% increase in the number of unrelated industries entered in 2004.

In Model 4 and Model 10, we added the interaction term between diversity of political ties and group debt ratio to test H5, which posited a reinforced relationship between political ties and group entries. The expected negative trend (P<0.01) of the interaction term in Model 4 and the positive trend (P<0.01) of the interaction term in Model 10 show that groups with high debt ratio were hurt more by diverse political ties in 1998 and benefited more from them in 2004, supporting Hypothesis 5. Specifically, for groups with diversity of political tie at mean level (0.10), one standard deviation increase in debt ratio is related to a 29% decrease in the number of unrelated industries entered in 1998 and a 37% increase in the number of entries into unrelated industries in 2004.

To test Hypothesis 6, we introduced the interaction term between diversity of political tie and experience of market entry in Model 5 and Model 11 respectively. We found that the interaction term displayed a positive trend and was statistically significant (P<0.05) in 1998. It showed a negative trend and was statistically significant (P<0.10) in 2004. This is consistent with our prediction in Hypothesis 6, which indicates that groups experienced in market entry suffer less from diverse political ties when the ruling party has dominant political power and benefit less from diverse political ties when the political parties are evenly matched in political power. Moreover, for groups with average level of diversity of political tie (0.1), one standard deviation increase in experience of market entry is associated with a 13% increase in the number of entries into unrelated industries in 1998 and a 3% decrease in the number of unrelated industries entered in 2004. The forgoing findings about proposed hypotheses stay in the fully specified Model 6 and Model 12.

************ Table 5 about here ************

Checks for reverse causality

The evidence we get so far shows a strong association between political ties and business groups' expansion into new industries. However, this result should be interpreted with caution because it is possible that entry into new industries leads to the establishment of political tie. For instance, politicians may prefer to partner with diversified business groups which are more likely to provide votes and campaign contributions due to their large scope of production. In the meantime, the more diversified a business group, the higher the probability for the group to interact with politicians in different settings. To address this causality issue, we compared the emergence of political ties to groups' entry into new industries and observed that the personal relationships between business leaders and political actors in our dataset largely predate the expansion of connected business groups.

Moreover, we tested the causality issue directly by running a set of regressions using the change of various types of political ties between 1998 and 2004 as dependent variable, and the number of entered industries in 1998 as independent variable. The control variables remained the same. The regression results show that the coefficient of number of entries in all the models is not significant. Hence, it can be concluded that entries into new industries by business groups are not associated with the change of political ties possessed by group leaders.

Robustness check

As the sample groups in 1998 and 2004 are not exactly the same, our results may be driven by some unobserved group characteristics rather than simply portfolios of political ties. To ensure that our results are not sensitive to the composition of groups in the two different periods, we examined the entry activities of a subset of business groups that appeared in both 1998 and 2004 (208 groups) with the same models in Table 5. The results of such analysis are qualitatively the same as those based on the entire sample.

DISCUSSION AND CONCLUSION

This study is motivated by the lack of research on the interplay between business and political parties, an agenda that becomes particularly salient when the political environment of firms is affected by the competition or rivalry between two or more political parties. Under such circumstances, firms need to consider with which parties they should maintain congenial relationships, which have significant implications for firm strategy such as new market entry. Instead of looking at dyadic, independent ties, we focus on the portfolio of political ties, which depicts interactions between a firm and political parties and captures the overall impact of political ties on its market entry. Using Taiwanese business groups as a research context, we develop a contingent theory of the effect of political ties on the entry into unrelated industries. By differentiating political parties in their political power, we depict the prominence of partners in the political networks of business groups and investigate the differential effects of each type of partners on the focal business groups. Furthermore, we identify a set of contingencies that highlight the underlying mechanisms of resource provision, political flexibility, and retribution through which a portfolio of political ties exerts its effects.

Our results show that political ties affect market entry by business groups both individually and in combination. Consistent with findings in the network literature (Gulati and Higgins, 2003; Stuart, 2000; Stuart, *et al*., 1999; Zaheer and Bell, 2005), ties to prominent political parties are facilitative to market entry, while those with powerless parties are detrimental. Moreover, the effect of a diverse portfolio of political ties on market entry by business groups depends on distribution of political power among political parties, and the interdependence between groups and connected political parties. Further, internal resources of groups, such as debt ratio and experience of market entry, moderate the effects of political ties portfolios. This study contributes to the literature on corporate political strategy, on portfolio of network ties, on market entry, and on the organization of government.

This study advances the literature of corporate political strategy by examining the political strategy firms should adopt to interact with political parties. Basically, in a pluralistic political system, when firms select political parties to be connected with, they need to take into consideration the competition between political parties. The results of competition for presidency and legislative seats determine the distribution of political power, and thus the resources controlled by political parties, as well as their dependence on firms. In particular, firms should get connected to the ruling party and avoid relationships with opposition parties without political power. Regarding ties to the opposition party with legislative authority, we did not find the expected positive effect on market entry. Considering the fact that it usually takes long time for the favorable laws, rules, and regulations to be approved and take effect, our two-year window may not effectively capture the impact of such ties. Moreover, when the competition is intense, firms benefit from a diverse portfolio of political ties. When the ruling party has absolute advantage in the political competition, firms tied solely to the ruling party have advantages against those with diverse political partners. Additionally, it is found that political ties are not equally important to firms. Instead, the efficacy of political ties varies depending on the internal resource profile of the connected firm. Adopting the right political strategy to interact with political parties is more important for firms with high debt ratio and scant experience of market entry. These findings are consistent with the contingent perspective of political capital (Peng and Luo, 2000) and further improve our understanding of the contingency factors.

This study also sheds light on the literature on portfolio of network ties by investigating how the rivalry between alters affects outcomes of the focal firm in the context of political networks. Prior studies in the context of alliance portfolio showed positive effects of alter competition on firm performance (Lavie, 2007). However, we find that rivalry between alters does not necessarily benefit the focal firm when alters have punitive power over the focal firm. The brokerage benefits derived by the focal firm from alter competition may be offset by the retribution imposed by alters. The contrast of the different findings suggests that the impact of rivalry between alters on the focal firm is contingent on the nature of relationships between the focal firm and its alters.

Our results also hold important implications for the literature about entry activities by multi-business firms. Entry into new industries is a major corporate strategic activity with important implications for the growth of firms because it involves creation of new markets and alters the allocation of available resources among business lines (Montgomery and Hariharan, 1991). Existing literature on the entry activities of firms mainly focuses on how surplus internal resources drive firms to move into new product markets and shows that firms are likely to enter markets which require resources similar to firms' existing resources (Chang, 1996; Helfat and Lieberman, 2002). Although these streams of research significantly contribute to understanding market entry, the overlook of external factors such as ties to the dominant political power is unfortunate because these factors often influence the resource profile and external competitive environment of firms (Fisman, 2001; Holburn and Vanden

Bergh, 2008; Khwaja and Mian, 2005; Peng and Luo, 2000).

This study bridges the corporate political strategy and market entry research by highlighting the contingent role of political ties in market entry. It shows that a firm's linkages to political organizations play an important role in affecting its capability to expand into new industries by shaping its resource profile, legitimacy, and competitive environment. Furthermore, the findings of contingent effects of firms' internal resources (i.e. debt ratio and experience of market entry) on the relationship between portfolios of political ties and market entry integrate the internal and external resources derived by firms into the theoretical framework of market entry, providing a more comprehensive theory about how the business scope of multi-business firms is determined.

Finally, the study sheds light on how the organization of government as a result of party competition affects the policy making processes and the efficacy of political ties portfolios. In particular, we argue and demonstrate that when the political power is predominantly controlled by the ruling party, and consequently there is strong alignment between the executive and legislative branches, a focused portfolio of ties with the ruling party is particularly effective for a firm to gain favorable policies and manage material reliance. This is ascribed to the ruling party's ability to initiate, promote, and implement policies for its own interests without encountering any substantial resistance from opposition parties. In contrast, when the government is fragmented to the extent that the ruling party has executive authority and an opposition party possesses legislative authority, a diverse portfolio of political ties is more beneficial to market entry as it enables the connected firm to tap on diverse pools of resources while refraining from potential retaliation imposed by political parties. In so doing, we specifically respond to the call by Ring and his colleagues (2005) to study the interactions between executive and legislative branches under unified vs. divided governments and build a bridge between strategic management literature and the political science research.

Overall, we explore the market entry consequences, and contingent effects, of political ties between multi-business firms and political parties in the context of a pluralist political system. Our research integrates and contributes to the four literatures of corporate political strategy, networks, market entry, and organization of government. Our holistic approach enables us to better understand the hitherto unobserved connections across them, and in turn allows us to develop insights into the broader question as to when and how political ties matter for firms.

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Table 1. Distributions of Political Power and Relative Bargaining Power

	Unevenly Distributed Political Power	Evenly Distributed Political Power
Stakes of the focal firm	Constant	Constant
Alternatives available to the focal firm	Low	High
Bargaining power of the focal firm	**Low**	**High**
Stakes of the ruling party	Low	High
Alternatives available to the ruling party	Constant	Constant
Bargaining power of the ruling party	**High**	**Low**
Bargaining power of the focal firm relative to that of the ruling party	**Weak**	**Strong**
Stakes of the opposition party	Low	High
Alternatives available to the opposition party	Constant	Constant
Bargaining power of the opposition party	**High**	**Low**
Bargaining power of the focal firm relative to that of the opposition party	**Weak**	**Strong**

Figure 1. Framework of Portfolios of Political Ties and Market Entry

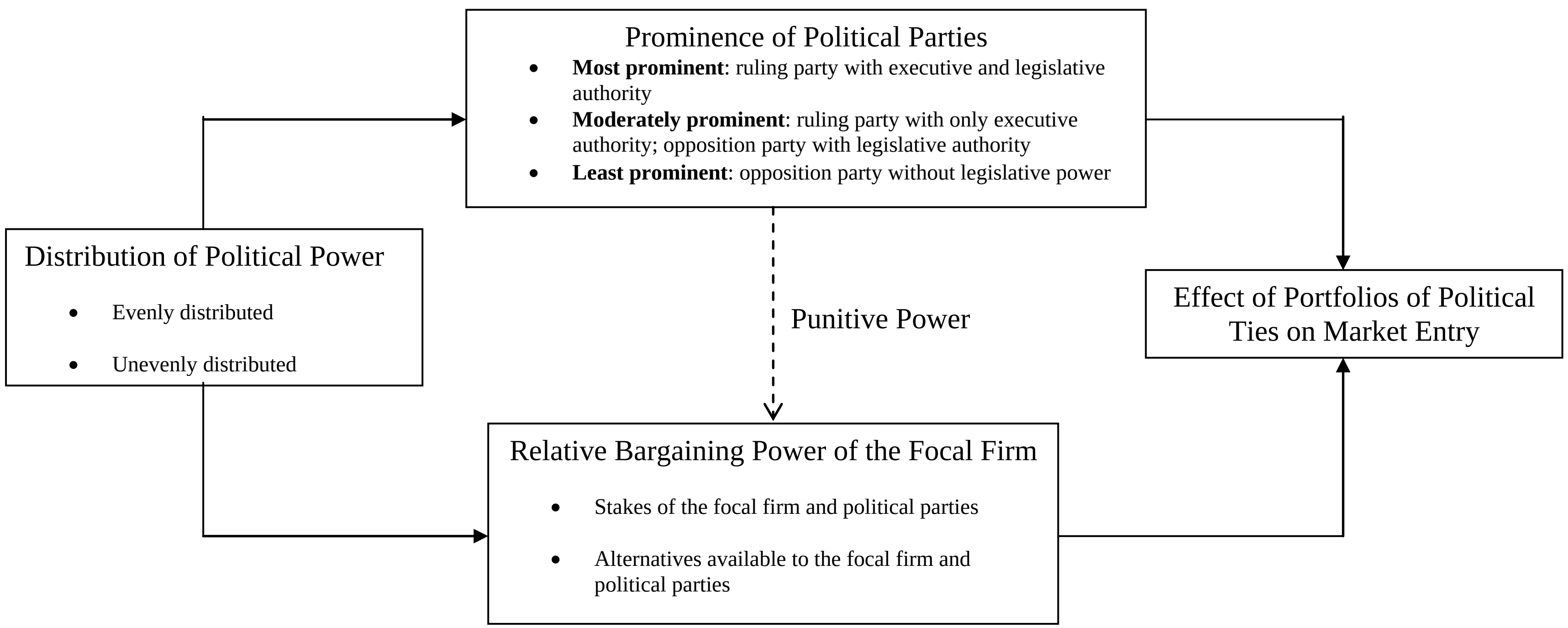

Table 2A. Presidential Elections

Presidential Election in 2000			
Political Party	**Total Votes**	**Percentage**	**Result**
Democratic Progress Party (DPP)	4,977,737	39.3%	Elected
Nationalist Party (KMT)	2,925,513	23.1%	Failed

Presidential Election in 2004			
Political Party	**Total Votes**	**Percentage**	**Result**
Democratic Progress Party (DPP)	6,470,839	50.11%	Elected
Nationalist Party (KMT)	6,443,022	49.89%	Failed

Table 2B. Legislative Elections

Year	DPP	KMT	Others
1998	70/225=31%	123/225=55%	32/225=14%
2001	87/225=39%	114/225=51%	24/225=10%
2004	89/225=40%	113/225=50%	23/225=10%

Note: Percentage numbers are the ratios of elected seats to total seats.

Table 3A. Sample Composition of Taiwanese Business Groups, 1998 and 2004

Year	Number of Business Groups	Number of Politically Connected Groups	Percentage of Politically Connected Groups	Number of Group Affiliates	Average Number of Group Affiliates
1998	167	103	62%	1820	11
2004	227	103	45%	7773	34
Total	394	206	52%	9593	24

Table 3B. Summary Statistics

	Mean	**Standard Deviation**	**Minimum**	**Maximum**
Dependent Variables				
Entry	2.89	3.27	0	18
Independent Variables				
Political tie with KMT	3.49	7.97	0	69
Political tie with DPP	0.53	1.43	0	10
Diversity of political tie	0.10	0.16	0	1
Control Variables				
Total political tie	4.02	8.49	0	71
Exit	1.41	1.55	0	10
Group diversification	0.90	0.57	0	2.58
Group size (logged assets)	10.25	1.53	6.40	14.84
Group age	28.44	13.60	0	80
Group ROA	3.87	8.27	-66.27	45.56
Debt ratio	53.70	18.24	6.89	96.24
Experience of market entry	5.54	4.84	0	44
Industry profitability	6.21	3.73	-4.76	33.53
Industry sales	25.73	14.64	-6.25	107.13

Table 4A. Correlation matrix (1998 and 2004 combined)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.Entry	1.00													
2.Exit	0.35*	1.00												
3.Political tie with KMT	0.51*	0.39*	1.00											
4.Political tie with DPP	0.10	0.22*	0.28*	1.00										
5.Total political tie	0.53*	0.40*	0.96*	0.43*	1.00									
6.Diversity of political ties	0.02	0.23*	0.06	0.39*	0.18*	1.00								
7.Group diversification	0.35*	0.40*	0.41*	0.20*	0.41*	0.16*	1.00							
8.Group size	0.32*	0.36*	0.45*	0.41*	0.45*	0.39*	0.47*	1.00						
9. Group age	0.30*	0.29*	0.28*	0.02	0.26*	-0.04	0.32*	0.12*	1.00					
10.Group ROA	-0.06	-0.19	-0.10	-0.02	-0.10	0.00	-0.16	-0.11	-0.13	1.00				
11. Debt ratio	0.07	0.19*	0.26*	0.24*	0.29*	0.16	0.22*	0.32*	-0.01	-0.42*	1.00			
12. Experience of market entry	0.01	0.24*	0.26*	0.24*	0.28*	0.15*	0.28*	0.24*	0.00	-0.01	0.16*	1.00		
13.Industry profitability	-0.09	0.10*	0.04	0.11*	0.06	0.16*	0.11*	0.13*	-0.05	0.04	0.11*	0.18*	1.00	
14.Industry sales	-0.07	0.00	0.00	0.12	0.02	0.06	0.01	0.08	-0.02	-0.04	0.21*	-0.01	0.17*	1.00

* p<0.05

Table 4B. Correlation matrix (year=1998)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.Entry	1.00													
2.Exit	0.26*	1.00												
3.Political tie with KMT	0.52*	0.08	1.00											
4.Political tie with DPP	-0.01	0.15	0.14	1.00										
5.Total political tie	0.50*	0.09	0.98*	0.10*	1.00									
6.Diversity of political ties	-0.17	0.19	-0.03	0.66*	0.01	1.00								
7.Group diversification	0.47*	0.28*	0.47*	0.09	0.42*	-0.02	1.00							
8.Group size	0.42*	0.17*	0.54*	0.24*	0.53*	0.08	0.49*	1.00						
9. Group age	0.27*	0.31*	0.22*	0.04	0.26*	0.05	0.45*	0.30*	1.00					
10.Group ROA	-0.01	-0.21*	-0.08	-0.03	-0.09	-0.13	-0.12	-0.11	-0.18*	1.00				
11. Debt ratio	0.13	0.10	0.31*	0.11	0.31*	0.08	0.23*	0.43*	0.11	-0.40*	1.00			
12. Experience of market entry	0.21*	0.15	0.36*	-0.03	0.36*	-0.03	0.38*	0.27*	0.08	-0.04	0.18*	1.00		
13.Industry profitability	0.17*	0.06	0.11	0.06	0.11	0.08	0.09	-0.01	-0.04	0.01	0.01	-0.16*	1.00	
14.Industry sales	-0.05	0.12	0.01	0.07	0.02	0.05	0.08	-0.03	0.06	-0.01	0.05	0.01	0.08	1.00

* p<0.05

Table 4C. Correlation matrix (year=2004)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.Entry	1.00													
2.Exit	0.57*	1.00												
3.Political tie with KMT	0.55*	0.62*	1.00											
4.Political tie with DPP	0.38*	0.25*	0.34*	1.00										
5.Total political tie	0.47*	0.42*	0.96*	0.61*	1.00									
6.Diversity of political ties	0.37*	0.15	0.17	0.45*	0.26*	1.00								
7.Group diversification	0.34*	0.44*	0.42*	0.24*	0.42*	0.18	1.00							
8.Group size	0.40*	0.48*	0.36*	0.52*	0.51*	0.44*	0.42*	1.00						
9. Group age	0.29*	0.29*	0.28*	0.07	0.26*	-0.05	0.28*	0.05	1.00					
10.Group ROA	-0.10	-0.21*	-0.12	-0.05	-0.12	-0.02	-0.24*	-0.15*	-0.08	1.00				
11. Debt ratio	0.17*	0.25*	0.27*	0.26*	0.30*	0.11	0.20*	0.38*	-0.05	-0.51*	1.00			
12. Experience of market entry	0.12	0.27*	0.31*	0.21*	0.32*	0.08	0.24*	0.21*	0.04	-0.02	0.10	1.00		
13.Industry profitability	0.10	0.13*	0.11	-0.02	0.09	-0.07	0.08	0.10	0.06	0.01	0.05	0.10	1.00	
14.Industry sales	0.01	-0.07	0.01	0.09	0.03	0.01	-0.06	0.12	-0.03	-0.11	0.28*	-0.08	0.14*	1.00

* p<0.05

Table 5. Effects of political ties on business groups' entry into new industries using negative binomial models

Variables	1998						2004					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Control variables												
Group diversification	0.083	-0.003	0.115	0.094	0.090	0.063	-0.051	-0.009	-0.196	-0.218	-0.184	-0.211
	(0.117)	(0.113)	(0.133)	(0.132)	(0.132)	(0.131)	(0.153)	(0.153)	(0.176)	(0.170)	(0.173)	(0.167)
Group size (logged assets)	0.367***	0.355***	0.350***	0.350***	0.366***	0.368***	0.199***	0.095	0.014	0.039	0.001	0.025
	(0.046)	(0.046)	(0.054)	(0.054)	(0.054)	(0.053)	(0.059)	(0.072)	(0.083)	(0.080)	(0.082)	(0.080)
Group age	0.004	0.002	0.001	-0.001	0.002	0.001	0.016***	0.016***	0.010*	0.009	0.007	0.007
	(0.004)	(0.004)	(0.005)	(0.004)	(0.005)	(0.004)	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)
Group ROA	0.005	0.004	0.016	0.016	0.016	0.016	-0.003	-0.004	-0.003	-0.009	-0.002	-0.008
	(0.006)	(0.006)	(0.011)	(0.011)	(0.011)	(0.011)	(0.014)	(0.014)	(0.025)	(0.024)	(0.024)	(0.024)
Debt ratio	-0.007*	-0.009**	-0.008*	-0.010**	-0.007*	-0.010**	0.001	0.001	-0.002	-0.010	-0.002	-0.009
	(0.004)	(0.004)	(0.005)	(0.005)	(0.004)	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)	(0.006)
Exit	0.081**	0.110***	0.102**	0.116***	0.095**	0.108***	0.206***	0.232***	0.123***	0.135***	0.114**	0.128***
	(0.039)	(0.037)	(0.040)	(0.040)	(0.040)	(0.039)	(0.043)	(0.049)	(0.048)	(0.046)	(0.047)	(0.045)
Experience of market entry	0.026	0.007	0.004	0.002	0.030	0.028	-0.011	-0.012	0.004	0.004	0.008	0.008
	(0.020)	(0.019)	(0.020)	(0.020)	(0.023)	(0.023)	(0.010)	(0.010)	(0.010)	(0.009)	(0.010)	(0.010)
Industry profitability	0.071***	0.062***	0.051**	0.048*	0.054**	0.051**	0.005	0.010	0.001	-0.003	0.001	-0.003
	(0.023)	(0.022)	(0.025)	(0.025)	(0.025)	(0.025)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Industry sales	-0.002	-0.001	-0.007	-0.007*	-0.007	-0.007	0.001	0.001	0.006	0.014***	0.006	0.015***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.006)
Total political ties			0.011**	0.011**	0.008*	0.131***			0.012	0.008	0.013	0.009
			(0.005)	(0.005)	(0.004)	(0.732)			(0.008)	(0.008)	(0.008)	(0.008)
Independent variables												
Political tie with KMT		0.015***						-0.006				
		(0.005)						(0.010)				
Political tie with DPP		-0.255**						0.118***				
		(0.104)						(0.044)				
Diversity of political tie			-2.116***	-2.043***	-1.454**	-1.460**			1.492***	1.297***	1.487***	1.297***
			(0.673)	(0.681)	(0.720)	(0.717)			(0.405)	(0.395)	(0.398)	(0.388)
Diversity of political tie*Debt ratio				-0.191**		-0.191**				0.173***		0.167***
				(0.089)		(0.090)				(0.053)		(0.052)
Diversity of political tie*Experience of market entry					0.263**	0.258**					-0.059*	-0.054*
					(0.122)	(0.120)					(0.033)	(0.031)
Constant	-2.683***	-2.325***	-1.954***	-1.763**	-2.36***	-2.131***	-2.382*	-1.534	0.060	-0.015	0.247	-0.600
	(0.529)	(0.531)	(0.725)	(0.722)	(0.736)	(0.732)	(1.234)	(1.285)	(0.959)	(0.987)	(0.944)	(0.982)
Log likelihood	-357.570	-348.260	-221.377	-218.092	-218.089	-216.759	-368.507	-362.979	-201.111	-195.734	-198.500	-194.228
Pseudo R-square	14.78%	16.52%	19.85%	20.68%	20.72%	21.52%	11.70%	12.54%	10.40%	12.79%	12.11%	13.46%
Number of observations	167	167	103	103	103	103	227	227	103	103	103	103

Note: *** Significant at 1% level; ** significant at 5% level; * significant at 10% level. Two-tailed tests for all variables.
Standard errors are in the parentheses.
Dummy variables for industry are included in the regression models.

APPENDIX: DATA SOURCES AND CODING SCHEME OF POLITICAL TIES

Data sources

To detect political ties between group leaders and key figures of political parties as accurate and comprehensive as possible, we referred to a wide set of publicly available data sources. Names of group leaders, including chairman of the board, CEO, and major shareholder of group affiliates, were collected from the directory of *Business groups in Taiwan* (BGT) compiled by the *China Credit Information Service* (CCIS) in Taipei. For listed group firms in the main board of Taiwan Stock Exchange, we collected names of CEO, major shareholders, as well as all the directors and auditors from the *Taiwan Economic Journal* (TEJ) database. To the extent that Taiwanese firms prefer to nominate family members, trusted persons, or associates to be directors and auditors (Yeh and Woidtke, 2005), we also regard directors and auditors as important conduits for firms to get connected to the external environment. In total, we collected 2716 distinct names of business groups in 1998 and 3086 in 2004.

With regard to party figures, we collected names of leaders of KMT and DPP from their websites (http://www.kmt.org.tw and http://www.dpp.org.tw) and proceedings of party conventions. Specifically, we coded the names of KMT central committee members and regular central committee members. We also coded the names of DPP central standing committee members, central executive committee members, and central review committee members. Moreover, we collected name lists of national and provincial administrators (i.e. ministers and vice-ministers of different ministries, directors and deputy-directors of departments one level lower than the ministries, and major officers in provincial government) from the website of the directory of the

Taiwanese government (http://twinfo.ncl.edu.tw). In addition, we coded members of the national and provincial legislatures and judiciary, together with their party affiliations, from the website of the parliament (http://www.ly.gov.tw) and the website of the judicial institution, the *Judicial Yuan* (http://www.judicial.gov.tw). In total, we got 3725 distinct names of politicians in 1998 and 3905 in 2004.

Furthermore, we referred to additional three major sources to identify the social relationships between business group leaders and political actors. First, we checked the Excellent Business Database System (EBDS) (http://ebds.anyan.com.tw), which covers more than 200 periodicals and newspapers published in Taiwan and provides full-text search. We then searched through the Wealth Magazine (*'Tsai Hsun'*) database, which provides periodical reports on the interaction between large business groups and political actors in Taiwan. The breath and depth of the reports in this magazine is comparable to those of *Fortune* and *Far Eastern Economic Review*. In addition, we surveyed autobiographies of group founders, dissertations, and books that devoted to this to topic (e.g. Chen, 1994; Hsu, 1991).

Coding scheme

Based on the ways through which business leaders and political actors get connected in Taiwan, we differentiate two types of political ties: formal position interlocks and informal ties. We used different methods to code the two types of political ties. For the formal position interlocks, we cross-checked the name list of business group leaders with the name list of political actors. The number of overlaps between the two name lists indicates the number of formal political ties maintained by the business group.

Informal political ties are family and social relationships between group executives and political figures. We coded three types of informal ties that were prevalent in Taiwan: 1) familial and marital ties, 2) close friendships and same-hometown relationships, and 3) trade associations and social club memberships.

A business group has a family/intermarriage tie if one of its top managers or major shareholders has a tie of kinship or an intermarriage relationship with a political actor. For instance, *Wang Yu-Chen*, the top officer of Hwa Eng Wire & Cable Group, has an elder brother, *Wang Yu-Yun*, who used to be the mayor of Kaoshiung City and a member of KMT central committee. Hence, Hwa Eng Wire & Cable Group was coded as politically connected to KMT. Another example is Ho Tung Group, which got connected to the former chairman of KMT, *Lien Chan*, through the intermarriage between *Lien Chan*'s eldest daughter and the son of Ho Tung's deputy chairman of the board, *Chen Ching-Chung*.

The second type of informal political ties emerges when the top managers or major shareholders of a business group are close friends of political actors or are from the same home town as political actors. An example is the long-established friendship between the major shareholder of Lin Yuan Group, *Tsai Hung-Tu*, and the President of Taiwan, *Chen Shui-Bian*. They were classmates at the Taiwan National University and have been close friends since then. Evergreen Group is connected to DPP because the President of Evergreen Group, *Chang Rong-Fa*, is from the same hometown as *You Hsi-Kun*, the former President of DPP.

Informal political ties can also be established when top managers or large shareholders of business groups have memberships in national trade associations and/or prestigious social clubs. For example, China Rebar Group was politically connected to KMT since its President *Wang You-Ceng* was the chairman of the National Federation of Commerce, an important trade association through which KMT propagated and executed its economic policies when it was in power. Another example is *Chen Sheng-Tien*, the top officer of Sampo group. He was a member of a prestigious golf club where business magnates and political leaders often gathered to play golf.

When coding informal political ties, we first searched the names of the top executives and major shareholders of business groups in the databases and other archives. After reading through the descriptive information about interactions between group leaders and political figures, we coded informal political ties by ensuring that these ties potentially influence business groups through exchange of information and resources, and/or sharing of common political ideologies with connected political actors.